

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the Third Quarter Ended July 31, 2022 Under Japanese GAAP

This document is an English translation of the consolidated financial results (tanshin) prepared in Japanese. It is only for the reference of non-Japanese readers, and the Japanese version is the original.

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 Stock Exchange Listings: Prime Market of Tokyo Stock Exchange (Securities code: 4996)
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Scheduled Filing of Quarterly Securities Report: September 14, 2022
 Scheduled Commencement of Dividend Payment: —
 Supplementary Materials on Financial Results: None
 IR Presentation on Financial Results: None

Amounts less than one million yen have been omitted.

1. Consolidated Financial Results (for the nine months ended July 31, 2022)

(1) Consolidated Operating Results

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent	
	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)
Nine months ended July 31, 2022	¥106,334	20.1%	¥10,342	50.3%	¥16,153	78.9%	¥11,063	74.5%
Nine months ended July 31, 2021	88,503	11.2	6,883	18.4	9,028	36.5	6,339	39.5

Notes: 1. Comprehensive income: Nine months ended July 31, 2022: ¥12,829 million [272.2%] Nine months ended July 31, 2021: ¥3,447 million [(17.3%)]
 2. Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)
Nine months ended July 31, 2022	¥91.67	¥ —
Nine months ended July 31, 2021	50.68	—

Note: The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. as of the beginning of the first-quarter period. Figures for the third quarter of the fiscal year ending October 31, 2022 are figures after the application of this accounting standard, etc.

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of July 31, 2022	¥194,036	¥116,264	56.6%
As of October 31, 2021	169,172	109,954	61.4

(Reference) Shareholders' equity: As of July 31, 2022: ¥109,816 million As of October 31, 2021: ¥103,889 million

Note: The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. as of the beginning of the first-quarter period. Figures for the third quarter of the fiscal year ending October 31, 2022 are figures after the application of this accounting standard, etc.

2. Cash Dividends for Shareholders of Common Stock

(Yen)

	Cash Dividends per Share over the Fiscal Year				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-End	Annual
Year ended October 31, 2021	¥ —	¥5.00	¥ —	¥10.00	¥15.00
Year ending October 31, 2022	—	8.00	—	—	—
Year ending October 31, 2022 (Forecast)	—	—	—	12.00	20.00

Note: Most recently announced revisions to dividend forecast: No

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2022)

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent		Net Income per Share
	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount
Year ending October 31, 2022	¥140,000	18.5%	¥12,500	47.8%	¥16,400	27.8%	¥11,500	27.5%	¥95.71

Notes: 1. Most recently announced revisions to consolidated earnings forecast: No

2. For fiscal-year figures, percentages indicate the percentage change from the previous fiscal year.

3. The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. as of the beginning of the first-quarter period. The figures for the above consolidated earnings forecast are figures after the application of this accounting standard, etc.

***Notes:**

(1) Changes in significant subsidiaries during the period under review (changes to subsidiaries that would alter the scope of consolidation): No

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction

a) Changes in accounting policies due to revisions of accounting standards: Yes

b) Changes in accounting policies due to other reasons: No

c) Changes in accounting estimates: No

d) Restatements of prior period financial statements due to error correction: No

(4) Number of shares issued (common stock)

	As of July 31, 2022	As of October 31, 2021
a) Number of shares issued (including treasury stock)	133,184,612 shares	133,184,612 shares
b) Number of treasury stock	13,025,573 shares	8,083,073 shares
	<u>Nine months ended July 31, 2022</u>	<u>Nine months ended July 31, 2021</u>
c) Average number of shares issued in the period	120,689,180 shares	125,078,051 shares

Note: The number of shares of treasury stock increased by 4,942,500 shares during the third-quarter period (November 1, 2021 to July 31, 2022) due to the Company's acquisition of treasury stock via the off-floor trading system (Tokyo Stock Exchange Trading Network System transaction type 3) on December 15, 2021 and a decrease due to February 25, 2022 disposal of treasury stock as restricted stock-based compensation.

****The Quarterly Financial Results Report has not been subjected to audit procedures by certified public accountants or an audit corporation.**

***Statement concerning the Proper Use of Business Results Forecasts and Other Relevant Specific Items**

Earnings forecasts contained in this document are based on information available to management and provisional assumptions made as of the date of publication regarding uncertain factors that may impact future earnings. Readers are advised that actual results may differ materially from the forecasts due to a variety of factors. For the conditions that form the basis for the results forecasts and precautionary information on the use of results forecasts, please see (3) Explanation of Forecast Data, including Consolidated Results Forecasts under 1. Qualitative Information Regarding Consolidated Financial Results for the Period under Review on page 4 of the attached materials.

Accompanying Materials

1. Qualitative Information Regarding Consolidated Financial Results for the Period under Review

(1) Explanation of Operating Results

During the cumulative third-quarter period under review (November 1, 2021 to July 31, 2022), the Japanese economy saw a recovery trend due to the end of COVID-19 quasi-emergency measures, but the economic outlook remained uncertain due to the prolonged conflict in Ukraine, soaring prices of raw materials, disruption of global supply chains, and dramatic exchange rate fluctuations, among other factors.

As for the environment surrounding agriculture, agricultural output is expected to continue expanding against the backdrop of increasing demand for food and rising grain prices due to the growing global population. The worldwide agricultural chemical market has been continuing to grow together with expansion in agricultural production.

Against this backdrop, the Group implemented the Medium-Term Business Plan, “Create the Future—The Challenge for New Possibilities” (fiscal 2021 – fiscal 2023), and made every effort to implement priority measures designed to increase corporate value.

In the period under review, net sales increased by ¥17,832 million, or 20.1%, year on year, to ¥106,334 million, driven by strong sales in agricultural chemicals and agriculture-related businesses and the fine chemicals business, as well as greater-than-expected depreciation in the value of the yen. Operating income was ¥10,342 million, up ¥3,460 million, or 50.3%, year on year. Ordinary income was ¥16,153 million, up ¥7,125 million, or 78.9%, year on year due to foreign exchange gains from the weaker yen and other factors. Net income attributable to owners of the parent amounted to ¥11,063 million, up ¥4,724 million, or 74.5%, year on year. The percentage of overseas net sales was 51.8%.

The Group applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, “Revenue Recognition Accounting Standard”), etc. as of the beginning of the first-quarter period. Year-on-year comparisons are based on figures calculated using different standards. The details are as described in “2. Matters Related to Changes in Reportable Segments” under “Segment Information, etc.” on page 9.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Nine months ended July 31, 2021			Nine months ended July 31, 2022			YoY	
	Net sales	Composition ratio	Operating income	Net sales	Composition ratio	Operating income	Net sales [% change]	Operating income [% change]
Agricultural Chemicals and Agriculture-Related Businesses	¥66,893	75.6%	¥6,667	¥82,145	77.3%	¥10,372	¥15,252 [22.8]	¥3,705 [55.6]
Fine Chemicals Business	14,989	16.9	574	18,533	17.4	676	3,544 [23.6]	102 [17.7]
Other Businesses	6,620	7.5	739	5,657	5.3	518	(964) [(14.6)]	(221) [(29.9)]
Total	88,503	100.0	6,883	106,334	100.0	10,342	17,832 [20.1]	3,460 [50.3]

- Notes: 1. Consolidated segment operating income for the cumulative third-quarter period of the previous fiscal year includes ¥1,097 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).
2. Consolidated segment operating income for the cumulative third-quarter period of the current fiscal year includes ¥1,223 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).

1) Agricultural Chemicals and Agriculture-Related Businesses segment

In the Japanese market, sales of the rice paddy field fungicide Disarta and rice paddy field herbicides containing Effeeda, remained strong. In markets outside Japan, shipments of Axeev, a herbicide for field crops, to the U.S., Argentina, Brazil, and Australia, which are the major markets for this herbicide, increased due to higher demand within a favorable business environment. Shipments to Europe of Prohexadione-calcium, a plant growth regulator, also remained steady. These factors resulted in significantly higher segment sales than in the previous fiscal year.

As a result of the greater-than-expected depreciation of the yen, in addition to the factors above, net sales in the Agricultural Chemicals and Agriculture-Related Businesses segment came to ¥82,145 million, up by ¥15,252 million (22.8%) compared with the same period of the previous fiscal year. Operating income increased by ¥3,705 million (55.6%) year on year to ¥10,372 million.

2) Fine Chemicals Business segment

Sales of chloroxylylene based chemical products, bismaleimides, and urethane curing agents remained strong. As a result, net sales in the Fine Chemicals Business segment came to ¥18,533 million, up by ¥3,544 million (23.6%) compared with the same period of the previous fiscal year. Operating income increased by ¥102 million (17.7%) year on year to ¥676 million.

3) Other Businesses segment

Although sales in the logistics business were in line with the previous fiscal year, sales in the printing business and the construction business were lower than in the previous fiscal year. As a result, net sales in the Other Businesses segment amounted to ¥5,657 million, down ¥964 million (14.6%) compared with the same period of the previous fiscal year. Operating income decreased ¥221 million (29.9%) year on year to ¥518 million.

(2) Explanation of Financial Position

Total assets on a consolidated basis as of July 31, 2022 stood at ¥194,036 million, up by ¥24,864 million from the end of the previous fiscal year. This was mainly because of an increase in notes, accounts receivable–trade, and contract assets, and merchandise and finished products.

Liabilities increased ¥18,555 million compared with previous fiscal year-end to ¥77,772 million. This was mainly because the increase in short-term loans payable exceeded the decrease in long-term loans payable and accounts payable-other.

Total net assets amounted to ¥116,264 million, an increase of ¥6,310 million compared with the end of the previous fiscal year. The increase in total net assets was mainly due to the increase in retained earnings, which exceeded the decrease due to the purchase of treasury stock, among other reasons.

The equity ratio stood at 56.6%, and net assets per share were ¥913.92.

(3) Explanation of Forecast Data, including Consolidated Results Forecasts

The forecasts for the full-year results for the fiscal year ending October 31, 2022 are unchanged from the forecasts in “Announcement of Revisions to the Second-Quarter Period and Full Year Consolidated Earnings Forecasts for the Fiscal Year Ending October 31, 2022” (Japanese only) published on June 7, 2022.

The impact of COVID-19 on the Company’s consolidated results forecasts is considered to be limited. The Company will inform investors promptly of any factors of concern going forward.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2021	As of July 31, 2022
ASSETS		
Current assets:		
Cash and deposits	19,755	19,574
Notes and accounts receivable-trade	33,902	—
Notes, accounts receivable–trade, and contract assets	—	53,466
Marketable securities	300	90
Merchandise and finished products	32,542	35,183
Work in process	9,554	8,969
Raw materials and supplies	5,748	6,731
Other current assets	3,617	2,688
Allowance for doubtful accounts	(214)	(27)
Total current assets	105,203	126,673
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	12,848	13,039
Machinery, equipment and vehicles, net	9,293	9,650
Land	12,145	12,215
Construction in progress	1,263	3,280
Other property, plant and equipment, net	1,731	1,814
Total property and equipment	37,281	39,998
Intangible fixed assets:		
Goodwill	4,081	3,585
Other intangible assets	1,558	1,425
Total intangible assets	5,639	5,010
Investments and other assets:		
Investments securities	18,441	19,688
Long-term loans	318	319
Deferred tax assets	918	957
Net defined benefit asset	104	86
Other	1,398	1,472
Allowance for doubtful accounts	(130)	(166)
Total investments and other assets	21,048	22,355
Total fixed assets	63,968	67,363
Total assets	169,172	194,036

	Millions of yen	
	As of October 31, 2021	As of July 31, 2022
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	16,710	16,551
Short-term loan payable	6,089	29,814
Accounts payable-other	7,051	4,078
Income taxes payable	2,842	2,963
Provision for bonuses	1,628	798
Provision for environmental measures	280	339
Other current liabilities	1,031	2,810
Total current liabilities	35,630	57,354
Long-term liabilities:		
Long-term loan payable	16,303	13,307
Deferred tax liabilities	1,603	1,122
Provision for directors' retirement benefits	414	467
Provision for environmental measures	164	340
Net defined benefit liability	4,130	4,183
Asset retirement obligations	41	42
Other long-term liabilities	934	957
Total long-term liabilities	23,587	20,419
Total liabilities	59,218	77,772
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	37,370	37,403
Retained earnings	72,710	81,383
Less treasury stocks, at cost	(5,334)	(9,369)
Total shareholders' equity	109,281	113,951
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	1,320	1,426
Foreign currency translation adjustments	(6,728)	(5,591)
Remeasurements of defined benefit plans	17	30
Total accumulated other comprehensive loss	(5,392)	(4,135)
Non-controlling interests	6,065	6,448
Total net assets	109,954	116,264
Total liabilities and net assets	169,172	194,036

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

	Millions of yen	
	Nine months ended July 31, 2021	Nine months ended July 31, 2022
Net sales	88,503	106,334
Cost of sales	66,227	80,625
Gross profits	22,275	25,709
Selling, general and administrative expenses	15,392	15,366
Operating income	6,883	10,342
Non-operating income:		
Interest income	16	34
Dividend income	154	162
Equity in earnings of affiliates	1,070	1,305
Foreign exchange gains	790	4,259
Reversal of allowance for doubtful accounts	6	83
Other	250	120
Total non-operating income	2,287	5,962
Non-operating expenses:		
Interest expenses	104	128
Other	36	23
Total non-operating expenses	141	151
Ordinary income	9,028	16,153
Extraordinary income:		
Gain on disposal of fixed assets	118	1
Gain on sales of investment securities	236	—
Subsidy income	—	94
Insurance income	2	90
Total extraordinary income	357	185
Extraordinary loss:		
Loss on disposal of fixed assets	189	153
Loss on reduction of fixed assets	—	5
Loss on sales of investment securities	0	—
Loss on valuation of investment securities	—	2
Loss on sales of golf club membership	1	—
Loss on valuation of golf club membership	6	—
Loss on disaster	—	37
Environmental expenses	—	468
Total extraordinary loss	196	665
Income before income taxes and non-controlling interests	9,189	15,673
Income taxes	2,641	4,253
Net income	6,548	11,420
Net income attributable to non-controlling interests	209	357
Net income attributable to owners of parent	6,339	11,063

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended July 31, 2021	Nine months ended July 31, 2022
Net income	6,548	11,420
Other comprehensive income:		
Valuation difference on available-for-sale securities	17	105
Foreign currency translation adjustment	198	687
Remeasurements of defined benefit plans	23	13
Share of other comprehensive income of associates accounted for using equity method	(3,339)	604
Total other comprehensive income (loss)	(3,101)	1,409
Comprehensive income	3,447	12,829
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,205	12,320
Comprehensive income attributable to non-controlling interests	242	509

(Segment Information, etc.)

For the third quarter ended July 31, 2021 (From November 1, 2020 to July 31, 2021)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	66,893	14,989	81,882	6,620	88,503	—	88,503
Inter-segment	—	51	51	3,888	3,939	(3,939)	—
Total	66,893	15,040	81,933	10,509	92,442	(3,939)	88,503
Segment income/(loss)	6,667	574	7,241	739	7,980	(1,097)	6,883

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥1,097 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.

For the third quarter ended July 31, 2022 (From November 1, 2021 to July 31, 2022)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	82,145	18,533	100,678	5,657	106,334	—	106,334
Inter-segment	1	21	22	2,917	2,938	(2,938)	—
Total	82,146	18,553	100,700	8,573	109,273	(2,938)	106,334
Segment income/(loss)	10,372	676	11,048	518	11,565	(1,223)	10,342

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥1,223 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.

2. Matters Related to Changes in Reportable Segments

The Company applied the Revenue Recognition Accounting Standard from the beginning of the first-quarter period. As the accounting methods for revenue recognition have been changed, the method of calculating segment profit and loss also has been changed in the same manner.

As a result of the changes, compared with the previous method, net sales decreased by ¥2,203 million in the Agricultural Chemicals and Agriculture-Related Businesses segment, by ¥59 million in the Fine Chemicals Business segment, and increased by ¥7 million in the Other Businesses segment.

(Significant Subsequent Event)

Not applicable