Consolidated Financial Results for the Nine Months Ended September 30, 2023 [Japanese GAAP]

October 26, 2023

Company name: SHIKOKU KASEI HOLDINGS CORPORATION
Stock exchange listing: Tokyo Stock Exchange
Code number: 4099
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Scheduled date of filing quarterly securities report: November 10, 2023
Scheduled date of commencing dividend payments: –
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Not scheduled

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2023 (from January 1, 2023 to September 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2023	46,789	–	6,129	–	7,413	–	6,520	–
December 30, 2022	–	–	–	–	–	–	–	–

(Note) Comprehensive income: Nine months ended September 30, 2023: ¥7,584 million [– %]
Nine months ended December 30, 2022: ¥– million [–%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2023	125.54	–
December 30, 2022	–	–

The Company has changed the account closing date from March 31 to December 31 beginning with the fiscal year ended December 31, 2022. Accordingly, in the previous consolidated fiscal year, which is a transitional period, the quarterly consolidated financial statements for the third quarter were not prepared. Therefore, the consolidated operating results and the percentage changes from the previous corresponding period for the third quarter in the fiscal year ended December 31, 2022 are not presented.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	127,419	85,183	66.3
As of December 31, 2022	117,176	81,806	69.4

(Reference) Equity: As of September 30, 2023: ¥84,499 million
As of December 31, 2022: ¥81,323 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 December 31, 2022	–	13.00	–	13.00	26.00
Fiscal year ending December 31, 2023	–	14.00	–		
Fiscal year ending December 31, 2023 (Forecast)				14.00	28.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023 (from January 1, 2023 to December 31, 2023)

(% indicates changes from the previous corresponding period.)

	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
Full year	63,000	–	7,500	–	8,300	–	6,800	–	131.64

(Notes) 1. Revisions to the financial results forecast most recently announced: None

2. The Company has changed the account closing date from March 31 to December 31 beginning with the fiscal year ended December 31, 2022, which is therefore a transitional period comprising the nine months from April 1, 2022 to December 31, 2022 for the Company and all consolidated subsidiaries. Therefore, the percentage changes from the previous corresponding period are not presented.

*** Notes:**

(1) Changes in significant subsidiaries during the period (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

(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 (ordinary shares)
1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2023: 50,870,663 shares
December 31, 2022: 52,973,563 shares
2) Total number of treasury shares at the end of the period:
September 30, 2023: 176,110 shares
December 31, 2022: 206,031 shares
3) Average number of shares during the period:
Nine months ended September 30, 2023: 51,942,228 shares
Nine months ended December 30, 2022: – shares

(Note) The Company has changed the account closing date from March 31 to December 31 beginning with the fiscal year ended December 31, 2022. Accordingly, in the previous consolidated fiscal year, which is a transitional period, the quarterly consolidated financial statements for the third quarter were not prepared. Therefore, the average number of shares during the period for the nine months in the fiscal year ended December 31, 2022 is not presented.

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms

* Explanation regarding the appropriate use of financial results forecasts and other special items

Forward-looking statements such as operating results forecasts and other projections contained in this report are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the operating results forecasts and cautionary notes concerning their use, please refer to "(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" under "1. Qualitative Information on Quarterly Financial Results for the Period under Review" on page 3 of the attached documents to the quarterly financial statements.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review 2
(1) Explanation of Operating Results 2
(2) Explanation of Financial Position 3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information 3

2. Quarterly Consolidated Financial Statements and Primary Notes 4
(1) Quarterly Consolidated Balance Sheets 4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income 6
(3) Notes to Quarterly Consolidated Financial Statements 8
(Notes on going concern assumption) 8
(Notes in the case of significant changes in shareholders' equity) 8
(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements) ..8
(Regarding the quarterly consolidated statement of income) 8
(Matter related to the change of fiscal year-end) 8
(Segment information, etc.) 9

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Company has changed the last day of the fiscal year from March 31 to December 31, beginning with the previous fiscal year. All consolidated subsidiaries of the Company have also changed their fiscal year-end date from March to December. Therefore, for the comparison with the previous period, the nine-month period from January 2022 to September 2022 is compared with the reference figure calculated for the "same period of the previous year."

In addition, as described in "(3) Notes to Quarterly Consolidated Financial Statements (Segment information, etc.)," the Company has changed the measurement method of segment profit starting from the three months ended March 31, 2023. The following comparison with the same period of the previous year is calculated by restating the figures for the same period of the previous year after the change.

The Japanese economy during the nine months ended September 30, 2023 continued to pick up moderately led by domestic demand, with personal consumption maintaining an upward trend against the backdrop of the increase in employment and wages. In overseas economies, although consumer spending remained unexpectedly stable in the U.S., the country faces the prospect of economic slowdown due to the delayed effects of cumulative interest rate increases. It is still uncertain whether the U.S. will be able to avoid economic recession.

Under these circumstances, for the nine months ended September 30, 2023 (from January 1, 2023 to September 30, 2023), the Group posted net sales of ¥46,789 million (up 1.3% year-on-year), operating profit of ¥6,129 million (down 7.3% year-on-year), ordinary profit of ¥7,413 million (down 7.9% year-on-year) and profit attributable to owners of parent of ¥6,520 million (up 12.6% year-on-year).

The Chemicals and Housing Materials operations secured an increase in revenue due to factors including the revision of selling prices and yen depreciation, while operating profit and ordinary profit decreased due to factors such as increased production costs including raw material costs and the amortization load of new capital expenditure. On the other hand, profit attributable to owners of parent increased, due to significant gain on sale of investment securities in extraordinary income.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, showed some signs of slightly bottoming out and saw a slight recovery despite a continuous slack in supply and demand in the Chinese and other markets. Sales of carbon disulfide for rayon and cellophane remained stagnant due to sluggish operation in rayon factories of overseas customers. As for sales of sodium sulfate for bath agents and detergents, the Company strove to improve profitability by the price pass-through of the impact of hiking purchase price due to yen depreciation in exchange rates in domestic sales.

(Organic chemicals)

Regarding chlorinated isocyanurates for disinfectants, sales exceeded those of the previous year in the domestic market due to stable demand for pools in the post-pandemic economy and extreme heat. In the U.S. market, despite slightly declining demand due to customers' inventory adjustments and restrained purchasing under inflation, sales exceeded those of the previous year due to factors including the impact of the depreciating yen and diversification of selling outlets.

(Fine chemicals)

Electronic chemicals, particularly Glicoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, saw recovery in recent demand due to bottoming out of the semiconductor and electronics markets and progress of customers' inventory adjustment. For advanced & specialty chemicals, sales of epoxy resin curing agent (imidazoles) exceeded those of the previous year while those of resin modifier (glycoluril derivatives, etc.) were sluggish due to factors including a decrease in demand for finished products, and sales of semiconductor process materials largely surpassed that of the previous year due to evaluation demands

and project wins.

As a result, net sales for the chemicals operations segment were ¥32,103 million (up 0.9% year-on-year). However, segment profit was ¥4,792 million (down 10.5% year-on-year) due to soaring raw material costs, the amortization load of the Company's new plant of chlorinated isocyanurates (NEO2022), which began operation, and a decrease in sales of highly profitable fine chemicals products, despite the favorable impact of yen depreciation in exchange rates and lower export logistics costs.

2) Housing Materials operations

The number of new housing starts remained weak for owned houses, and demand for interior, exterior finishes, and paving materials and exterior products remained sluggish. Despite the price revision implemented in January 2023 of the current fiscal year and efforts to pass on high raw material costs, sales volume was lower than the previous year due to a decrease in demand, while selling expenses increased as a result of factors including soaring raw material costs and resumption of sales activities after COVID-19, which led to decreased profit.

As a result, net sales for the housing materials operations segment were ¥13,918 million (up 2.2% year-on-year), and segment profit was ¥1,066 million (down 7.8% year-on-year).

Reference information

[Overseas net sales]

	Nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022)		Nine months ended September 30, 2023 (from January 1, 2023 to September 30, 2023)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	6,360	13.8	4,203	9.0
North America	10,884	23.6	11,716	25.0
Other regions	1,751	3.8	1,305	2.8
Total	18,997	41.1	17,226	36.8
Consolidated net sales	46,206		46,789	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets increased by ¥10,243 million from the end of the previous fiscal year to ¥127,419 million. Major increases were ¥4,945 million in cash and deposits and ¥2,225 million in construction in progress, and a major decrease was ¥1,271 million in machinery, equipment and vehicles.

Liabilities increased by ¥6,865 million from the end of the previous fiscal year to ¥42,235 million. Major increases were ¥2,708 million in current portion of long-term borrowings and ¥1,840 million in deferred tax liabilities, and a major decrease was ¥1,570 million in long-term borrowings.

Net assets increased by ¥3,377 million from the end of the previous fiscal year to ¥85,183 million. Major increases were ¥2,093 million in retained earnings and ¥821 million in valuation difference on available-for-sale securities.

As a result, equity ratio fell to 66.3% from 69.4% at the end of the previous fiscal year.

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

The full-year financial results forecast has not been revised from the plan recently announced (announced on July 26, 2023). Assumptions for the exchange rates of major currencies are ¥135 to U.S. dollar and ¥150 to Euro.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2022	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	23,283	28,228
Notes receivable - trade	879	578
Electronically recorded monetary claims - operating	3,166	2,799
Accounts receivable - trade	13,362	14,082
Securities	16,400	17,705
Merchandise and finished goods	8,770	8,711
Work in process	37	40
Raw materials and supplies	4,140	4,294
Other	602	1,024
Allowance for doubtful accounts	(0)	(4)
Total current assets	70,642	77,461
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,780	6,217
Machinery, equipment and vehicles, net	7,969	6,697
Land	8,509	8,690
Construction in progress	687	2,913
Other, net	685	669
Total property, plant and equipment	23,632	25,188
Intangible assets	501	464
Investments and other assets		
Investment securities	21,008	21,184
Deferred tax assets	412	1,805
Retirement benefit asset	411	426
Other	572	888
Allowance for doubtful accounts	(3)	(0)
Total investments and other assets	22,400	24,305
Total non-current assets	46,533	49,957
Total assets	117,176	127,419

(Million yen)

	As of December 31, 2022	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,483	8,430
Electronically recorded obligations - operating	570	502
Short-term borrowings	2,530	3,530
Current portion of long-term borrowings	3,083	5,791
Accrued expenses	1,105	1,821
Income taxes payable	160	1,954
Accrued consumption taxes	117	412
Notes payable - facilities	25	6
Electronically recorded obligations - facilities	140	136
Other	3,068	2,287
Total current liabilities	18,284	24,874
Non-current liabilities		
Long-term borrowings	14,534	12,963
Deferred tax liabilities	49	1,889
Deferred tax liabilities for land revaluation	1,004	1,004
Provision for retirement benefits for directors (and other officers)	67	62
Retirement benefit liability	656	714
Asset retirement obligations	381	370
Provision for share awards	64	37
Other	328	318
Total non-current liabilities	17,085	17,360
Total liabilities	35,370	42,235
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,711	5,711
Retained earnings	62,808	64,902
Treasury shares	(240)	(217)
Total shareholders' equity	75,147	77,264
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,766	4,588
Revaluation reserve for land	2,288	2,288
Foreign currency translation adjustment	136	364
Remeasurements of defined benefit plans	(15)	(6)
Total accumulated other comprehensive income	6,175	7,235
Non-controlling interests	482	684
Total net assets	81,806	85,183
Total liabilities and net assets	117,176	127,419

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30

(Million yen)

	Nine months ended September 30, 2023
Net sales	46,789
Cost of sales	29,063
Gross profit	17,726
Selling, general and administrative expenses	
Transportation and storage costs	4,138
Advertising expenses	572
Salaries	1,786
Retirement benefit expenses	113
Provision for retirement benefits for directors (and other officers)	8
Research and development expenses	1,300
Other	3,676
Total selling, general and administrative expenses	11,596
Operating profit	6,129
Non-operating income	
Interest income	170
Dividend income	335
Foreign exchange gains	769
Miscellaneous income	47
Total non-operating income	1,323
Non-operating expenses	
Interest expenses	25
Donations	10
Miscellaneous losses	4
Total non-operating expenses	39
Ordinary profit	7,413
Extraordinary income	
Gain on sale of investment securities	2,088
Subsidy income	73
Gain on bargain purchase	32
Total extraordinary income	2,194
Extraordinary losses	
Loss on retirement of non-current assets	53
Loss on sale of investment securities	16
Total extraordinary losses	69
Profit before income taxes	9,537
Income taxes	3,013
Profit	6,524
Profit attributable to non-controlling interests	3
Profit attributable to owners of parent	6,520

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30

(Million yen)

	Nine months ended September 30, 2023
Profit	6,524
Other comprehensive income	
Valuation difference on available-for-sale securities	821
Foreign currency translation adjustment	228
Remeasurements of defined benefit plans, net of tax	9
Total other comprehensive income	1,059
Comprehensive income	7,584
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	7,580
Comprehensive income attributable to non-controlling interests	3

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

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

(Purchase of treasury shares)

The Company resolved on May 30, 2023 to purchase its treasury shares pursuant to the provisions of the articles of incorporation, as set forth in Article 459, Paragraph 1 of the Companies Act, and purchased 2,102,900 shares of treasury shares. As a result, during the nine months ended September 30, 2023, treasury shares increased by ¥3,038 million.

(Cancellation of treasury shares)

The Company resolved on May 30, 2023 to cancel its treasury shares pursuant to the provisions in Article 178 of the Companies Act, and cancelled 2,102,900 shares of treasury shares on June 9, 2023. As a result, during the nine months ended September 30, 2023, retained earnings and treasury shares decreased by ¥3,028 million and ¥3,028 million, respectively.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company makes a reasonable estimate of the effective tax rate after the application of tax effect accounting to profit before income taxes for the current fiscal year, including the third quarter under review, and multiplies profit before income taxes for the quarter by the estimated effective tax rate.

Income taxes - deferred is included in income taxes.

(Regarding the quarterly consolidated statement of income)

(Gain on bargain purchase)

Gain on bargain purchase was recognized in connection with the acquisition of the shares of Masuda Chemical Industries co., LTD. to convert it into a consolidated subsidiary.

(Matter related to the change of fiscal year-end)

The Company and all consolidated subsidiaries changed its fiscal year-end (the last day of the fiscal year) from March 31 to December 31 beginning with the fiscal year ended December 31, 2022. Accordingly, in the previous consolidated fiscal year, which is a transitional period of this change, the quarterly consolidated financial statements for the third quarter were not prepared. Therefore, information for the previous fiscal year's first nine months is not presented.

(Segment information, etc.)

For the nine months ended September 30, 2023 (from January 1, 2023 to September 30, 2023)

1. Information on net sales and profit (loss) by reportable segment and information on composition of revenue

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Inorganic chemicals	9,999	–	9,999	–	9,999	–	9,999
Organic chemicals	15,263	–	15,263	–	15,263	–	15,263
Fine chemicals	6,840	–	6,840	–	6,840	–	6,840
Interior, exterior finishes and paving materials	–	947	947	–	947	–	947
Exterior products	–	12,971	12,971	–	12,971	–	12,971
Other	–	–	–	747	747	–	747
Revenue from contracts with customers	32,103	13,918	46,022	747	46,769	–	46,769
Other revenue	–	–	–	19	19	–	19
Net sales to outside customers	32,103	13,918	46,022	767	46,789	–	46,789
Inter-segment net sales or transfers	5	2	8	209	217	(217)	–
Total	32,109	13,921	46,030	976	47,006	(217)	46,789
Segment profit	4,792	1,066	5,858	73	5,932	197	6,129

(Notes) 1. The “Other” category represents business segments not included in the reportable segments and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥197 million includes profit (loss) and others not allocated to each reportable segment.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statement of income.

2. Matters related to changes in reportable segments

(Changes in measurement methods)

Beginning with the three months ended March 31, 2023, due to the change in management structure resulting from the shift to a pure holding company, corporate expenses previously not allocated to each segment are now allocated to each segment based on reasonable standards.