

Consolidated Financial Report for the Six Months Ended September 30, 2023

TOYOBO Co., Ltd.

URL <https://ir.toyobo.co.jp/en/ir.html>

Stock Code: 3101 (Prime Market, Tokyo Stock Exchange)

Representative: Ikuo Takeuchi, President & Representative Director

Contact Person: Sonoko Ishimaru, Executive Officer, General Manager, Corporate Communication Department

TEL: +81-6-6348-3044

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(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance

(1) Consolidated Operating Results

Six months ended September 30

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2023	199,419	(0.8)	2,361	(70.1)	1,038	(84.7)	2,011	(81.7)
2022	201,123	9.4	7,885	(53.9)	6,760	(49.2)	10,970	13.0

(Note) Comprehensive Income: Six months ended September 30, 2023: ¥4,150 million (69.2%)

Six months ended September 30, 2022: ¥13,490 million (0.8%)

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2023	22.82	—
2022	123.35	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2023	577,201	221,793	33.0	2,160.40
March 31, 2023	588,906	221,422	32.2	2,146.46

(Reference) Total shareholders' equity: September 30, 2023: ¥190,331 million, March 31, 2023: ¥189,588 million

2. Dividends

Years ended/ending March 31

Record date	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2023	—	0.00	—	40.00	40.00
2024	—	0.00			
2024 (Forecast)			—	40.00	40.00

(Note) Revision of dividends forecast for this period: None

3. Forecasts for Fiscal Year Ending March 31, 2024

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year	410,000	2.5	10,000	(0.6)	6,000	(9.0)

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal year	1,000	—	11.24

(Note) Revision of earnings forecast for this period: Yes

4. Other

1. Significant changes in subsidiaries during the subject fiscal year (Transfer of particular subsidiaries following a change in the scope of consolidation): None
 - 1) New company : None
 - 2) Excluded company : None
2. Adoption of simplified and special accounting methods: None
3. Changes from accounting methods, procedures and the presentation of the consolidated financial statements:
 - 1) Changes based on revision of accounting standards : None
 - 2) Changes other than 1) above : None
 - 3) Changes due to accounting estimation change : None
 - 4) Error correction : None
4. Number of shares issued and outstanding (common stock):
 - 1) Number of shares outstanding (including treasury stock):

September 30, 2023: 89,048,792 shares March 31, 2023: 89,048,792 shares
 - 2) Number of treasury stock:

September 30, 2023: 948,737 shares March 31, 2023: 723,040 shares
 - 3) Average number of shares outstanding for each period (cumulative term):

Six months ended September 30, 2023: 88,094,277 shares
2022: 88,931,822 shares

※ Quarterly Financial Results reports are exempt from Quarterly review

※ Explanation regarding the appropriate use of forecasts of business results

The forward-looking statements made in this document, including the aforementioned forecasts, are based on all information available to the management at the time of this document's release. Actual results may differ from the results anticipated in the statements.

(How to obtain supplementary document on earnings)

The supplementary document on earnings is disclosed on the same day as the Quarterly Financial Results report, and it is made available on the Company's website.

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Results

The business environment surrounding the Toyobo Group (hereinafter “the Group”) in the six months ended September 30, 2023 saw a continued track of recovery in economic activities in the United States, supported by solid consumption and capital investment amid continued monetary tightening policy. However, in China, the economic downturn grew stronger due to the depressed real estate market and the delay in the recovery of the consumer mindset. On the other hand, in Japan, the economy has recovered moderately with the normalization of economic activity after the COVID-19 pandemic. Going forward, there is concern over the impact on economic recovery from rising raw material and fuel prices caused by production adjustments by oil-producing countries and heightened geopolitical risk, progressing yen depreciation caused by the expanding spread between Japanese and US interest rates and the struggling Chinese economy.

Under this business environment, sales of polarizer protective films for LCDs “COSMOSHINE SRF” increased significantly driven by strong demand. On the other hand, adjustments of inventories on the market for mold releasing film for multilayer ceramic capacitors (MLCC) and packaging film became prolonged due to delays in demand recovery, and demand for reagents for PCR testing dropped sharply due to the winding down of COVID-19 infections. Additionally, improvement in profitability for certain products was delayed as product price revisions were unable to keep up with soaring raw material and fuel prices.

As a result, consolidated net sales in the six months ended September 30, 2023 decreased ¥1.7 billion (0.8%) over the same period of the previous fiscal year, to ¥199.4 billion. Operating profit decreased ¥5.5 billion (70.1%), to ¥2.4 billion and ordinary profit decreased ¥5.7 billion (84.7%) to ¥1.0 billion. Profit attributable to owners of parent decreased ¥9.0 billion (81.7%), to ¥2.0 billion despite the recording of a gain on sale of investment securities of ¥3.0 billion as extraordinary income during the second quarter of the consolidated fiscal year.

Results by business segment were as follows:

The Group changed its reporting segment classification from the first quarter of the consolidated fiscal year. Accordingly, in the following segment information, the figures for the six months ended September 30, 2022, have been restated in accordance with the classification existing after the aforesaid change for the purpose of comparing them with those of the six months ended September 30, 2023.

Films

In this segment, sales increased while operating profit decreased due to a weak recovery in demand for packaging films, in addition to the impact of high raw material and fuel prices.

In the packaging film business, while we worked on product price revisions in response to soaring raw material and fuel prices, slowed cargo movement throughout the first and second quarter due to adjustments of distributors’ inventory became prolonged in addition to the costs to install new production machinery increased significantly.

In the industrial film business, sales of polarizer protective films for LCDs “COSMOSHINE SRF” increased significantly driven by strong demand. Sales of mold releasing film for MLCC struggled due to prolonged inventory adjustments throughout the supply chain caused by a delayed

recovery in demand.

As a result, sales in this segment increased ¥3.7 billion (5.0%) from the same period of the previous fiscal year to ¥78.1 billion, and operating profit decreased ¥1.0 billion (41.0%) to ¥1.4 billion.

Life Science

In this segment, sales and operating profit decreased due to a significant drop in sales of reagents for COVID-19 PCR testing.

In the biotechnology business, sales of reagents for PCR testing declined significantly due to the reclassification of COVID-19 to a Class 5 Infectious Diseases.

In the medical materials business, sales of artificial kidney hollow fiber trended strong.

In the contract manufacturing business of pharmaceuticals, profitability improved with the lifting of the Warning Letter by the FDA in July 2023.

As a result, sales in this segment decreased ¥2.7 billion (14.2%) from the same period of the previous fiscal year to ¥16.6 billion, and operating profit decreased ¥3.0 billion (55.7%) to ¥2.4 billion.

Environmental and Functional Materials

In this segment, sales and operating profit decreased due to the impact of lower demand for electronic materials and high raw material and fuel prices.

In the resins and chemicals business, engineering plastics secured sales volume with the recovery in automobile production volume in Japan. Sales of industrial adhesives “Vylon” declined in China and other Asian markets. Sales of photo functional material for water-wash photosensitive printing plates were weak in North America.

In the environment and fiber business, VOC recovery equipment used in the manufacturing process for lithium-ion battery separators saw a decline in sales due to a lag in shipments despite strong orders received. In the high performance fibers business, recovery was delayed for sales of “Tsunoooga” used in cut resistant gloves. Nonwoven materials were affected by both reduced sales for hygiene products and civil engineering materials as well as soaring raw material and fuel prices.

As a result, sales in this segment decreased ¥3.2 billion (5.8%) from the same period of the previous fiscal year to ¥52.5 billion, and operating profit decreased ¥1.8 billion (82.6%) to ¥0.4 billion.

Functional Textiles and Trading

In this segment, sales increased and operating loss decreased due to market recovery and structural reforms in the textile business.

In the textile business, earnings improved as a result of the withdrawal of unprofitable products and progress in price pass-through.

In the airbag fabric business, sales volume increased with the recovery of automobile production

volume, and product price revisions in response to rising raw material prices proceeded, leading to improved profitability.

As a result, sales in this segment increased ¥0.3 billion (0.7%) from the same period of the previous fiscal year to ¥45.7 billion, and operating loss of ¥0.9 billion (compared with operating loss of ¥1.1 billion for the same period of the previous fiscal year).

Real Estate and Other Business

This segment includes infrastructure-related businesses such as real estate, engineering, information processing services, and logistics services. Results in these businesses were generally in line with plans.

As a result, sales in this segment increased ¥0.2 billion (3.3%) from the same period of the previous fiscal year to ¥6.6 billion, and operating profit increased ¥0.4 billion (39.6%) to ¥1.4 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥11.7 billion (2.0%) from the end of the previous fiscal year, to ¥577.2 billion. This was mainly due to a decrease in cash and deposits and notes and accounts receivable - trade, despite an increase in property, plant and equipment due to capital investment.

Total liabilities decreased ¥12.1 billion (3.3%) to ¥355.4 billion. This was mainly due to redemption of bonds and a decrease in notes and accounts payable - trade.

Net assets increased ¥0.4 billion (0.2%) from the end of the previous fiscal year, to ¥221.8 billion due to an increase in foreign currency translation adjustment, despite a decrease in valuation difference on available-for-sale securities for sales of investment securities.

Cash Flows

Net cash provided by operating activities amounted to ¥10.1 billion in the subject first half period. This was mainly due to a cash increase from depreciation of ¥9.4 billion and a decrease in trade receivables of ¥5.0 billion and a cash decrease from a decrease in trade payables of ¥5.6 billion.

Net cash used in investing activities amounted to ¥26.9 billion. This was mainly due to purchase of property, plant and equipment and intangible assets of ¥28.8 billion.

Net cash used in financing activities amounted to ¥15.4 billion. This was mainly due to net decrease in short-term borrowings of ¥22.0 billion, redemption of bonds of ¥10.0 billion and proceeds from long-term borrowings of ¥30.2 billion.

As a result, the balance of cash and cash equivalents at the end of the subject first half (September 30, 2023) stood at ¥29.4 billion, a decrease of ¥30.8 billion from the end of the previous fiscal year (March 31, 2023).

(3) Qualitative Information on Consolidated Forecasts

In light of recent developments, we have revised our consolidated earnings forecasts for the fiscal year ending March 31, 2024, which were announced on May 11, 2023. For details, please refer to the "Notice of Revision of Consolidated Earnings Forecasts" released today (November 9, 2023).

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2023)	Current First Half (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	60,703	29,917
Notes and accounts receivable - trade	88,427	83,503
Contract assets	407	134
Electronically recorded monetary claims - operating	12,295	13,912
Merchandise and finished goods	75,343	77,582
Work in process	16,556	20,790
Raw materials and supplies	30,002	29,169
Other	15,672	13,048
Allowance for doubtful accounts	(271)	(345)
Total current assets	<u>299,133</u>	<u>267,711</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	54,515	60,647
Machinery, equipment and vehicles, net	46,907	56,241
Land	90,816	90,899
Construction in progress	39,829	45,847
Other, net	8,166	8,191
Total property, plant and equipment	<u>240,234</u>	<u>261,825</u>
Intangible assets	4,633	4,508
Investments and other assets		
Other	46,037	44,441
Allowance for doubtful accounts	(1,131)	(1,284)
Total investments and other assets	<u>44,906</u>	<u>43,157</u>
Total non-current assets	<u>289,773</u>	<u>309,490</u>
Total assets	<u>588,906</u>	<u>577,201</u>

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2023)	Current First Half (As of September 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	53,436	48,998
Electronically recorded obligations - operating	5,156	5,146
Short-term borrowings	71,595	49,967
Current portion of bonds payable	10,000	15,000
Current portion of long-term borrowings	29,472	26,243
Provisions	4,956	5,245
Other	27,885	31,066
Total current liabilities	202,500	181,664
Non-current liabilities		
Bonds payable	65,000	50,000
Long-term borrowings	49,099	74,329
Deferred tax liabilities for land revaluation	19,641	19,641
Provision for retirement benefits for directors (and other officers)	239	246
Provision for environmental measures	12	11
Retirement benefit liability	22,427	21,922
Other	8,566	7,594
Total non-current liabilities	164,984	173,744
Total liabilities	367,484	355,408
Net assets		
Shareholders' equity		
Share capital	51,730	51,730
Capital surplus	32,402	33,187
Retained earnings	70,490	68,967
Treasury shares	(781)	(1,005)
Total shareholders' equity	153,840	152,880
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,434	1,475
Deferred gains or losses on hedges	67	163
Revaluation reserve for land	41,435	41,435
Foreign currency translation adjustment	(4,556)	(1,257)
Remeasurements of defined benefit plans	(4,632)	(4,365)
Total accumulated other comprehensive income	35,748	37,452
Non-controlling interests	31,834	31,462
Total net assets	221,422	221,793
Total liabilities and net assets	588,906	577,201

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

(Millions of yen)

(Consolidated Statements of Income)	Previous First Half (From April 1, 2022 To September 30, 2022)	Current First Half (From April 1, 2023 To September 30, 2023)
Net sales	201,123	199,419
Cost of sales	155,942	157,659
Gross profit	45,180	41,760
Selling, general and administrative expenses	37,296	39,399
Operating profit	7,885	2,361
Non-operating income		
Foreign exchange gains	1,164	1,395
Other	822	898
Total non-operating income	1,985	2,293
Non-operating expenses		
Interest expenses	665	636
Other	2,445	2,980
Total non-operating expenses	3,110	3,616
Ordinary profit	6,760	1,038
Extraordinary income		
Gain on sale of non-current assets	1,196	—
Gain on sale of investment securities	2,700	3,047
Insurance claim income	5,607	—
Total extraordinary income	9,503	3,047
Extraordinary losses		
Loss on disposal of non-current assets	1,423	787
Loss on change in equity	—	212
Total extraordinary losses	1,423	998
Profit before income taxes	14,841	3,086
Income taxes	3,872	1,519
Profit	10,968	1,567
Loss attributable to non-controlling interests	(2)	(444)
Profit attributable to owners of parent	10,970	2,011

(Millions of yen)

(Consolidated Statements of Comprehensive Income)	Previous First Half (From April 1, 2022 To September 30, 2022)	Current First Half (From April 1, 2023 To September 30, 2023)
Profit	10,968	1,567
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,840)	(1,878)
Deferred gains or losses on hedges	73	96
Foreign currency translation adjustment	3,724	3,647
Remeasurements of defined benefit plans, net of tax	3	267
Share of other comprehensive income of entities accounted for using equity method	561	451
Total other comprehensive income	<u>2,521</u>	<u>2,584</u>
Comprehensive income	<u>13,490</u>	<u>4,150</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,224	4,170
Comprehensive income attributable to non-controlling interests	266	(20)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous First Half (From April 1, 2022 To September 30, 2022)	Current First Half (From April 1, 2023 To September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	14,841	3,086
Depreciation	9,612	9,395
Interest expenses	665	636
Insurance claim income	(5,607)	—
Decrease (increase) in trade receivables	4,496	5,005
Decrease (increase) in inventories	(16,354)	(3,924)
Increase (decrease) in trade payables	4,550	(5,568)
Other, net	(2,578)	3,105
Subtotal	9,625	11,736
Income taxes refund (paid)	(3,041)	(1,655)
Proceeds from insurance income	5,607	—
Net cash provided by (used in) operating activities	12,191	10,081
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(19,480)	(28,772)
Other, net	2,696	1,839
Net cash provided by (used in) investing activities	(16,783)	(26,933)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	6,361	(22,022)
Proceeds from long-term borrowings	22,909	30,208
Repayments of long-term borrowings	(19,173)	(8,554)
Redemption of bonds	—	(10,000)
Interest paid	(672)	(628)
Dividends paid	(3,549)	(3,527)
Other, net	(664)	(900)
Net cash provided by (used in) financing activities	5,213	(15,423)
Effect of exchange rate change on cash and cash equivalents	1,052	1,510
Net increase (decrease) in cash and cash equivalents	1,672	(30,765)
Cash and cash equivalents at beginning of period	26,433	60,204
Cash and cash equivalents at end of period	28,106	29,439

(4) Notes to Consolidated Financial Statements

(Note to Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Segment Information)

(i) Six months ended September 30, 2022

(Millions of yen)

	Segment to Be Reported						Other Business- es (Note 1)	Total	Adjust- ment (Note 2)	Consolid- ated State- ments of Income (Note 3)
	Films	Life Science	Environ- mental and Func- tional Materials	Func- tional Textiles and Trading	Real Estate	Total				
Net sales										
(1) Outside customers	74,341	19,309	55,738	45,344	2,026	196,758	4,365	201,123	—	201,123
(2) Inter-segment sales and transfers	83	17	2,142	284	188	2,714	7,883	10,597	(10,597)	—
Total	74,424	19,326	57,880	45,628	2,214	199,472	12,248	211,720	(10,597)	201,123
Segment profit (loss)	2,429	5,412	2,127	(1,127)	805	9,647	184	9,831	(1,946)	7,885

Note:

1. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.
2. Segment profit or loss adjustment of ¥(1,946) million includes eliminations of intersegment transactions of ¥(38) million and companywide expenses that are not allocated across reporting segments of ¥(1,908) million. The principal components of companywide expenses are those related to basic research and development.
3. Segment profit or loss has been adjusted with operating profit on the consolidated financial statements.

(ii) Six months ended September 30, 2023

(Millions of yen)

	Segment to Be Reported						Other Business- es (Note 4)	Total	Adjust- ment (Note 5)	Consolid- ated State- ments of Income (Note 6)
	Films	Life Science	Environ- mental and Func- tional Materials	Func- tional Textiles and Trading	Real Estate	Total				
Net sales										
(1) Outside customers	78,055	16,559	52,529	45,674	2,000	194,817	4,602	199,419	—	199,419
(2) Inter-segment sales and transfers	1,134	7	4,776	591	582	7,090	9,572	16,662	(16,662)	—
Total	79,189	16,566	57,305	46,264	2,582	201,907	14,175	216,082	(16,662)	199,419
Segment profit (loss)	1,433	2,395	370	(854)	971	4,315	411	4,725	(2,364)	2,361

Note:

4. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.
5. Segment profit or loss adjustment of ¥(2,364) million includes eliminations of intersegment transactions of ¥(240) million and companywide expenses that are not allocated across reporting segments of ¥(2,124) million. The principal components of companywide expenses are those related to basic research and development.
6. Segment profit or loss has been adjusted with operating profit on the consolidated financial statements.

(iii) Matters concerning changes to reporting segments

From the first quarter of the fiscal year ending March 31, 2024, the Group changed its organization structure in order to position films, life science and the environment as business fields on which to particularly focus and carry out business operations in accordance with each positioning while evaluating and categorizing each business in accordance with their “profitability” and “growth potential.” Accordingly, the Group reviewed the reportable segment classification, and changed them from the previous “Films and Functional Materials,” “Mobility” and “Lifestyle and Environment” to “Films,” “Environmental and Functional Materials” and “Functional Textiles and Trading.”

Segment information for the six months ended September 30, 2022 was prepared in accordance with the classifications after the change.

(Significant Subsequent Events)

Not applicable