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Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2023 [J-GAAP]

August 8, 2023

Company name: Tokyo Ohka Kogyo Co., Ltd.
 Listing: Tokyo Stock Exchange (Prime Market)
 Securities Code: 4186 URL: <https://www.tok.co.jp/eng>
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 Scheduled date to file quarterly securities report: August 9, 2023
 Scheduled date to commence dividend payments: September 6, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 2023 (January 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results

(% indicates the rate of increase/decrease year-on-year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First six months ended June 30, 2023	77,674	(8.3)	10,904	(26.4)	11,806	(23.1)	5,355	(44.9)
June 30, 2022	84,711	30.7	14,810	54.7	15,353	52.7	9,723	51.9

(Note) Comprehensive income: First six months ended June 30, 2023 ¥14,033 million [-9.7%]
 First six months ended June 30, 2022 ¥15,545 million [45.2%]

	Basic earnings per share	Diluted earnings per share
First six months ended	Yen	Yen
June 30, 2023	132.89	132.71
June 30, 2022	241.92	241.52

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2023	247,380	190,732	72.1	4,420.47
December 31, 2022	238,075	180,960	71.3	4,214.27

(Reference) Equity: As of June 30, 2023: ¥178,283 million As of December 31, 2022: ¥169,745 million

2. Cash Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended December 31, 2022	Yen	Yen	Yen	Yen	Yen
	-	78.00	-	82.00	160.00
Fiscal year ending December 31, 2023	-	82.00	-	-	-
Fiscal year ending December 31, 2023 (Forecast)	-	-	-	82.00	164.00

(Note) Revisions to the most recently disclosed dividend forecasts: None

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

(% indicates the rate of increase/decrease against the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	164,000	(6.5)	23,500	(22.1)	25,000	(19.3)	13,500	(31.5)	334.74

(Note) Revisions to the most recently disclosed earnings forecasts: None

There has been no change in the earnings forecasts announced on July 28, 2023.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(Note): Please refer to “2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 8.

(4) Number of issued shares (common shares)

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

As of June 30, 2023	42,600,000 shares
As of December 31, 2022	42,600,000 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2023	2,268,713 shares
As of December 31, 2022	2,321,258 shares

(iii) Average number of shares outstanding during the period

First six months ended June 30, 2023	40,298,233 shares
First six months ended June 30, 2022	40,193,516 shares

* The Financial Results report is outside the scope of a quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of earnings forecasts and other special notes

The earnings forecasts stated in this report are based on the information available as of the date of the release of this report, and actual results may differ from these forecasts due to a variety of factors.

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1. Qualitative Information on Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 2023

(1) Explanation about Operating Results

During the six months ended June, 2023, the global economy was on a gradual recovery trend overall, despite factors such as prolonged U.S.-China trade friction and the situation in Russia and Ukraine.

Under these circumstances, the Group has made an all-out effort to promote the company-wide strategies set out in the “tok Medium-Term Plan 2024,” a three-year medium-term plan ending in FY2024.

In the Group’s business, net sales decreased year on year despite a solid growth in automotive semiconductor due to a decrease in demand for PCs and smartphones, etc., resulting in a decline in sales of electronic functional materials and high-purity chemicals.

As a result, for the six months ended June 30, 2023, the Group recorded net sales of ¥77,674 million (down 8.3% year-on-year), operating income of ¥10,904 million (down 26.4% year-on-year), ordinary income of ¥11,806 million (down 23.1% year-on-year) and profit attributable to owners of parent of ¥5,355 million (down 44.9% year-on-year).

Following the transfer of the Equipment Business (excluding certain parts) to AIMECHATEC, Ltd., we operate the Material Business as a single business segment from the three months ended March 31, 2023. Accordingly, operating results by business segment is not disclosed, but net sales by division are as follows.

Net sales in the Electronic Functional Materials Division amounted to ¥41,848 million (down 7.3% year-on-year), in the High-Purity Chemicals Division amounted to ¥34,865 million (down 6.3% year-on-year) and in other divisions amounted to ¥959 million (down 59.1% year-on-year).

(2) Explanation about Financial Position

(Assets)

Total assets as of June 30, 2023 increased by ¥9,304 million from December 31, 2022 to ¥247,380 million.

Total current assets decreased by ¥201 million mainly due to a decrease in notes and accounts receivable - trade of ¥4,376 million, despite an increase of ¥4,248 million in inventories.

Total non-current assets increased by ¥9,506 million mainly because property, plant and equipment increased by ¥3,589 million due to capital investments and investments and other assets increased by ¥5,832 million due to an increase in investment securities caused by a rise in stock prices.

(Liabilities)

Total liabilities as of June 30, 2023 decreased by ¥467 million from December 31, 2022 to ¥56,648 million mainly because current liabilities decreased by ¥2,686 million due to a decrease in income taxes payable despite an increase in non-current liabilities of ¥2,219 million due to an increase in deferred tax liabilities.

(Net assets)

Total net assets as of June 30, 2023 increased by ¥9,772 million from December 31, 2022 to ¥190,732 million mainly due to securing of profit attributable to owners of parent of ¥5,355 million and increases in valuation difference on available-for-sale securities of ¥3,249 million and foreign currency translation adjustment of ¥3,033 million due to a weak yen despite payments of the year-end dividend of ¥3,315 million.

As a result, the equity ratio as of June 30, 2023 stood at 72.1%.

(3) Explanation about Future Forecast Information Including Consolidated Earnings Forecasts

There has been no change in the earnings forecasts announced in “Notice on Revisions of Forecasts” dated July 28, 2023.

The foreign exchange rate is assumed to be \$1=¥135.

In the event that we need to revise, we will disclose promptly.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY12/22 (As of December 31, 2022)	Second quarter of FY12/23 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	55,371	55,993
Notes and accounts receivable - trade	35,812	31,435
Securities	3,999	3,999
Merchandise and finished goods	11,084	10,701
Work in process	7,000	8,686
Raw materials and supplies	11,920	14,866
Other	5,535	4,815
Allowance for doubtful accounts	(89)	(64)
Total current assets	130,636	130,434
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,502	39,080
Other, net	29,507	30,518
Total property, plant and equipment	66,010	69,599
Intangible assets	1,295	1,380
Investments and other assets		
Retirement benefit asset	3,682	3,707
Long-term time deposits	18,000	18,000
Other	18,457	24,265
Allowance for doubtful accounts	(6)	(6)
Total investments and other assets	40,133	45,965
Total non-current assets	107,439	116,945
Total assets	238,075	247,380

(Millions of yen)

	FY12/22 (As of December 31, 2022)	Second quarter of FY12/23 (As of June 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,617	20,653
Short-term borrowings	—	497
Income taxes payable	3,308	1,920
Provision for bonuses	3,090	2,582
Other	12,765	12,440
Total current liabilities	40,781	38,094
Non-current liabilities		
Long-term borrowings	10,222	10,018
Retirement benefit liability	853	839
Other	5,257	7,695
Total non-current liabilities	16,333	18,553
Total liabilities	57,115	56,648
Net assets		
Shareholders' equity		
Share capital	14,640	14,640
Capital surplus	15,303	15,315
Retained earnings	137,551	139,591
Treasury shares	(11,276)	(11,037)
Total shareholders' equity	156,219	158,510
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,280	8,529
Foreign currency translation adjustment	8,877	11,910
Remeasurements of defined benefit plans	(630)	(666)
Total accumulated other comprehensive income	13,526	19,772
Share acquisition rights	174	140
Non-controlling interests	11,039	12,308
Total net assets	180,960	190,732
Total liabilities and net assets	238,075	247,380

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(Quarterly Consolidated Statement of Income for the First Six Months)

(Millions of yen)

	First six months of FY 12/22 (January 1, 2022 – June 30, 2022)	First six months of FY 12/23 (January 1, 2023 – June 30, 2023)
Net sales	84,711	77,674
Cost of sales	54,228	49,431
Gross profit	30,482	28,242
Selling, general and administrative expenses	15,671	17,338
Operating income	14,810	10,904
Non-operating income		
Interest income	61	151
Dividend income	254	282
Foreign exchange gains	553	370
Other	131	236
Total non-operating income	1,000	1,040
Non-operating expenses		
Interest expenses	36	38
Loss on valuation of derivatives	328	67
Other	92	32
Total non-operating expenses	457	138
Ordinary income	15,353	11,806
Extraordinary income		
Gain on sale of non-current assets	—	219
Other	—	44
Total extraordinary income	—	264
Extraordinary losses		
Loss on retirement of non-current assets	89	47
Loss on sale of businesses	—	1,720
Other	0	1
Total extraordinary losses	89	1,768
Profit before income taxes	15,264	10,302
Income taxes - current	3,702	2,733
Income taxes - deferred	416	492
Total income taxes	4,118	3,225
Profit attributable to	11,146	7,076
Profit attributable to non-controlling interests	1,422	1,721
Profit attributable to owners of parent	9,723	5,355

(Quarterly Consolidated Statement of Comprehensive Income)

(Quarterly Consolidated Statement of Comprehensive Income for the First Six Months)

(Millions of yen)

	First six months of FY 12/22 (January 1, 2022 – June 30, 2022)	First six months of FY 12/23 (January 1, 2023 – June 30, 2023)
Profit attributable to owners of parent	11,146	7,076
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,314)	3,249
Foreign currency translation adjustment	5,804	3,743
Remeasurements of defined benefit plans	(90)	(35)
Other comprehensive income	4,399	6,957
Comprehensive income	15,545	14,033
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,193	11,602
Comprehensive income attributable to non-controlling interests	2,352	2,431

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY 12/22 (January 1, 2022 – June 30, 2022)	First six months of FY 12/23 (January 1, 2023 – June 30, 2023)
Cash flows from operating activities		
Profit before income taxes	15,264	10,302
Depreciation	3,152	3,786
Increase (decrease) in allowance for doubtful accounts	(35)	(21)
Increase (decrease) in provision for bonuses	235	(520)
Decrease (increase) in retirement benefit asset	(182)	(58)
Increase (decrease) in retirement benefit liability	3	(48)
Interest and dividend income	(315)	(433)
Interest expenses	35	38
Foreign exchange losses (gains)	(1,441)	761
Loss (gain) on valuation of derivatives	328	67
Loss (gain) on sale of non-current assets	—	(218)
Loss on retirement of non-current assets	89	47
Loss (gain) on sale of businesses	—	1,720
Decrease (increase) in trade receivables	(1,516)	4,127
Decrease (increase) in inventories	(2,509)	(5,608)
Increase (decrease) in trade payables	1,921	(2,329)
Increase (decrease) in advances received	64	1,034
Other	(1,464)	49
Subtotal	13,630	12,695
Interest and dividends received	319	432
Interest paid	(35)	(38)
Income taxes refund (paid)	(4,726)	(4,102)
Net cash provided by (used in) operating activities	9,187	8,987
Cash flows from investing activities		
Purchase of securities	(6,000)	(6,000)
Proceeds from sale of securities	6,000	6,000
Purchase of property, plant and equipment	(4,304)	(7,452)
Proceeds from sale of property, plant and equipment	—	237
Purchase of investment securities	—	(153)
Purchase of intangible assets	(380)	(274)
Net decrease (increase) in time deposits	956	(214)
Payments into long-term time deposits	(7,000)	(6,000)
Proceeds from withdrawal of long-term time deposits	10,000	7,000
Proceeds from sale of businesses	—	682
Other	(59)	693
Net cash provided by (used in) investing activities	(788)	(5,481)
Cash flows from financing activities		
Proceeds from short-term borrowings	—	463
Proceeds from long-term borrowings	3,900	—
Repayments of long-term borrowings	(4,094)	(203)
Proceeds from sale of treasury shares	574	314
Dividends paid	(3,789)	(3,323)
Dividends paid to non-controlling interests	(2,160)	(1,163)
Other	(94)	(86)
Net cash provided by (used in) financing activities	(5,664)	(3,998)
Effect of exchange rate change on cash and cash equivalents	2,498	1,780
Net increase (decrease) in cash and cash equivalents	5,232	1,288
Cash and cash equivalents at beginning of period	41,469	40,856
Cash and cash equivalents at end of period	46,702	42,145

(4) Notes to Quarterly Consolidated Financial Statements

(Notes Concerning Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No.31, June 17, 2021, "Implementation Guidance on Accounting Standard for Fair Value Measurement"), from January 1, 2023, and the new accounting policies stipulated in the "Implementation Guidance on Accounting Standard for Fair Value Measurement" are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 27-2 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement."

The application has no impact on the quarterly consolidated financial statements.

(Additional Information)

(Transaction to grant the Company's shares to employees, etc. through a trust)

Based on the resolution at the Board of Directors meeting held on August 7, 2019, the Company introduced "Trust-Type Employee Stock Ownership Plan" ("Plan") with an aim to enhance the Company's welfare program as well as to improve its medium- to long-term corporate value by providing employees with incentives for an increase in stock prices.

(1) Overview of the transaction

The Plan is an incentive plan for all employees in the "Tokyo Ohka Employees Stockholding Association" ("Stockholding Association"). Under the Plan, the Company sets up the "Tokyo Ohka Employee Stockholding Association Trust" ("Stockholding Trust") at a trust bank, and the Stockholding Trust purchases in advance the number of the Company's shares expected to be purchased by the Stockholding Association over five years from the date the trust is set up and sells the shares to the Stockholding Association every month on a certain date. Any gains on sale of shares accumulated in the trust upon expiry of the Stockholding Trust will be distributed as residual assets to those satisfying the beneficiary eligibility requirements. As the Company provides guarantee for the loans payable made by the Stockholding Trust to purchase the Company's shares, the Company is liable to pay the outstanding balance of the loans payable, equivalent to loss on sale of shares accumulated in the Stockholding Trust due to a decline in stock prices, upon expiry of the Stockholding Trust.

The Plan aims to improve our medium- to long-term corporate value by providing employees with incentives for an increase in stock prices and also to support employees' asset building as a measure to enhance our welfare program by promoting purchase and holding of shares through enhancement of the Stockholding Association.

(2) The Company's shares remaining in the Trust

The Company's shares remaining in the Trust are recorded as Treasury shares in Net assets at the carrying amount at the Trust (excluding ancillary expenses). The carrying amount and number of treasury shares as of December 31, 2022 and June 30, 2023 were ¥643 million and 154 thousand shares and ¥536 million and 128 thousand shares, respectively.

(3) The carrying amount of the loans payable recorded under the gross method

FY12/22	¥222 million
First six months of FY12/23	¥18 million

(Revenue Recognition)

Information on the breakdown of revenue arising from contracts with customers

The Group operates a single business segment, and the information on the breakdown of revenue arising from contracts with customers is as follows.

Previously, the information on the breakdown of revenue arising from contracts with customers was classified into two reportable segments of “Material Business” and “Equipment Business,” but we have changed the classification as follows from the three months ended March 31, 2023 following the transfer of “Equipment Business” (excluding certain parts).

As a result of this change, the information on the breakdown of revenue arising from contracts with customers for the six months ended June 30, 2022 was also shown under the new classification.

(Millions of yen)

	First six months of FY 12/22 (January 1, 2022 - June 30, 2022)	First six months of FY 12/23 (January 1, 2023 - June 30, 2023)
Electronic functional materials	45,153	41,848
High-purity chemicals	37,213	34,865
Other	2,343	959
Revenue from contracts with customers	84,711	77,674
Other revenue	—	—
Net sales to customers	84,711	77,674

(Segment Information)

I First six months of the fiscal year ended December 2022 (January 1, 2022 – June 30, 2022)

1. Information about net sales, income/loss for each reportable segment

Please refer to “II First six months of the fiscal year ending December 2023, 2. Changes, etc. in reportable segments.”

II First six months of the fiscal year ending December 2023 (January 1, 2023 – June 30, 2023)

1. Information about net sales, income/loss for each reportable segment

The disclosure is omitted as the Company operates a single business segment.

2. Changes, etc. in reportable segments

Previously, the Group had two reportable segments of “Material Business” and “Equipment Business,” but it operates the Material Business as a single business segment from the three months ended March 31, 2023.

The change was made based on the review of the segmentation conducted after the Company’s Equipment Business (excluding certain parts) was succeeded to our wholly owned subsidiary Process Equipment Business Split Preparatory Co., Ltd. (“Split Preparatory Company”) through an absorption-type company split and the shares of the Split Preparatory Company were transferred to AIMECHATEC, Ltd. effective March 1, 2023.

As a result of this change, the disclosure of segment information for the six months ended June 30, 2022 and 2023 is omitted.