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MEMBERSHIP

October 30, 2023

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Japanese GAAP)

Company name: NIPPON FINE CHEMICAL CO., LTD.
 Listing: Tokyo
 Securities Code: 4362
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 Scheduled date to file quarterly securities report: November 10, 2023
 Scheduled date to commence dividend payments: December 1, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2023	16,179	(13.4)	1,960	(28.1)	2,122	(26.9)	1,499	(23.4)
September 30, 2022	18,677	15.2	2,727	14.2	2,905	15.4	1,956	15.2

Note: Comprehensive income For the six months ended September 30, 2023 ¥2,010 million [2.6%]
 For the six months ended September 30, 2022 ¥1,958 million [(5.6)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	65.72	—
September 30, 2022	82.84	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
September 30, 2023	57,743	47,506	80.7
March 31, 2023	56,672	46,101	79.9

Reference: Equity
 As of September 30, 2023 ¥46,604 million
 As of March 31, 2023 ¥45,266 million

2. Status of 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 March 31, 2023	–	28.00	–	29.00	57.00
Fiscal year ending March 31, 2024	–	35.00			
Fiscal year ending March 31, 2024 (Forecast)			–	35.00	70.00

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

3. Consolidated earnings forecasts for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	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
Full year	35,500	(3.6)	4,400	(13.0)	4,700	(12.8)	3,250	(20.3)	142.28

Note: Revisions to the earnings forecasts most recently announced: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: - (company name) Excluded: - (company name)

(2) Adoption of accounting treatment specific to the preparation of 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, etc.: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(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, 2023	25,372,447 shares
As of March 31, 2023	25,372,447 shares

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

As of September 30, 2023	2,530,981 shares
As of March 31, 2023	2,563,350 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	22,819,291 shares
Six months ended September 30, 2022	23,621,814 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements of the earnings outlook, etc. described in this document are based on the information currently obtained by the Company and certain assumptions that it deems reasonable, and are not intended to promise the achievement of such information. In addition, actual business results may differ significantly due to various factors. Please refer to page 3 of the attached materials “1. Qualitative information on financial results for the period under review (3) Explanation of consolidated earnings forecasts and other forward-looking statements” for the conditions that are the premise of the earnings forecasts and cautions when using the earnings forecasts.

The Company plans to hold a briefing session for institutional investors and analysts on Monday, November 13, 2023. The financial results presentation materials to be distributed at this briefing session will be posted on the Company’s website on the same day.

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1. Qualitative information on financial results for the period under review

(1) Explanation of operating results

During the six months ended September 30, 2023, the Japanese economy showed signs of normalization of economic activities as the legal status of COVID-19 was downgraded to Class 5 in May and the number of foreign visitors is returning to the pre-pandemic level. At the same time, looking overseas, the outlook remains uncertain due to soaring global resource and energy prices caused by the protracted situation in Ukraine and concerns about a downturn in the Chinese economy.

In this business environment, the Group has been working to further strengthen its management base and promoted selection and concentration on products that can be expected to contribute to the expansion of earnings.

As a result, net sales for the first six months of the fiscal year under review decreased to ¥16,179 million (down 13.4% year-on-year). In terms of profit, operating profit was ¥1,960 million (down 28.1% year-on-year), and ordinary profit was ¥2,122 million (down 26.9% year-on-year). Profit attributable to owners of parent was ¥1,499 million (down 23.4% year-on-year).

Operating results for each segment are as follows.

The classification of reporting segments has been changed from the first quarter of the fiscal year under review. The following year-on-year comparisons are comparative analyses based on figures for the same period of the previous fiscal year that have been reclassified into the new segment classifications.

(i) Functional products

In this segment, net sales was ¥12,589 million (down 13.7% year-on-year). Segment profit (operating profit) was ¥1,693 million (down 25.1% year-on-year).

Reference:

(Unit: Millions of yen)	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year difference	Year-on-year changes
Beauty care	3,828	4,031	202	5.3%
Health care	2,705	2,326	(378)	(14.0%)
Fine chemical	3,908	2,499	(1,408)	(36.1%)
Trading	4,141	3,732	(409)	(9.9%)
Total net sales	14,583	12,589	(1,994)	(13.7%)
Beauty care	1,095	1,174	79	7.2%
Health care	366	(0)	(366)	(100.0%)
Fine chemical	657	353	(304)	(46.3%)
Trading	142	165	23	16.2%
Total operating profit	2,261	1,693	(568)	(25.1%)

Beauty care

Overseas sales of wool grease derivatives for cosmetics decreased against the backdrop of a slowdown in overseas economies, but overseas sales of functional esters for cosmetics increased due to sales expansion activities in response to the needs of sustainable aspect by customers. Domestic sales of phospholipids for cosmetics also increased due to steady progress in sales expansion.

Health care

Sales of phospholipids for pharmaceuticals decreased due to the impact of test production being implemented according to plan for the commencement of commercial production at the new plant for phospholipids for pharmaceuticals and the postponement of shipments to the second half of the fiscal year for items that were scheduled to be shipped in the first half of the fiscal year. Depreciation also increased due to the launch of the new plant.

Fine chemical

Sales of fatty acid amides, acid chlorides, and industrial wool grease derivatives decreased against the backdrop of a slowdown in overseas economies.

(ii) Environmental hygiene products

In this segment, sales of hand sanitizers decreased due to inventory adjustments in the market in addition to a slowing of demand for infection control products after the change in the legal status of COVID-19. As a result, net sales was ¥3,462 million (down 12.0% year-on-year) and segment profit (operating profit) was ¥213 million (down 44.3% year-on-year).

(iii) Other

Net sales of other businesses was ¥128 million (down 18.7% year-on-year) and segment profit (operating profit) was ¥54 million (down 34.9% year-on-year).

(2) Explanation of financial position

Total assets at the end of the second quarter of the fiscal year under review increased by ¥1,070 million from the end of the previous fiscal year (hereinafter referred to as “the previous fiscal year-end”) to ¥57,743 million. This was mainly due to an increase in current assets by ¥871 million due mainly to an increase in cash and deposits, and a ¥199 million increase in non-current assets due mainly to an increase in investment securities.

Liabilities at the end of the second quarter of the fiscal year under review decreased by ¥334 million from the previous fiscal year-end to ¥10,236 million. This was mainly due to a decrease in non-current liabilities by ¥451 million mainly due to a decrease in deferred tax liabilities, while current liabilities increased by ¥116 million mainly due to an increase in income taxes payable.

The net assets at the end of the second quarter of the fiscal year under review increased by ¥1,405 million from the previous fiscal year-end to ¥47,506 million. This was mainly due to an increase in shareholders' equity by ¥927 million, mainly due to recording ¥1,499 million in profit attributable to owners of parent, and an increase of ¥410 million in accumulated other comprehensive income, mainly from an increase in valuation difference on available-for-sale securities, despite a decrease due to ¥661 million in dividends paid.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

In the field of environmental hygiene products, sales of hand sanitizers decreased due to inventory adjustments in the market in addition to a slowing of demand for infection control products after the change in the legal status of COVID-19. We expect that it will take a considerable period of time for sales of hand sanitizers to recover from the third quarter onward, and we have revised our full-year consolidated earnings forecasts from the forecasts announced on April 28, 2023. The main exchange rates used in the earnings forecasts are ¥140 per US\$ and ¥150 per EUR.

Earnings forecasts are created based on information available at the time, and actual performance may vary from forecasted values due to a variety of future factors.

2. Quarterly consolidated financial statements and main notes

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (As of March 31, 2023)	Current second quarter (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	8,937,431	10,336,421
Notes and accounts receivable - trade	8,855,955	8,548,075
Merchandise and finished goods	4,001,642	4,077,062
Work in process	2,290,016	2,743,726
Raw materials and supplies	4,718,263	4,466,371
Other	788,202	291,164
Allowance for doubtful accounts	(695)	(663)
Total current assets	29,590,815	30,462,159
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,737,425	6,623,875
Machinery, equipment and vehicles, net	1,285,637	2,812,106
Land	3,719,989	3,719,989
Construction in progress	1,794,239	119,115
Other, net	690,084	731,334
Total property, plant and equipment	14,227,376	14,006,422
Intangible assets	521,691	640,829
Investments and other assets		
Investment securities	12,017,715	12,275,764
Retirement benefit asset	67,408	75,071
Other	247,729	283,049
Total investments and other assets	12,332,853	12,633,885
Total non-current assets	27,081,921	27,281,137
Total assets	56,672,737	57,743,296

(Thousands of yen)

	Previous fiscal year (As of March 31, 2023)	Current second quarter (As of September 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,256,778	3,810,753
Accounts payable - other	839,820	630,499
Income taxes payable	607,013	1,090,113
Provision for bonuses	717,500	635,323
Provision for bonuses for directors (and other officers)	79,752	18,897
Provision for environmental measures	–	426,000
Accounts payable - facilities	459,535	217,148
Other	655,448	903,579
Total current liabilities	7,615,849	7,732,316
Non-current liabilities		
Deferred tax liabilities	2,655,149	2,232,244
Retirement benefit liability	144,956	128,113
Long-term accounts payable - other	15,600	19,659
Long-term guarantee deposits	102,890	90,516
Asset retirement obligations	9,430	9,430
Other	27,652	24,580
Total non-current liabilities	2,955,679	2,504,544
Total liabilities	10,571,528	10,236,861
Net assets		
Shareholders' equity		
Share capital	5,933,221	5,933,221
Capital surplus	6,821,920	6,870,796
Retained earnings	28,513,077	29,351,430
Treasury shares	(3,171,070)	(3,131,121)
Total shareholders' equity	38,097,149	39,024,327
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,469,379	6,698,245
Deferred gains or losses on hedges	3,275	5,070
Foreign currency translation adjustment	697,997	877,422
Remeasurements of defined benefit plans	(1,156)	(1,055)
Total accumulated other comprehensive income	7,169,496	7,579,683
Non-controlling interests	834,562	902,424
Total net assets	46,101,208	47,506,435
Total liabilities and net assets	56,672,737	57,743,296

(2) Quarterly consolidated statement of income and comprehensive income (cumulative)

(Thousands of yen)

	Previous second quarter (Cumulative) (From April 1, 2022 to September 30, 2022)	Current second quarter (Cumulative) (From April 1, 2023 to September 30, 2023)
Net sales	18,677,377	16,179,996
Cost of sales	13,047,874	11,394,999
Gross profit	5,629,502	4,784,996
Selling, general and administrative expenses	2,901,725	2,824,373
Operating profit	2,727,777	1,960,623
Non-operating income		
Interest income	6,407	5,798
Dividend income	149,120	156,372
Foreign exchange gains	764	–
Miscellaneous income	22,931	20,962
Total non-operating income	179,223	183,133
Non-operating expenses		
Interest expenses	645	644
Foreign exchange losses	–	3,210
Depreciation	–	15,830
Miscellaneous losses	1,227	1,234
Total non-operating expenses	1,872	20,920
Ordinary profit	2,905,128	2,122,836
Extraordinary income		
Gain on sale of non-current assets	2,247	259
Gain on sale of investment securities	–	484,271
Total extraordinary income	2,247	484,531
Extraordinary losses		
Loss on retirement of non-current assets	11,454	5,941
Loss on sale of investment securities	13,889	–
Loss on valuation of investment securities	–	49,021
Provision for environmental measures	–	426,000
Total extraordinary losses	25,343	480,963
Profit before income taxes	2,882,032	2,126,405
Income taxes - current	830,015	1,106,954
Income taxes - deferred	49,945	(524,687)
Total income taxes	879,960	582,266
Profit	2,002,072	1,544,138
Profit attributable to		
Profit attributable to owners of parent	1,956,872	1,499,815
Profit attributable to non-controlling interests	45,200	44,323
Other comprehensive income		
Valuation difference on available-for-sale securities	(223,619)	228,866
Deferred gains or losses on hedges	(7,921)	1,989
Foreign currency translation adjustment	188,787	235,570
Remeasurements of defined benefit plans, net of tax	(538)	101
Total other comprehensive income	(43,291)	466,526
Comprehensive income	1,958,780	2,010,665
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,869,295	1,910,003
Comprehensive income attributable to non-controlling interests	89,485	100,662

(3) Quarterly consolidated statement of cash flows

(Thousands of yen)

	Previous second quarter (Cumulative) (From April 1, 2022 to September 30, 2022)	Current second quarter (Cumulative) (From April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	2,882,032	2,126,405
Depreciation	445,586	605,644
Increase (decrease) in allowance for doubtful accounts	(1,903)	(32)
Increase (decrease) in retirement benefit liability	24,365	(16,843)
Decrease (increase) in retirement benefit asset	(29,778)	(7,663)
Increase (decrease) in provision for environmental measures	–	426,000
Interest and dividend income	(155,527)	(162,171)
Interest expenses	645	644
Foreign exchange losses (gains)	(11,792)	(21,689)
Loss (gain) on sale of investment securities	13,889	(484,271)
Loss (gain) on valuation of investment securities	–	49,021
Loss (gain) on sale and retirement of property, plant and equipment	9,206	5,681
Decrease (increase) in trade receivables	(506,876)	347,919
Decrease (increase) in inventories	(1,309,725)	(208,076)
Increase (decrease) in guarantee deposits received	382	(12,373)
Increase (decrease) in trade payables	48,147	(415,335)
Other, net	(241,632)	448,792
Subtotal	1,167,019	2,681,651
Interest and dividends received	155,527	162,171
Interest paid	(645)	(644)
Income taxes paid	(1,063,208)	(639,867)
Net cash provided by (used in) operating activities	258,693	2,203,310
Cash flows from investing activities		
Payments into time deposits	–	(206,600)
Proceeds from withdrawal of time deposits	101,450	–
Purchase of property, plant and equipment	(452,295)	(530,392)
Proceeds from sale of property, plant and equipment	2,600	260
Purchase of intangible assets	(84,778)	(231,260)
Purchase of investment securities	(804)	(818)
Proceeds from sale of investment securities	25,125	519,875
Net cash provided by (used in) investing activities	(408,703)	(448,934)
Cash flows from financing activities		
Repayments of lease liabilities	(3,968)	(4,277)
Dividends paid	(684,849)	(661,463)
Dividends paid to non-controlling interests	(36,841)	(32,801)
Purchase of treasury shares	(76)	(618)
Other, net	47	–
Net cash provided by (used in) financing activities	(725,688)	(699,160)
Effect of exchange rate change on cash and cash equivalents	47,882	58,139
Net increase (decrease) in cash and cash equivalents	(827,815)	1,113,354
Cash and cash equivalents at beginning of period	11,410,777	7,766,215
Cash and cash equivalents at end of period	10,582,961	8,879,570

(4) Notes to quarterly consolidated financial statements**(Notes on premise of going concern)**

Not applicable.

(Notes when there are significant changes in amounts of shareholders' equity)

Not applicable.

(Segment information)

[Segment information]

I. Previous second quarter (Cumulative) (From April 1, 2022 to September 30, 2022)

- Information on net sales and profits or losses for each reporting segment, and information on the decomposition of profits

(Thousands of yen)

	Reporting segment			Other Note: 1	Total	Adjustment amount	Quarterly consoli- dated statement of income and comprehen- sive income amounts Note: 2
	Functional products	Environ- mental hygiene products	Total				
Net sales							
Revenue from contracts with customers	14,583,716	3,936,018	18,519,734	–	18,519,734	–	18,519,734
Other revenue	–	–	–	157,642	157,642	–	157,642
Revenues from external customers	14,583,716	3,936,018	18,519,734	157,642	18,677,377	–	18,677,377
Intersegment sales or transfers	146,475	16,467	162,942	15,808	178,751	(178,751)	–
Total	14,730,191	3,952,485	18,682,676	173,451	18,856,128	(178,751)	18,677,377
Segment profit	2,261,095	383,626	2,644,721	83,055	2,727,777	–	2,727,777

Notes: 1. The “Other” segment is a business segment that is not included in the reporting segment, and includes the real estate business.

- Segment profit is consistent with the operating profit in the quarterly consolidated statement of income and comprehensive income.

II. Current second quarter (Cumulative) (From April 1, 2023 to September 30, 2023)

1. Information on net sales and profits or losses for each reporting segment, and information on the decomposition of profits

(Thousands of yen)

	Reporting segment			Other Note: 1	Total	Adjustment amount	Quarterly consoli- dated statement of income and comprehen- sive income amounts Note: 2
	Functional products	Environ- mental hygiene products	Total				
Net sales							
Revenue from contracts with customers	12,589,611	3,462,195	16,051,806	–	16,051,806	–	16,051,806
Other revenue	–	–	–	128,189	128,189	–	128,189
Revenues from external customers	12,589,611	3,462,195	16,051,806	128,189	16,179,996	–	16,179,996
Intersegment sales or transfers	90,631	15,643	106,275	70,981	177,256	(177,256)	–
Total	12,680,242	3,477,839	16,158,082	199,171	16,357,253	(177,256)	16,179,996
Segment profit	1,693,060	213,523	1,906,584	54,038	1,960,623	–	1,960,623

Notes: 1. The “Other” segment is a business segment that is not included in the reporting segment, and includes the real estate business.

2. Segment profit is consistent with the operating profit in the quarterly consolidated statement of income and comprehensive income.

2. Disclosure of changes, etc. in reporting segments

Segments have been reorganized based on business fields from the first quarter of the fiscal year under review.

The former “Industrial products” segment has been renamed the “Functional products” segment. The Company’s household products in the “Household products” segment and the business of entrusting pharmacology and safety tests in the “Other” segment have been incorporated into the “Functional products” segment. The former “Household products” segment has been renamed the “Environmental hygiene products” segment.

Segment information for the previous second quarter (cumulative) is disclosed based on the new reporting segment classifications.