

Cosmo Bio (TYO: 3386)

Decrease in sales and profits, but within the 1H forecasts.
Expect progress in the second half of the year, in response to the yen depreciation by raising selling prices.

◆ Summary of 2Q results for FY12/2023: Largely in line with expectations.

Cosmo Bio (hereafter referred to as 'the company') reported sales of 4.82 billion yen (-5.6% YoY), operating profit of 450 million yen (-26.7%) and quarterly profit attributable to owner of parent of 360 million yen (-11.4%) in 2Q FY2023. Initial forecasts were 5.2 billion yen, 440 million yen and 330 million yen, respectively. Though sales undercut the forecast, profits exceeded the estimates.

As an import trading company, the company has been significantly affected by the yen's depreciation since the middle of last year, and cost increases due to inflation have also weighed on profits. On the other hand, price increases on some products are more accepted, offsetting some cost increase factors.

The share price has fallen below 1,000 yen since early in the year. From a macroeconomic perspective, the yen is expected to remain weak for some time and customer purchases of reagents are sluggish, so the operating environment in the near term cannot be viewed optimistically. However, sales activities have returned to pre-pandemic levels following the downgrading of COVID-19 to category 5, and sales price lifts in response to rising procurement costs are gradually becoming more widespread. We would expect the share price to recover as earnings progress. With the shares trading below 1x book, we would like to see how the management will move going forward.

◆ Results for 2Q FY12/2023

The 2Q results for FY12/2023 show sales of 4,827 million yen (-5.6% YoY), operating profit of 458 million yen (-26.7% YoY) and quarterly profit attributable to owner of parent of 361 million yen (-11.4% YoY).

As per sales, the decrease is attributable to the YoY comparison to the high sales in the same period of the previous year and the sluggish growth of recent reagent purchases by universities/research institutions. Although research budgets for life sciences are increasing, the budget has been diverted to conference activities as research activities for COVID-19 increased. Moreover, a sharp rise in utility costs weighed on the volume of reagent purchases. Declining sales of contract services and consumables other than reagent sales were also a significant factor in the latest decline in sales.

An analysis of the YoY change in 2Q operating profit shows that of the YoY decrease of 168 million yen, 177 million yen was due to foreign exchange effects, primarily due to the yen's depreciation since the middle of last year. A look at the company's purchases by currency shows that the US dollar accounts for just under 60% of purchases and the EUR for just under 10%, with only around 1/3 settled in Japanese yen, so exchange rates directly impact the company's COGS ratio. The exchange rate in 2Q last year was 119 yen to the US dollar, a depreciation of 16 yen compared to 135 yen in 2Q this year. Although the company has mitigated the risk of foreign exchange fluctuations to some extent by forward exchange contracts, the impact is significant.

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 2Q	5,111	5.7	626	-12.6	620	-17.5	407	-16.9	70.28	16.00
2023/12 2Q	4,827	-5.6	458	-26.7	552	-11.0	361	-11.4	62.04	14.00

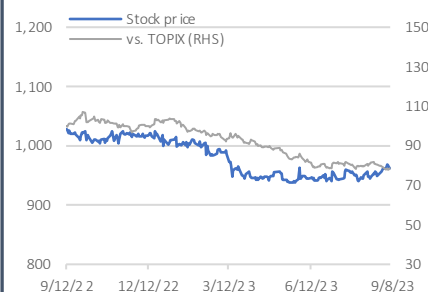
2Q results update

Pharmaceuticals and pharmaceutical wholesalers

As of September 11, 2023

Share price (9/8)	962 Yen
52weeks high/low	¥1,030/937
Avg Vol (3 month)	9,231 thou shrs
Market Cap	¥5.8 bn
Enterprise Value	¥2.3 bn
PER (23/12 CE)	12.45 X
PBR (22/12 act)	0.66 X
Dividend Yield (23/12 CE)	3.17 %
ROE (TTM)	5.73 %
Operating margin (TTM)	7.00 %
Beta (5Y Monthly)	0.60
Shares Outstanding	6.048 mn shrs
Listed market	TSE Standard section

Share price performance



% of	1mo.	3mo.	12mo.
Share prices	1.3%	1.8%	-6.4%
Relative share price	-1.1%	-4.0%	-21.4%

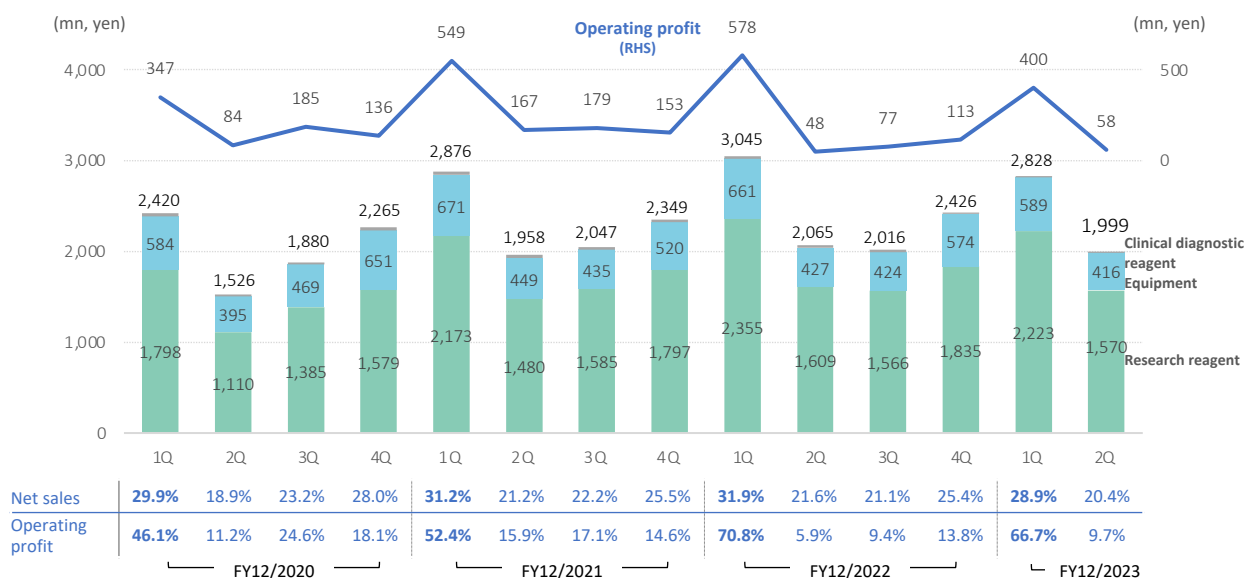
Points of interest

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.

This report (financial update) has been prepared at the request of Cosmo Bio. For details, please refer to the Disclaimer on the last page.



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

The profit forecast for the year's first half was based on an exchange rate assumption of 140 yen, so the difference with the actual result (135 yen) was an upward swing in profit. To cope with the weak yen (i.e. worsening of the depreciation rate due to higher import costs), the company has been gradually raising prices on some products since last autumn (by several to 20% depending on the product). As a result, the gross profit margin has recovered moderately from around 35% in 2Q FY12/2022 to 36.6% in 2Q FY12/2023. In addition, SG&A expenses continued to be under control, with a YoY increase of only 4.2%.

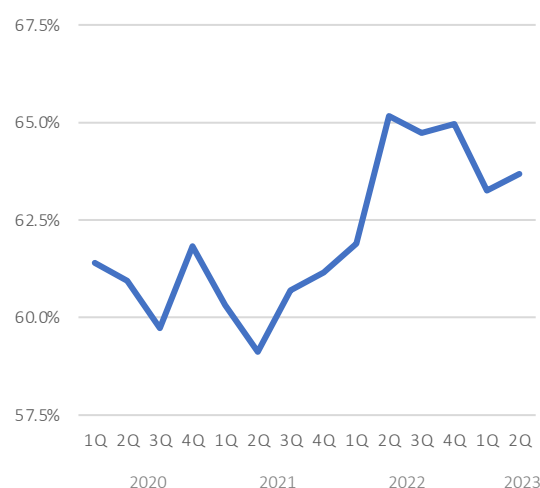
As known, the company's revenues tend to be higher in 1Q, reflecting the nature of customers' budgeting. As of the end of 2Q, sales and operating profit were 49.3% and 76.3% of the full-year forecasts, respectively. In FY12/2022, as of 2Q, sales and operating profit were 53.5% and 76.7% of the full-year estimates, respectively. Operating profit is running on par with the previous year. Hopefully, sales should progress well in the second half of the year.

Changes in the USD/Yen exchange rate



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

Trend of COGS



Source: company materials

By product, sales were down in each following categories: research reagent, 3,793 million yen (-4.3%); equipment, 1,005 million yen (-7.6%); and clinical diagnostics reagent, 28 million yen (-50.3%). 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 research reagents, the YoY decline in sales of contract services had a significant impact. Sales of consumables included in Equipment were also sluggish.

In 2Q alone, sales were 1,999 million yen, down 3.1%, and operating profit was 58 million yen, up 20.8%. By product, sales were 1,570 million yen (-2.4%) for research reagents, 416 million yen (-2.6%) for equipment and 12 million yen (-58.6%) for clinical diagnostic reagents, all of which were down.

In the BS, current assets at the end of June 2023 increased by 434 million yen compared to the end of the previous year. Cash and deposits increased by 715 million yen, while trade receivables decreased. Investment securities increased by 125 million, and non-current assets increased by 104 million yen to 3,281 million yen, bringing total assets to 10,852 million yen (up 538 million yen). As for liabilities and equity, total liabilities increased to 1,763 million yen (up 68 million yen) due to an increase in long-term liabilities. At the end of June 2023, the equity ratio was 78.4%, an improvement of 0.3 percentage points YoY.

◇ Forecast for FY12/2023 : No change from initial forecasts

The company's forecasts for FY12/2023 were 9.8 billion yen (+2.6%) for net sales, 0.6 billion yen (-26.5%) for operating profit, 0.66 billion yen (-16.5%) for ordinary profit and 0.45 billion yen (-13.0%) for net profit attributable to owners of parent company, and as of the end of 2Q there were no changes. The progress ratios were 49.3%, 76.3%, 83.6% and 80.2%, respectively, almost unchanged from previous year.

In the 2H of the year, sales and other activities have returned to pre-pandemic levels in line with the downgrading of COVID-19 to category 5. Activated sales are expected to contribute to earnings. In addition, the selling price changes implemented in response to rising procurement costs are gradually becoming more widespread, and the company should be able to achieve its full-year forecasts.

The company has not changed its dividend policy, which is 14 yen for the interim period (16 yen for the same period previous year) and 16 yen for the year-end period (20 yen previous year), for a total dividend of 30 yen (36 yen previous year). The dividend payout ratio this year is expected to be 38.8%. If earnings recover over the second half of the year, there may be scope for a dividend review.

◇ Share price outlook: Earnings recovery over the second half of the year is the key

The share price has fallen below 1,000 yen since early in the year. With the yen expected to continue to depreciate and a forecast of declining profits for the full year, it is difficult to anticipate the share price to rise soon. However, as mentioned above, if the earnings progress well in 2H, the share price should positively react. The shares trade below PBR of 1x, and we would like to see how the company will make a move.

3386: 5-year stock price move





Historical PBR (LTM, last five years)



Financial data I (quarterly)

	2020/12				2021/12				2022/12				2023/12	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
[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	1,999
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%	-3.1%
Research reagent	1	1	0	1	103	0	0	0	2,355	1,609	1,566	1,835	2,223	1,570
Equipment									661	427	424	574	589	416
Clinical diagnostic reagent	90	82	138	168	143	138	157	171	29	29	26	17	16	12
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	1,273
Gross profit	934	595	757	866	1,142	800	803	913	1,160	719	712	849	1,039	726
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%	36.3%
SG&A expenses	586	512	572	729	593	632	625	759	581	672	635	736	638	668
Operating profit	347	84	185	136	549	167	179	153	578	48	77	113	400	58
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%	20.8%
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%	2.9%
Non-operating profit	8	43	9	11	7	42	9	13	6	27	11	13	16	85
Non-operating expenses	0	0	0	6	22	-8	2	4	20	19	18	26	0	0
Ordinary Profit	355	127	194	141	534	218	185	162	565	55	70	100	416	136
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	136
Total income taxes	114	98	60	35	184	55	58	34	179	15	19	25	137	37
Net profit	232	218	125	99	333	157	125	122	366	41	47	63	264	97
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%	136.6%
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%	4.9%
[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	7,570
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	3,752
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	2,488
Goods and products	721	861	804	572	551	742	804	805	900	1,054	1,077	1,055	981	1,005
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	3,281
Property, plant and equipment	689	673	649	636	624	606	593	599	591	586	583	577	578	566
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	2,550
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	10,852
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	1,037
Short-term borrowings	142	199	199	180	180	190	199	183	183	188	188	184		20
Non-current liabilities	600	593	570	552	609	597	654	658	632	632	639	656	663	726
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	1,763
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	9,088
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	7,789
Share capital	918	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	1,261
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	5,805
Treasury shares	-67	-67	-67	-67	-207	-251	-239	-239	-239	-216	-216	-216	-216	-194
Accumulated other comprehensive income	582	560	533	494	575	483	586	574	484	498	520	530	580	719
Non-controlling interests	485	487	495	503	517	523	525	532	549	548	552	565	578	579
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	10,852
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%	78.4%
[Statements of cash flows]														
Cash flow from operating activities		735		803		600		648		480		284		848
Cash flow from investing activities		70		42		-187		-145		-260		-291		-33
Cash flow from financing activities		-49		-97		-343		-420		-142		-236		-119
Net increase in cash and cash equiv.		755		743		76		95		115		-218		715
Cash and cash equiv. at beginning of period		2,416		2,416		3,159		3,159		3,255		3,255		3,036
Cash and cash equiv. at end of period		3,171		3,159		3,235		3,255		3,370		3,036		3,752

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

Financial data I (Fiscal year)

	2012/12	2013/12	2014/12	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12
[Statements of income]											
Net sales	7,241	7,050	7,235	7,357	7,427	7,068	7,261	7,590	8,092	9,231	9,553
Year-on-year	0.7%	-2.6%	2.6%	1.7%	1.0%	-4.8%	2.7%	4.5%	6.6%	14.1%	3.5%
Cost of sales	4,057	4,429	4,811	4,976	4,655	4,535	4,602	4,710	4,940	5,572	6,112
Gross profit	3,184	2,620	2,424	2,380	2,772	2,532	2,659	2,879	3,152	3,658	3,440
SG&A expenses	2,386	2,349	2,261	2,180	2,257	2,339	2,330	2,474	2,399	2,609	2,624
Operating profit	798	271	162	200	514	193	328	405	752	1,048	816
Year-on-year	-10.4%	-66.0%	-40.2%	23.5%	157.0%	-62.5%	69.9%	23.5%	85.7%	39.4%	-22.1%
Operating profit margin	11.0%	3.8%	2.2%	2.7%	6.9%	2.7%	4.5%	5.3%	9.3%	11.4%	8.5%
Non-operating profit	46	177	128	175	21	208	89	72	71	71	57
Non-operating expenses	43	3	5	2	51	3	13	7	6	20	83
Ordinary Profit	801	444	285	373	483	397	403	470	817	1,099	790
Extraordinary profit	3	9	46	34	55	8			190		
Extraordinary expenses	30	2	1	0	82	5		81			
Income before income taxes	774	451	330	407	456	400	403	388	1,008	1,099	790
Total income taxes	336	137	131	158	180	148	126	142	307	331	238
net profit attributable to owner of parent	411	313	201	230	254	237	260	237	674	737	517
Year-on-year	-10.3%	-23.8%	-35.8%	14.4%	10.4%	-6.7%	9.7%	-8.8%	184.4%	9.3%	-29.9%
Net profit ratio	5.7%	4.4%	2.8%	3.1%	3.4%	3.4%	3.6%	3.1%	8.3%	8.0%	5.4%
[Balance Sheets]											
Current assets	5,413	5,527	5,234	5,266	5,495	5,143	5,668	5,927	6,756	7,310	7,136
Cash equivalents and short-term securities	2,143	2,036	1,482	1,498	1,948	1,483	2,268	2,516	3,259	3,555	3,036
Non-current assets	1,541	2,750	2,927	2,523	2,438	2,982	2,832	2,962	2,883	2,761	3,176
Property, plant and equipment	178	185	213	227	319	690	636	695	636	599	577
Investments and other assets	1,201	2,456	2,613	2,071	1,842	2,041	1,943	2,068	2,081	1,979	2,428
Total assets	6,955	8,277	8,161	7,790	7,934	8,126	8,501	8,890	9,640	10,072	10,313
Current liabilities	916	818	1,130	1,017	916	799	945	987	1,226	1,093	1,038
Short-term borrowings	20	20	20	20	20	20	20	20	20	20	20
Non-current liabilities	317	660	497	394	436	488	502	581	552	658	656
Total liabilities	1,234	1,479	1,628	1,412	1,352	1,288	1,448	1,568	1,779	1,752	1,695
Total net assets	5,720	6,797	6,532	6,378	6,581	6,838	7,053	7,321	7,861	8,319	8,617
Shareholders' equity	5,230	6,311	6,050	5,951	6,135	6,381	6,581	6,843	7,358	7,787	8,052
Share capital	918	918	918	918	918	918	918	918	918	918	918
Capital surplus	1,221	1,221	1,221	1,251	1,251	1,251	1,251	1,251	1,251	1,258	1,260
Retained earnings	3,119	3,314	3,397	3,521	3,680	3,812	4,026	4,181	4,761	5,274	5,560
Treasury shares	-67	-67	-67	-67	-67	-67	-67	-67	-67	-239	-216
Valuation and exchange differences	37	924	579	327	352	466	451	558	494	574	530
Total liabilities and net assets	6,955	8,277	8,161	7,790	7,934	8,126	8,501	8,890	9,640	10,072	10,313
(Equity ratio)	75.2%	76.2%	74.1%	76.4%	77.3%	78.5%	77.4%	77.0%	76.3%	77.3%	78.1%
[Statements of cash flows]											
Cash flow from operating activities	347	126	297	129	573	89	908	549	803	648	284
Cash flow from investing activities	-167	-99	-227	-263	99	-235	-185	-115	42	-145	-291
Cash flow from financing activities	-126	-126	-122	-151	-107	-109	-85	-85	-97	-420	-236
Net increase in cash and cash equiv.	61	-97	-52	-285	549	-264	684	348	743	95	-218
Cash and cash equiv. at beginning of period	1,471	1,532	1,435	1,383	1,098	1,648	1,383	2,068	2,416	3,159	3,255
Cash and cash equiv. at end of period	1,532	1,435	1,383	1,098	1,648	1,383	2,068	2,416	3,159	3,255	3,036
FCF	180	27	70	-134	672	-146	723	434	845	503	-7

Source: Omega Investment from company materials



General disclaimer and copyright

This report was created and displayed based on interviews with the company concerned and financial statements, but we do not guarantee the accuracy, completeness, or credibility of the content and data. This report is for informational purposes only and is not intended to solicit or recommend investment. Omega Investment is not responsible for the consequences of using this report.

This report is informed by the target company through interviews with the target company, but the hypotheses, conclusions and all other content contained in this report are based on research by Omega Investment.

Intellectual ownership, including copyrights of the text and data, belongs to Omega Investment. Distribution, transfer, reproduction, transfer or other use constitutes copyright infringement of this report and is strictly prohibited.