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Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 [J-GAAP]

November 10, 2022

Company name: Tokyo Ohka Kogyo Co., Ltd.
 Listing: Tokyo Stock Exchange (Prime Market)
 Securities Code: 4186 URL: <https://www.tok.co.jp/eng>
 Representative: Noriaki Taneichi, President and Chief Executive Officer
 Inquiries: Daisuke Matsuyama, General Manager, Accounting Division TEL: +81-44-435-3000
 Scheduled date to file quarterly securities report: November 11, 2022
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: No

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 2022 (January 1, 2022 to September 30, 2022)

(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 nine months ended September 30, 2022	130,463	29.8	22,665	50.2	23,572	50.2	15,215	47.0
September 30, 2021	100,526	16.8	15,087	37.7	15,696	40.0	10,352	40.6

(Note) Comprehensive income: First nine months ended September 30, 2022 ¥20,930 million [32.7%]
 First nine months ended September 30, 2021 ¥15,772 million [86.4%]

	Basic earnings per share	Diluted earnings per share
First nine months ended	Yen	Yen
September 30, 2022	378.37	377.77
September 30, 2021	249.47	248.98

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
September 30, 2022	234,519	177,722	71.3	4,153.15
December 31, 2021	217,264	165,190	71.7	3,880.18

(Reference) Equity: As of September 30, 2022: ¥167,195 million As of December 31, 2021: ¥155,829 million

2. Cash Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	62.00	-	94.00	156.00
Fiscal year ending December 31, 2022	-	78.00	-		
Fiscal year ending December 31, 2022 (Forecast)				80.00	158.00

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

3. Consolidated Financial Results Forecast for Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(% 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	171,800	22.7	30,000	44.9	31,000	43.1	20,400	14.9	506.59

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

*** 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, (3) 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 September 30, 2022	42,600,000 shares
As of December 31, 2021	42,600,000 shares

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

As of September 30, 2022	2,342,615 shares
As of December 31, 2021	2,439,651 shares

- (iii) Average number of shares outstanding during the period

First nine months ended September 30, 2022	40,213,660 shares
First nine months ended September 30, 2021	41,496,402 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 Nine Months of the Fiscal Year Ending December 2022

(1) Explanation about Operating Results

During the nine months ended September 30, 2022, the global economy continued to show signs of gradual recovery overall despite the impact of COVID-19. On the other hand, the economic environment remained uncertain due to fluctuations in the financial capital market, inflation, and supply constraints amid global monetary tightening.

Against such a backdrop, the Group launched “tok Medium-Term Plan 2024,” a three-year medium-term plan ending in FY2024, under the management vision to become “The e-Material Global Company[®]” contributing to a sustainable future through chemistry. With the slogan of “Boost up TOK!,” the Plan aims to attain the long-term vision TOK Vision 2030 by developing and promoting the following five company-wide strategies: (1) Increase global market share of cutting-edge photoresists, (2) Acquire and create core technologies in electronic materials and new fields, (3) Secure stable supply of high-quality products and establish an optimal production system for the Group, (4) Improve employee engagement and promote people-oriented management, and (5) Build sound and efficient management foundation.

With regard to the Equipment Business, the Board of Directors meeting held on September 26, 2022 resolved to transfer the Equipment Business (excluding certain parts) to a succession preparatory company to be established as the Company’s wholly-owned subsidiary through an absorption-type company split and then transfer all of the shares of the new company to AIMECHATEC, Ltd. (hereinafter “AIMECHATEC”), and we entered into the “Share Transfer Agreement” and the “Master Collaboration Agreement” concerning the collaboration with AIMECHATEC. We have also acquired some shares of AIMECHATEC so that we establish a solid partnership with the company to further develop our Materials & Equipment (M&E) strategy.

In the Material Business, net sales increased year on year due to a continued growth in the semiconductor market driven by the spread of 5G and IoT and the growing data server market, etc. as well as the effect of the weakening yen despite the weak smartphone market.

In the Equipment Business, net sales increased year on year due to the progress in acceptance inspections of the ordered equipment.

As a result, for the nine months ended September 30, 2022, the Group recorded net sales of ¥130,463 million (up 29.8% year-on-year), operating income of ¥22,665 million (up 50.2% year-on-year), ordinary income of ¥23,572 million (up 50.2% year-on-year), and profit attributable to owners of parent of ¥15,215 million (up 47.0% year-on-year).

Effective January 1, 2022, the Group applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 31, 2020), etc., and its impact was insignificant. Please see “2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” for details.

Operating results by segment are as follows:

1) Material Business

Net sales in the Material Business segment, excluding internal transactions were ¥127,080 million (up 28.4% year-on-year), and operating income was ¥26,245 million (up 38.1% year-on-year), mainly due to strong sales of electronic functional materials and high-purity chemicals.

	(Millions of yen)			
	Nine months ended September 30, 2021	Nine months ended September 30, 2022	Change	%
Net sales	98,997	127,080	28,083	28.4%
Operating income	19,005	26,245	7,239	38.1%

Overview by division is as follows.

In the Electronic Functional Materials Division, net sales significantly increased to ¥68,853 million (up 20.0% year-on-year). This was mainly due to continued strong sales of semiconductor photoresists, etc., supported by spread of 5G and IoT, etc. and strong semiconductor demand for data servers in addition to the effect of the weakening yen although sales of photoresists for display decreased as a result of changes in demand for small- and medium-sized LCDs.

Net sales in the High-Purity Chemicals Division significantly increased to ¥57,628 million (up 39.4% year-on-year) mainly due to sales price adjustments for chemicals attached to semiconductor photoresists used in the semiconductor production process and the weakening yen.

2) Equipment Business

Net sales in the Equipment Business segment, excluding internal transactions increased to ¥3,383 million (up 121.2% year-on-year), and operating income increased by ¥582 million from a year earlier to ¥339 million. This was mainly due to the progress in acceptance inspections of ordered products, such as a wafer handling system Zero Newton[®] used for the through-silicon-via (TSV) process for realizing high function, high-performance semiconductors.

	(Millions of yen)			
	Nine months ended September 30, 2021	Nine months ended September 30, 2022	Change	%
Net sales	1,529	3,383	1,853	121.2%
Operating income (loss)	(243)	339	582	—

(2) Explanation about Financial Position

(Assets)

Total assets as of September 30, 2022 increased by ¥17,255 million from December 31, 2021 to ¥234,519 million.

Total current assets increased by ¥9,844 million mainly due to increases in inventories of ¥6,263 million, notes and accounts receivable - trade of ¥3,067 million.

Total non-current assets increased by ¥7,411 million mainly because property, plant and equipment increased by ¥8,322 million due to capital investments although investments and other assets decreased by ¥1,174 million due to mark-to-market valuation of investment securities.

(Liabilities)

Total liabilities as of September 30, 2022 increased by ¥4,723 million from December 31, 2021 to ¥56,797 million mainly because notes and accounts payable - trade increased by ¥3,137 million and provision for bonuses increased by ¥1,539 million.

(Net assets)

Total net assets as of September 30, 2022 increased by ¥12,531 million from December 31, 2021 to 177,722 million mainly because retained earnings increased by ¥8,267 million due to recording of profit and foreign currency translation adjustment increased by ¥4,844 million due to the weakening yen despite a decrease in valuation difference on available-for-sale securities of ¥2,159 million due to mark-to-market valuation.

As a result, the equity ratio as of September 30, 2022 stood at 71.3%.

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

There has been no change in the earnings forecasts announced in “Announcement of Revision to Earnings Forecasts” (in Japanese) dated July 29, 2022.

The foreign exchange rate is assumed to be \$1=¥125.

In the event that we need to revise them due to impact of COVID-19, etc., we will disclose promptly.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY12/21 (As of December 31, 2021)	Third quarter of FY12/22 (As of September 30, 2022)
Assets		
Current assets		
Cash and deposits	56,835	56,252
Notes and accounts receivable - trade	33,895	36,963
Securities	3,999	3,999
Merchandise and finished goods	9,451	11,137
Work in process	4,606	6,986
Raw materials and supplies	7,292	9,490
Other	2,921	3,981
Allowance for doubtful accounts	(120)	(83)
Total current assets	118,883	128,727
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	31,251	36,691
Other, net	25,680	28,563
Total property, plant and equipment	56,932	65,255
Intangible assets	837	1,100
Investments and other assets		
Retirement benefit asset	4,658	4,786
Long-term time deposits	18,000	18,000
Other	17,957	16,656
Allowance for doubtful accounts	(6)	(6)
Total investments and other assets	40,610	39,436
Total non-current assets	98,380	105,791
Total assets	217,264	234,519

(Millions of yen)

	FY12/21 (As of December 31, 2021)	Third quarter of FY12/22 (As of September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,250	22,387
Short-term borrowings	3,900	—
Income taxes payable	4,278	2,476
Provision for bonuses	2,488	4,027
Other	9,739	12,024
Total current liabilities	39,656	40,916
Non-current liabilities		
long-term borrowings	6,711	10,417
Retirement benefit liability	609	664
Other	5,095	4,798
Total non-current liabilities	12,416	15,880
Total liabilities	52,073	56,797
Net assets		
Shareholders' equity		
Share capital	14,640	14,640
Capital surplus	15,207	15,303
Retained earnings	124,806	133,073
Treasury shares	(11,818)	(11,365)
Total shareholders' equity	142,836	151,652
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,851	4,692
Foreign currency translation adjustment	5,618	10,463
Remeasurements of defined benefit plans	522	387
Total accumulated other comprehensive income	12,993	15,542
Share acquisition rights	215	174
Non-controlling interests	9,146	10,352
Total net assets	165,190	177,722
Total liabilities and net assets	217,264	234,519

(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 Nine Months)

(Millions of yen)

	First nine months of FY 12/21 (January 1, 2021 – September 30, 2021)	First nine months of FY 12/22 (January 1, 2022 – September 30, 2022)
Net sales	100,526	130,463
Cost of sales	64,751	83,468
Gross profit	35,775	46,995
Selling, general and administrative expenses	20,687	24,330
Operating income	15,087	22,665
Non-operating income		
Interest income	86	92
Dividend income	237	316
Foreign exchange gains	321	782
Other	132	196
Total non-operating income	778	1,388
Non-operating expenses		
Interest expenses	53	55
Loss on valuation of derivatives	52	323
Other	63	102
Total non-operating expenses	169	481
Ordinary income	15,696	23,572
Extraordinary income		
Gain on sale of non-current assets	—	14
Gain on sale of investment securities	—	243
Other	0	—
Total extraordinary income	0	258
Extraordinary losses		
Loss on retirement of non-current assets	80	205
Environmental expenses	83	—
Other	1	—
Total extraordinary losses	165	205
Profit before income taxes	15,531	23,626
Income taxes - current	3,931	5,872
Income taxes - deferred	(18)	189
Total income taxes	3,913	6,061
Profit attributable to	11,618	17,564
Profit attributable to non-controlling interests	1,266	2,348
Profit attributable to owners of parent	10,352	15,215

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

(Millions of yen)

	First nine months of FY 12/21 (January 1, 2021 – September 30, 2021)	First nine months of FY 12/22 (January 1, 2022 – September 30, 2022)
Profit attributable to owners of parent	11,618	17,564
Other comprehensive income		
Valuation difference on available-for-sale securities	1,755	(2,159)
Foreign currency translation adjustment	2,424	5,660
Remeasurements of defined benefit plans	(26)	(135)
Other comprehensive income	4,153	3,365
Comprehensive income	15,772	20,930
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,939	17,765
Comprehensive income attributable to non-controlling interests	1,832	3,165

(3) 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 the accounting standard for revenue recognition)

The Company applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020, "Accounting Standard for Revenue Recognition"), etc. from January 1, 2022, and recognizes revenue at an amount that it expects to receive in exchange for the promised goods or services when the control of the goods or services is transferred to a customer.

The Group's performance obligation is sales of goods, and we recognize revenue from domestic sales of merchandise and finished goods when the shipment is completed if control of the merchandise or finished goods is transferred to customers within a normal period after the shipment in accordance with the alternative treatment provided for in Paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Implementation Guidance No.30, March 26, 2021)

We applied the Accounting Standard for Revenue Recognition, etc. from January 1, 2022 pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, with the cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to January 1, 2022, adjusted to the beginning balance of retained earnings as of January 1, 2022, but there was no impact on the beginning balance. The impact on the quarterly consolidated financial statements is insignificant.

Pursuant to the transitional treatment provided for in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue arising from contracts with customers for the nine months ended September 30, 2021 is not presented.

(Application of the accounting standard for fair value measurement)

The Company applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019, "Accounting Standard for Fair Value Measurement"), etc. from January 1, 2022, and the new accounting policies stipulated in the Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). 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, 2021 and September 30, 2022 were ¥862 million and 206 thousand shares and ¥732 million and 175 thousand shares, respectively.

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

FY12/21	¥611 million
First nine months of FY12/22	¥417 million

(Segment Information)

I First nine months of the fiscal year ended December 2021 (January 1, 2021 – September 30, 2021)

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

(Millions of yen)

	Reportable segment			Reconciliations (Note) 1	Consolidated (Note) 2
	Material Business	Equipment Business	Total		
Net sales					
Net sales to customers	98,997	1,529	100,526	—	100,526
Inter-segment sales or transfers	2	56	58	(58)	—
Total	98,999	1,585	100,584	(58)	100,526
Segment income (loss)	19,005	(243)	18,762	(3,674)	15,087

(Note) 1. Reconciliation of segment income (loss) amounting to ¥(3,674) million includes general and administrative expenses of ¥(3,674) million, which are not allocated to reportable segments.

2. Segment income (loss) has been adjusted for the operating income appearing in the quarterly consolidated statements of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment

Not applicable.

II First nine months of the fiscal year ending December 2022 (January 1, 2022 – September 30, 2022)

1. Information about net sales, income/loss and breakdown of revenue by reportable segment

(Millions of yen)

	Reportable segment			Reconciliations (Note) 1	Consolidated (Note) 2
	Material Business	Equipment Business	Total		
Net sales					
Electronic functional materials	68,853	—	68,853	—	68,853
High-purity chemicals	57,628	—	57,628	—	57,628
Process equipment	—	3,383	3,383	—	3,383
Other	599	—	599	—	599
Revenue from contracts with customers	127,080	3,383	130,463	—	130,463
Other revenue	—	—	—	—	—
Net sales to customers	127,080	3,383	130,463	—	130,463
Inter-segment sales or transfers	0	126	126	(126)	—
Total	127,080	3,510	130,590	(126)	130,463
Segment income	26,245	339	26,584	(3,919)	22,665

(Note) 1. Reconciliation of segment income amounting to ¥(3,919) million includes general and administrative expenses of ¥(3,919) million, which are not allocated to reportable segments.

2. Segment income has been adjusted for the operating income appearing in the quarterly consolidated statements of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment

Not applicable.

3. Changes, etc. in reportable segments

As described in Changes in Accounting policies, the Company applied the Accounting Standard for Revenue Recognition from January 1, 2022 and changed the accounting treatment of revenue recognition, and accordingly, the method to calculate profit or loss of business segment was also changed.

The impact of this change on net sales and segment income for the nine months ended September 30, 2022 was insignificant.