

Cosmo Bio (TYO: 3386)

Sales and profits were down but broadly in line with the company's expectations. The company is addressing the impact of the weak yen and the cost increase by raising prices.

◇ Summary of 1Q results for FY12/2023: Largely in line with expectations.

Cosmo Bio's 1Q results for FY12/2023 were largely in line with company expectations, despite lower sales and profits YoY. Due to the nature of its customer transactions, the trades tend to be biased for 1Q. In this 1Q, two-thirds of the full-year operating profit estimate was earned.

As a nature of an import trading company, the company has been significantly affected by the yen's depreciation since the middle of last year. Inflationary cost increases have also weighed on the business. Price hikes on some products are penetrating and appear to neutralise some of these cost pressures.

The company's shares have traded mostly below 1,000 yen since the beginning of this year. From a macroeconomic perspective, the yen will likely remain weak. There is also pressure on research budgets at demand destinations, so the business environment in the immediate future is challenging. The company's sales are expected to improve if sales activities return to pre-pandemic levels in line with the downgrading of COVID-19 to category five and the penetration of selling price changes implemented in response to rising purchase costs. PBR of less than 1x is also a concern we expect to address going forward.

◇ Results for 1Q FY12/2023

The 1Q results for FY12/2023 show sales of 2,828 million yen (-7.2% YoY), operating profit of 400 million (-30.7% YoY) and net profit attributable to owner of parent of 264 million yen (-27.8% YoY).

In terms of sales, in addition to the high sales in the same period of the previous year, sales have been sluggish as research expenses at universities and research institutions were recently affected by the inflationary economy.

As per profit, the yen's depreciation has had a significant impact since the middle of last year. In 1Q of the previous year, the exchange rate was around 115 yen against the US dollar, 19 yen weaker than the most recent exchange rate of 134 yen. Although the company mitigates the risk of foreign exchange fluctuations to some extent by forward exchange rate contracts, the impact is significant. On the other hand, the company has been gradually raising prices on some products since last autumn (by several to 20% depending on the product). These put together, the gross profit margin fell from 38.1% in 1Q FY12/2022 to 36.7% in 1Q FY12/2023, a relatively low decline. SG&A expenses remained under control.

As mentioned, the company's earnings tend to be high in 1Q due to the nature of customer budgets and other factors. In this 1Q, sales and operating profit were 28.9% and 66.7% against the full-year forecasts, respectively. In the 1Q of the previous FY12/2022, these ratios were 31.9% and 70.8%, so the current progress is almost on par YoY (see the diagram above on the next page).

JPY, mn, %	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)	DPS (¥)
2019/12	7,590	4.5	405	23.5	470	16.5	237	-8.6	40.14	14.00
2020/12	8,092	6.6	752	85.6	817	73.7	674	183.2	113.70	34.00
2021/12	9,231	14.1	1,048	39.4	1,099	34.5	737	9.4	126.94	36.00
2022/12	9,553	3.5	816	-22.2	790	-28.1	517	-29.8	89.13	36.00
2023/12 (CE)	9,800	2.6	600	-26.5	660	-16.5	450	13.0	77.41	30.00
2022/12 1Q	3,047	5.9	578	5.3	565	5.7	366	9.9	63.23	-
2023/12 1Q	2,828	-7.2	400	-30.7	416	-26.2	264	-27.8	45.46	-

1Q results update

Healthcare

As of 1 June, 2023

Share price (5/31)	945 Yen
52weeks high/low	¥1,117/937
Avg Vol (3 month)	7,142 thou shrs
Market Cap	¥5.7 bn
Enterprise Value	¥3.0 bn
PER (23/12 CE)	12.16 X
PBR (22/12 act)	0.67 X
Dividend Yield (23/12 CE)	3.17 %
ROE (TTM)	5.16 %
Operating margin (TTM)	6.84 %
Beta (5Y Monthly)	0.63
Shares Outstanding	6.048 mn shrs
Listed market	TSE Standard section

Share price performance



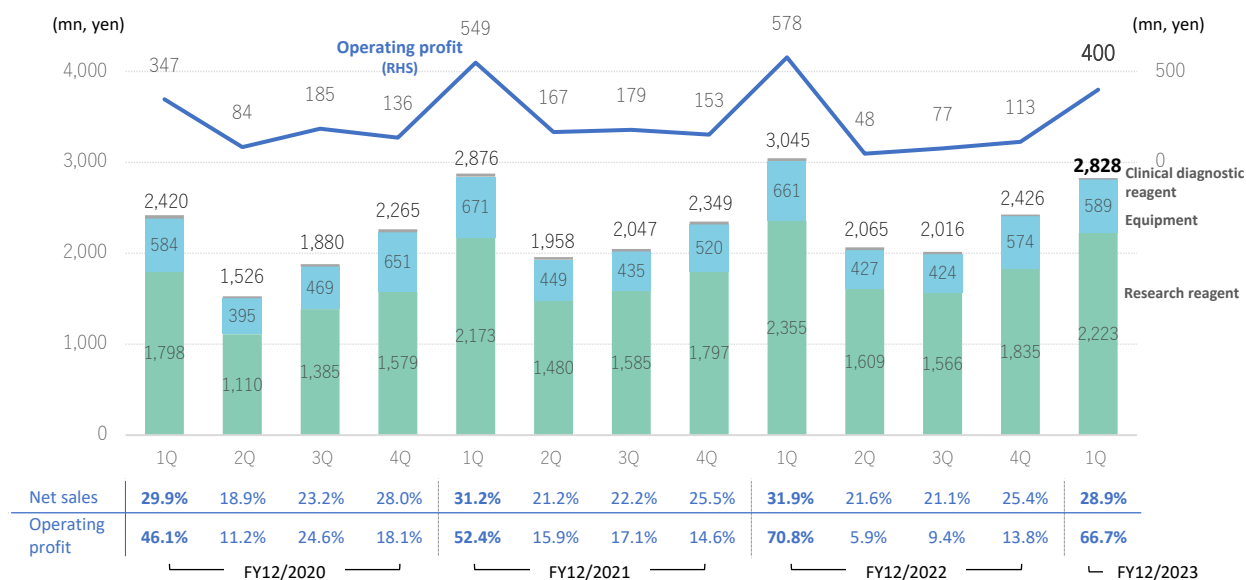
% of	1mo.	3mo.	12mo.
Share prices	-0.4%	-4.8%	-11.8%
Relative share price	-3.8%	-11.0%	-19.8%

Points of interest

Specialist biotechnology trading company with the objective of 'Contribute to the advancement of life sciences'. To meet the diverse needs of researchers, the company offers more than 10 million items from some 600 manufacturers worldwide. In recent years, the company has focused on its manufacturing function and is expanding into in-house contract services and manufacturing and sales of its products.

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Sales and operating profit (quarterly)



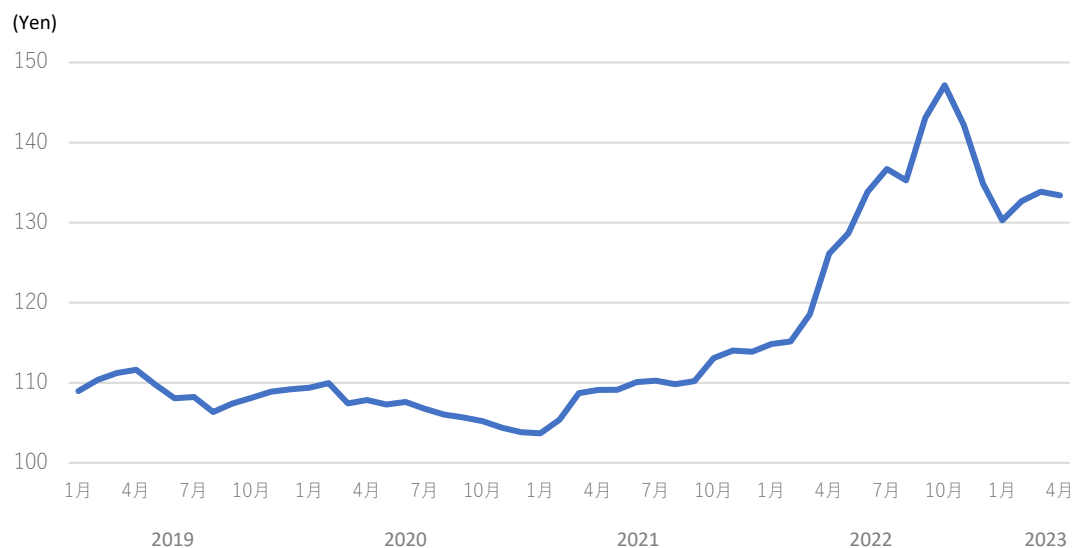
Note: Clinical diagnostics reagent sales are insignificant, and figures have not been shown. The table at the bottom shows the composition of the quarterly record to the full-year figures; The figures for FY12/2023 are a progress ratio to the full-year forecast.

Source: Omega Investment from company materials

By product, sales were down in each following categories: research reagent, 2,223 million yen (-5.6%); equipment, 589 million yen (-10.9%); and clinical diagnostics reagent, 16 million yen (-45.6%). The main reasons for these declines are as mentioned above. Still, it also appears that the company could not conduct sufficient sales activities and develop enough customers for new products when COVID-19 spread.

In the BS, cash and deposits at end-March 2023 amounted to 2,926 million yen, down 110 million yen from the end of the previous fiscal year. Due to the above-mentioned sales bias in 1Q, accounts receivable increased by 517 million yen to 3,242 million yen. Total assets at the end of March 2023 amounted to 10,695 million yen, an increase of 382 million yen from the end of the previous year.

Changes in the USD/Yen exchange rate



Source: Bank of Japan, Tokyo interbank quotes, monthly average.

◆ **Forecast for FY12/2023: no change.**

The company's forecasts for 1H of FY12/2023 are sales of 5.2 billion yen (up 1.7% YoY), operating profit of 440 million yen (down 29.7%), ordinary profit of 490 million yen (down 21.0%) and net profit attributable to owner of parent of 330 million yen (down 19.0%). For the full year to FY12/2023, the company forecasts sales of 9.8 billion yen (up 2.6% YoY), operating profit of 0.6 billion yen (down 26.5%), ordinary profit of 0.66 billion yen (down 16.5%) and net profit attributable to owners of the parent company of 0.45 billion yen (down 13.0%). The company has kept these forecasts the same as of the end of 1Q.

The company views foreign exchange rates cautiously; the possibility of a significant correction to the yen appreciation is unlikely in the near term. On the other hand, there are expectations for a recovery in the 2H of FY2023 and beyond, considering the penetration of selling price increases, etc.

3386: 5-year stock price move



Share price compared to TOPIX (last three years)



Financial data

	2020/12				2021/12				2022/12				2023/12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
[Statements of income]													
Net sales	2,420	1,526	1,880	2,266	2,878	1,957	2,046	2,350	3,047	2,064	2,016	2,426	2,828
Year-on-year basis	12.7%	-7.3%	4.4%	13.6%	18.9%	28.2%	8.8%	3.7%	5.9%	5.5%	-1.5%	3.2%	-7.2%
Research reagent	1	1	0	1	103	0	0	0	2,355	1,609	1,566	1,835	2,223
Equipment									661	427	424	574	589
Clinical diagnostic reagent	90	82	138	168	143	138	157	171	29	29	26	17	16
Cost of sales	1,486	930	1,123	1,401	1,736	1,157	1,242	1,437	1,886	1,345	1,305	1,576	1,789
Gross profit	934	595	757	866	1,142	800	803	913	1,160	719	712	849	1,039
Gross profit margin	38.6%	39.0%	40.3%	38.2%	39.7%	40.9%	39.2%	38.9%	38.1%	34.8%	35.3%	35.0%	36.7%
SG&A expenses	586	512	572	729	593	632	625	759	581	672	635	736	638
Operating profit	347	84	185	136	549	167	179	153	578	48	77	113	400
Year-on-year basis	53.5%	460.0%	62.3%	172.0%	58.2%	98.8%	-3.2%	12.5%	5.3%	-71.3%	-57.0%	-26.1%	-30.7%
Operating profit margin	14.3%	5.5%	9.8%	6.0%	19.1%	8.5%	8.7%	6.5%	19.0%	2.3%	3.8%	4.7%	14.1%
Non-operating profit	8	43	9	11	7	42	9	13	6	27	11	13	16
Non-operating expenses	0	0	0	6	22	-8	2	4	20	19	18	26	0
Ordinary Profit	355	127	194	141	534	218	185	162	565	55	70	100	416
Extraordinary profit			0	0									
Extraordinary expenses			0	0									
Income before income taxes	355	318	194	141	534	218	185	162	565	55	70	100	416
Total income taxes	114	98	60	35	184	55	58	34	179	15	19	25	137
Net profit	232	218	125	99	333	157	125	122	366	41	47	63	264
Year-on-year basis	57.8%	581.3%	56.3%	-550.0%	43.5%	-28.0%	0.0%	23.2%	9.9%	-73.9%	-62.4%	-48.4%	-27.8%
Net profit ratio	9.6%	14.3%	6.6%	4.4%	11.6%	8.0%	6.1%	5.2%	12.0%	2.0%	2.3%	2.6%	9.3%
[Balance Sheets]													
Current assets	6,315	6,300	6,383	6,756	6,975	6,797	6,983	7,310	7,754	7,409	7,089	7,136	7,558
cash and deposits	2,407	3,171	3,251	3,159	2,702	3,235	3,147	3,255	2,994	3,370	3,347	3,036	2,926
Accounts receivable	2,911	2,033	2,188	2,784	3,262	2,431	2,434	2,714	3,390	2,567	2,436	2,799	3,332
Goods and products	721	861	804	572	551	742	804	805	900	1,054	1,077	1,055	981
Non-current assets	2,980	3,003	3,039	2,883	2,957	2,838	2,789	2,761	2,801	2,905	3,009	3,176	3,136
Property, plant and equipment	689	673	649	636	624	606	593	599	591	586	583	577	578
Investments and other assets	2,101	2,157	2,224	2,081	2,168	2,037	1,998	1,979	2,038	2,149	2,269	2,428	2,391
Total assets	9,295	9,304	9,422	9,640	9,933	9,635	9,773	10,072	10,556	10,315	10,098	10,313	10,695
Current liabilities	1,158	976	1,057	1,226	1,327	1,015	915	1,093	1,450	1,131	927	1,038	1,203
Short-term borrowings	142	199	199	180	180	190	199	183	183	188	188	184	
Non-current liabilities	600	593	570	552	609	597	654	658	632	632	639	656	663
Total liabilities	1,758	1,569	1,628	1,779	1,937	1,613	1,570	1,752	2,083	1,763	1,566	1,695	1,866
Total net assets	7,537	7,734	7,794	7,861	7,996	8,022	8,203	8,319	8,473	8,552	8,531	8,617	8,828
Shareholders' equity	7,052	7,247	7,299	7,358	7,479	7,499	7,678	7,787	7,924	8,004	7,979	8,052	8,250
Share capital	918	918	918	918	918	918	918	918	918	918	918	918	918
Capital surplus	1,251	1,251	1,251	1,251	1,251	1,252	1,258	1,258	1,258	1,260	1,260	1,260	1,260
Retained earnings	4,366	4,584	4,662	4,761	4,940	5,097	5,153	5,274	5,502	5,543	5,496	5,560	5,708
Treasury shares	-67	-67	-67	-67	-207	-251	-239	-239	-239	-216	-216	-216	-216
Accumulated other comprehensive income	582	560	533	494	575	483	586	574	484	498	520	530	580
Non-controlling interests	485	487	495	503	517	523	525	532	549	548	552	565	578
Total liabilities and net assets	9,295	9,304	9,422	9,640	9,933	9,635	9,773	10,072	10,556	10,315	10,098	10,313	10,695
Shareholders' equity ratio	75.9%	77.9%	77.5%	76.3%	75.3%	77.8%	78.6%	77.3%	75.1%	77.6%	79.0%	78.1%	77.1%
[Statements of cash flows]													
Cash flow from operating activities		735		803		600		648		480		284	
Cash flow from investing activities		70		42		-187		-145		-260		-291	
Cash flow from financing activities		-49		-97		-343		-420		-142		-236	
Net increase in cash and cash equiv.		755		743		76		95		115		-218	
Cash and cash equiv. at beginning of period		2,416		2,416		3,159		3,159		3,255		3,255	
Cash and cash equiv. at end of period		3,171		3,159		3,235		3,255		3,370		3,036	

Note: For the cash flow statement, the figures for 2Q are the cumulative totals for 1Q-2Q. The figures for 4Q are the cumulative totals for 1Q-4Q. Therefore, the opening balances are also those of the previous 4Q.

Source: Omega Investment from company materials



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