

# Cosmo Bio (TYO: 3386)

**Cumulative 2Q results exceeded the plan despite higher revenues and lower profits. Long-awaited measures to increase corporate value materialise. First, a full-year dividend increase has been announced.**

## ◇ Financial highlights for the second quarter of 2024

Cosmo Bio's 2Q FY12/2024 results, announced on August 5, 2024, showed an increase in sales and a decrease in profits but were above the company's forecasts. On a cumulative basis, sales were 5.12 billion yen (+6% YoY), operating profit 320 million yen (-29% YoY), ordinary profit 330 million yen (-38% YoY) and interim net profit attributable to owner of parent 250 million yen (-28% YoY).

Sales exceeded the forecast due to solid reagent sales and a recovery in contract services and consumables. However, the yen/US dollar exchange rate of 149 yen (14 yen lower than the previous year) caused the gross profit margin to decline, and an increase in personnel and other costs resulted in a decline in profit. There was no significant change in the consolidated balance sheet, but investment securities increased due to higher share prices and the IPO of Kohjin Bio Co., Ltd.

## ◇ Forecasts for the full year ending 31 December 2024

The company has left its full-year forecasts unchanged from the beginning of the year. Assuming an exchange rate of 150 yen to the dollar in the second half of the year, the company forecasts net sales of 9.80 billion yen (+4% YoY), operating profit of 390 million yen (-25% YoY), ordinary profit of 450 million yen (-31% YoY) and net profit attributable to owner of parent of 310 million yen (-30% YoY).

Despite better-than-expected Q2 results and a weaker-than-expected yen, the company does not believe it is necessary to make any changes to its initial forecasts, given the uncertainty in the foreign exchange market.

## ◇ Announcement of measures to enhance corporate value and dividend increase

In conjunction with announcing these results, the company disclosed its policy on initiatives to enhance corporate value, entitled 'Towards achieving management that is conscious of the cost of capital and share price'. This is a step forward from the already disclosed medium-term management plan and is directly linked to enhancing corporate value.

The framework of this plan is to build a business structure that consistently achieves an ROE of 8%, even in a weak yen environment, while recognising that the cost of equity is over 8% and promoting efforts to reduce it, resulting in a PBR in excess of 1x.

Specifically, this will be achieved in four steps. Firstly, strengthening engagement with stakeholders; secondly, boosting shareholder returns and optimising the balance sheet; furthermore, globalising the trading company business through IT (increasing profits and reducing foreign exchange risks by strengthening exports), and creating new businesses.

The company immediately introduced the dividend on equity (DoE) indicator and decided to pay dividends based on a higher of DoE of 3.5% or a payout ratio of 60% until the ROE exceeds 8%. The full-year dividend was immediately raised from 30 yen a share to 50 yen. The company has also announced a share buyback of up to 300 million yen, which is highly noteworthy as it demonstrates its commitment to achieving an ROE of 8% as quickly as possible by controlling the denominator of the ROE.

## ◇ Share price trends and future points of interest

The company's share price was affected by the aftermath of the sharp fall in the overall stock market in early August 2024. However, in general, the share price has been rising over the past year, and a tendency has been formed for the share price to rise when the yen is strong, factoring in the benefit of this to the earnings.

The shares are valued roughly at a PER of 20x, PBR of 0.7x and expected dividend yield of 4.7%. There is little downside risk to the share price, while the company has just shown a path to medium-term earnings growth and ROE improvement, and if the yen remains strong, profits are expected to rise. Hence, the investor interest in the company's shares as one of the changing Japanese corporates is likely to increase.

The focus will be on whether the yen's depreciation will end and how the profit growth strategy will gradually take hold. In particular, we look forward to the globalisation of the trading company business, the launch of Scientist<sup>3</sup>, a matching website for contracted services, and the visualisation of the potential of the egg bioreactor business.

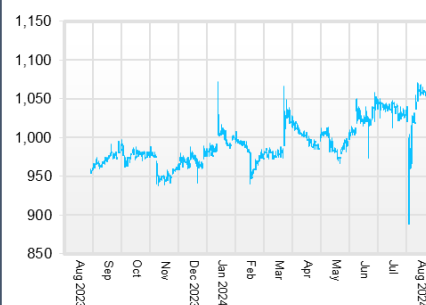
## 2Q results update

Pharmaceuticals and pharmaceutical wholesalers

As of August 30, 2024

<b>Share price (8/30)</b>	<b>1,100 Yen</b>
52weeks high/low	¥888/1,122
Avg Vol (3 month)	8.9 thou shrs
Market Cap	¥6.65 bn
Enterprise Value	¥3.33 bn
PER (24/12 CE)	20.7 X
PBR (23/12 act)	0.7 X
Dividend Yield (24/12)	4.6 %
ROE (23/12)	5.4 %
Operating margin (23/12)	5.6 %
Beta (5Y Monthly)	0.3
Shares Outstanding	6.048 mn shrs
Listed market	TSE Standard

## Share price performance



## Points of interest

In the short term, the focus is on the trend in the dollar-yen exchange rate, which determines import costs, and in the medium to long term, the globalisation of trading company functions, which aims to expand business performance while mitigating exchange rate risk, as well as the development of value-added businesses such as Scientist<sup>3</sup>, a commissioned service matching service, and the egg bioreactor business. In addition to these, it is expected that the company will maintain an ROE of over 8% by appropriately managing its shareholders' equity and that it will raise its PBR.

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

## Company profile

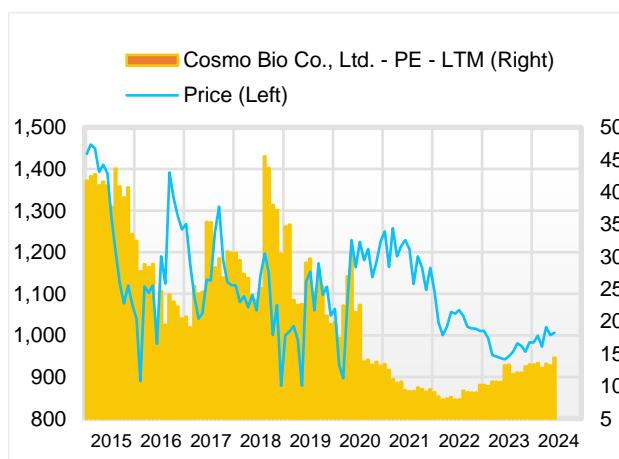
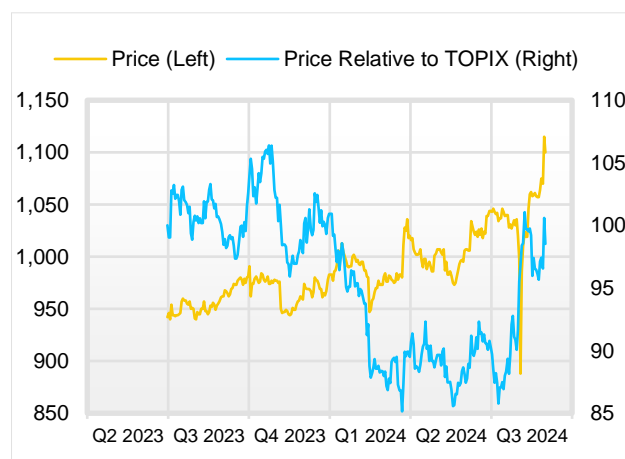
Cosmo Bio Co., Ltd. is a trading company specialising in biotechnology with the objective of 'contributing to the advancement of life science'. It is one of the leading providers of life science research reagents, offering as many as 12 million items from approximately 500 manufacturers worldwide. In recent years, it has expanded its trading company functions globally and entered into contract services and proprietary manufacturing and sales business. Expectations are high for this contribution to earnings, improved capital efficiency and higher PBR.

## Key financial data

Unit: million yen	2019/12	2020/12	2021/12	2022/12	2023/12	2024/12 CE
Sales	7,590	8,092	9,231	9,553	9,340	9,800
EBIT (Operating Income)	406	753	1,050	817	521	390
Pretax Income	388	1,008	1,099	790	653	450
Net Profit Attributable to Owner of Parent	237	674	737	517	442	310
Cash & Short-Term Investments	2,516	3,259	3,555	3,036	3,025	
Total assets	8,890	9,640	10,072	10,313	10,872	
Total Debt	25	25	25	25	25	
Net Debt	-3,000	-3,000	-3,000	-3,000	-3,000	
Total liabilities	1,566	1,776	1,750	1,693	1,844	
Total Shareholders' Equity	8,445	8,445	8,445	8,445	8,445	
Net Operating Cash Flow	569	803	648	306	744	
Capital Expenditure	120	120	120	120	120	
Net Investing Cash Flow	-135	42	-145	-313	-766	
Net Financing Cash Flow	-85	-97	-420	-236	-201	
Free Cash Flow	677	677	677	677	677	
ROA (%)	2.74	7.27	7.48	5.07	4.17	
ROE (%)	3.55	9.49	9.73	6.53	5.36	
EPS (Yen)	40.0	113.7	126.9	89.1	75.8	
BPS (Yen)	1,154.4	1,241.2	1,344.5	1,385.1	1,447.2	
Dividend per Share (Yen)	14.00	34.00	36.00	36.00	30.00	
Shares Outstanding (Million shrs)	6.05	6.05	6.05	6.05	6.05	

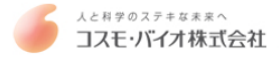
Source: Omega Investment from company data, rounded to the nearest whole number.

## Share price



## Key points in 'Towards cost of capital and share price conscious management'

Executive Summary



### Executive Summary

■ Achieve ROE over 8% and reduce CoE\* and aim for a stock price level over 1x PBR as soon as possible

**STEP 0** Strengthen stakeholder engagement . . . . . p.12-13

- The Company's PBR is currently below 1x. We believe it is important to eliminate information asymmetry with investors in order to improve the situation.
- Promote improvements in both IR tools and content to reduce capital costs

**STEP 1** Enhance shareholder return/optimize balance sheet . . . . . p.14

- Introduced DoE as a dividend index from the current fiscal year, and paid dividends based on the higher of DoE of 3.5% or payout ratio of 60%.
- Repurchased a total of 300 million yen in treasury stock as part of a flexible capital policy in response to business performance and the business environment

**STEP 2** Globalization of trading company business through the use of IT . . . . . p.15-16

- Establish a highly profitable structure through globalization of the trading company business and appropriate pricing, etc., by implementing digital marketing through the common use of inter-group databases and the use of AI, etc.

**STEP 3** Expand revenue sources by creating new businesses . . . . . p.17-18

- New business creation centered on the chicken egg bioreactor business is planned to generate a new source of revenue.

\*CoE: Cost of Equity

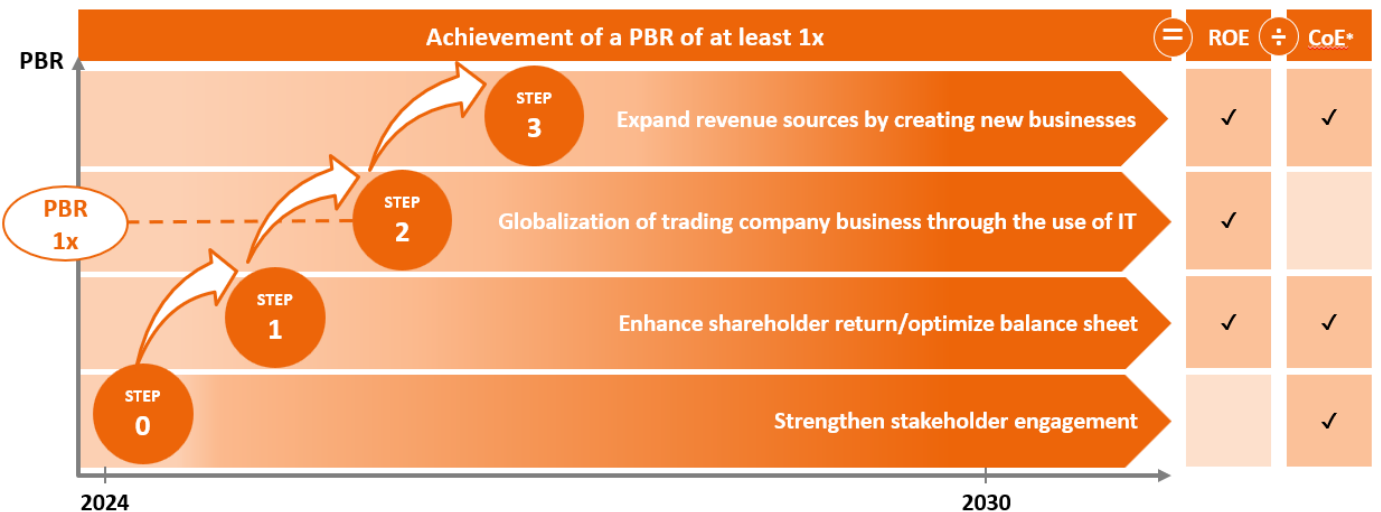
Source: Omega Investment from company materials

Executive Summary



### Toward Enhancing Corporate and Equity Value

■ Aim to achieve PBR of 1x in the implementation phase of STEP 2, the second arrow, with STEP 0/1 as the first arrow



Source: Omega Investment from company materials

## Key points in 'Towards cost of capital and share price conscious management'

Business Strategy | Strategy of Capital Structure & Shareholder Return Policy | Measures to Reduce Corporate Value



### Measures to improve PBR

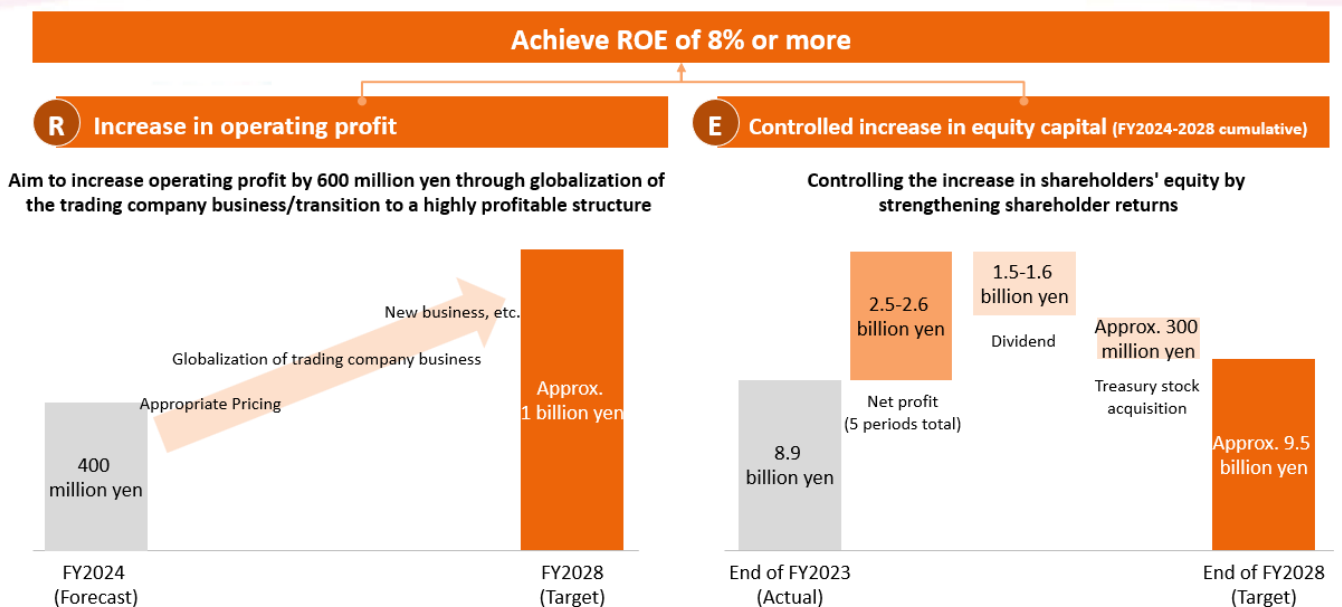
PBR	ROE	Elements of improvement	Status quo (FY2023)	Plan (FY2028)	Relationship between improvement factors and each measure			
					STEP 0 Strengthening Dialogue	STEP 1 Strengthening of shareholder return	STEP 2 Globalization	STEP 3 New business
	ROE	Operating profit ratio	5.6% (in %)	6.0% (1.0) ~ 7.0% (1.0)			✓	✓
		Total assets turnover	0.9 times	0.9 times		✓		
		Financial leverage	1.3 times	1.3 times ~ 1.5 times		✓		
	PER	CoE (Cost of equity)	8% or more	-	✓	✓		✓
		Expected growth rate	Foster growth expectations through the creation of new businesses		✓			✓

Source: Omega Investment from company materials

Business Strategy | Strategy of Capital Structure & Shareholder Return Policy | Measures to Reduce Corporate Value



### Scenario for achieving 8% ROE



Source: Omega Investment from company materials

## Key points in 'Towards cost of capital and share price conscious management'

Business Strategy | Business Model Innovation | Innovation to Enhance Corporate Value

### STEP 2

#### Globalization of trading company business through the use of IT: Transformation into a highly profitable structure

Globalization of trading company business and transformation to a stable and highly profitable structure through the use of IT

##### ① Common database among groups

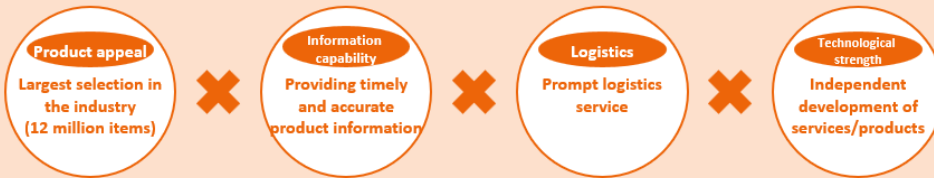
- Renovate the product database currently in use for global business development.
- Expand overseas sales network to increase overseas sales and reduce operation costs

##### (2) Digital marketing implementation using generative AI, etc.

- Plans to strengthen marketing functions, including optimization of product portfolios and efficient website production with global sites in mind, utilizing generation AI, etc.

#### Further reinforcement of strengths

##### Our Group's Strengths and Value Added to Customers



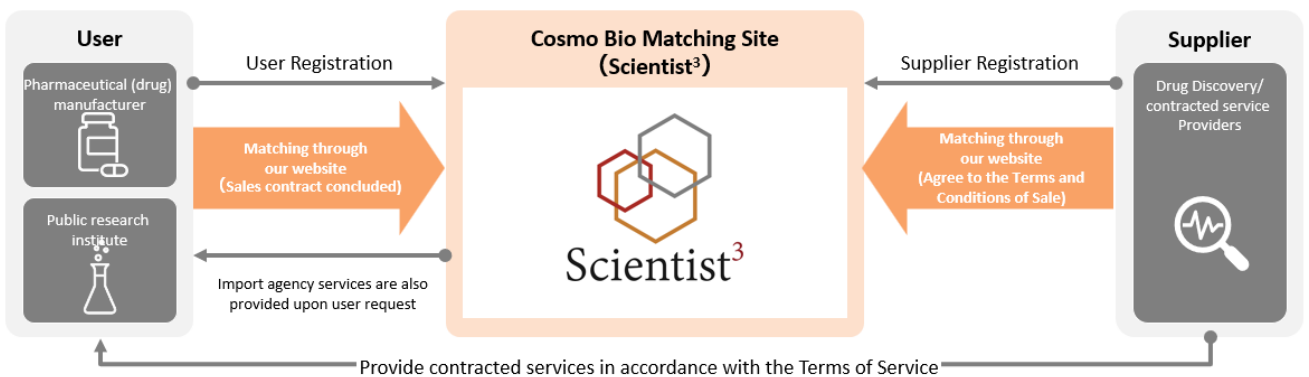
Source: Omega Investment from company materials

Business Strategy | Business Model Innovation | Innovation to Enhance Corporate Value

### STEP 2

#### Globalization of trading company business through the use of IT: Early expansion of Scientist<sup>3</sup>

- Streamlined system that enables matching of users and suppliers without our involvement



#### Strengths/achievements of existing business

- Connections to numerous domestic and international suppliers with unique technologies
- Relationship of trust cultivated through many years of business with users (pharmaceutical companies, public research institutes, etc.)

Source: Omega Investment from company materials

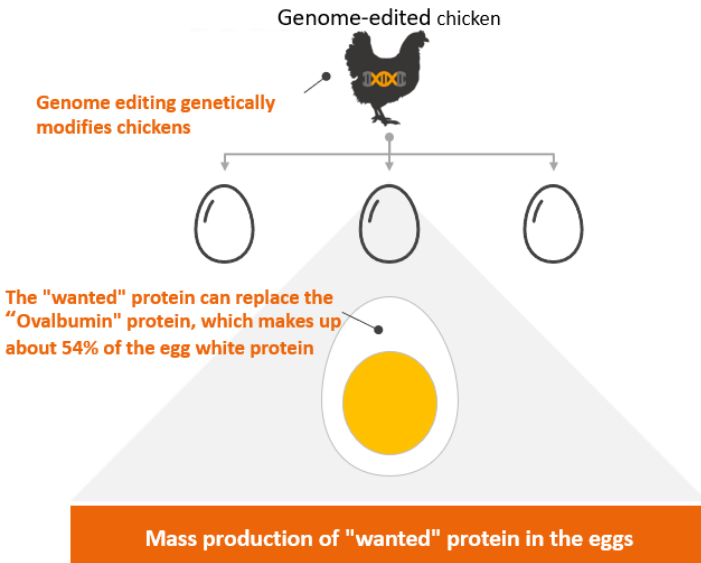
## Key points in 'Towards cost of capital and share price conscious management'

Expanding revenue sources through the creation of new businesses: Overview and strengths of the Chicken Egg Bioreactor Business

### STEP 3

Expanding revenue sources through the creation of new businesses: Overview and strengths of the Chicken Egg Bioreactor Business

#### Chicken Egg Bioreactor Business overview



#### Technological superiority

- 1 **Unique gene modification technology**
  - World's first "chicken egg bioreactor technology using genome editing" (patented).
  - AIST granted us a patent license and technical support to commercialize the product.
- 2 **Capable of mass production of "wanted" proteins**
  - Proteins with structure and function similar to human proteins are obtained.
  - The high egg-laying capacity of chickens enables mass production beyond conventional methods.
- 3 **Low-cost production is possible**
  - The egg itself becomes a sterile "plant" (factory), eliminating the need for large facilities and enabling low-cost production.

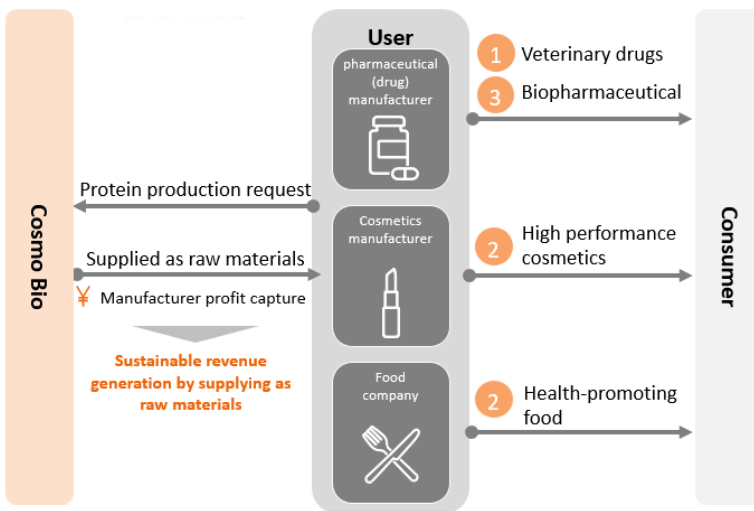
Source: Omega Investment from company materials

Expanding revenue sources through the creation of new businesses: Business model of the business and markets to be targeted

### STEP 3

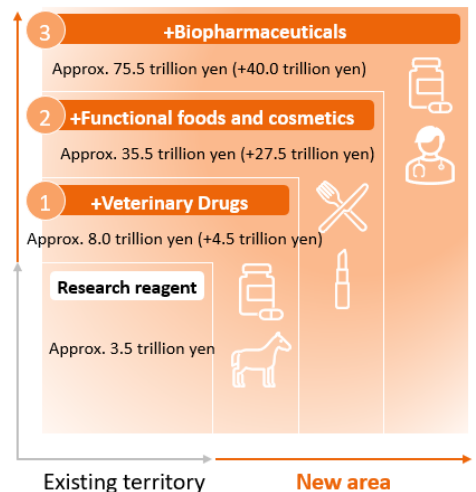
Expand revenue sources through the creation of new businesses: Business model of the business and markets to be targeted

#### Business model of this business



#### Cumulative global market size\*

\* Figures in parentheses ( ) are not cumulative totals, but rather the size of each market.



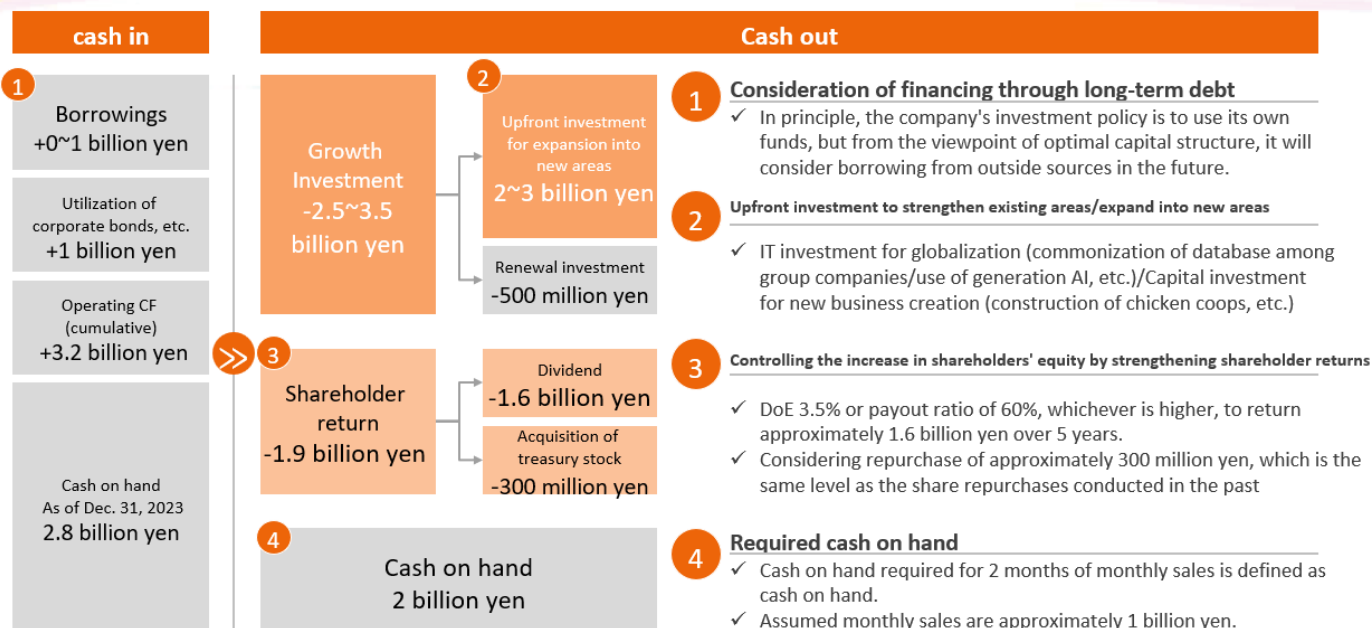
\*(Source)  
Global Veterinary Drugs Market Research Report 2024-2036, Global Functional Foods Market 2023-2030, Functional Cosmetics Market: by Function, by Application - Global Forecast 2024-2030.  
Adapted from "Global Biopharmaceutical Market Research Report 2024-2036"

Source: Omega Investment from company materials

## Key points in 'Towards cost of capital and share price conscious management'

Business Strategy | Analysis of Current Situation and Future Outlook | Initiatives to Enhance Corporate Value

### Capital Allocation Policy



Source: Omega Investment from company materials

## Financial data (quarterly basis)

Unit: million yen	2022/12			2023/12				2024/12	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>(Income Statement)</b>									
Sales	2,064	2,016	2,426	2,828	1,999	2,050	2,463	2,943	2,186
Year-on-year	5.5%	-1.5%	3.2%	-7.2%	-3.1%	1.7%	1.5%	4.1%	9.4%
Cost of Goods Sold (COGS)	1,345	1,305	1,576	1,789	1,273	1,350	1,678	1,956	1,460
Gross Income	719	711	850	1,039	726	700	785	987	726
Gross Income Margin	34.8%	35.3%	35.0%	36.7%	36.3%	34.1%	31.9%	33.5%	33.2%
SG&A Expense	672	635	736	638	668	711	712	681	708
EBIT (Operating Income)	47	76	114	401	58	-11	73	306	18
Year-on-year	-72.0%	-57.5%	-26.0%	-30.9%	23.4%	-114.5%	-36.0%	-23.7%	-69.0%
Operating Income Margin	2.3%	3.8%	4.7%	14.2%	2.9%	-0.5%	3.0%	10.4%	0.8%
EBITDA	81	112	153	435	94	28	112	336	50
Pretax Income	55	70	100	416	136	2	99	353	37
Consolidated Net Income	40	51	76	279	98	1	83	240	27
Minority Interest	-2	5	13	15	1	-5	8	10	-2
Net Income ATOP	41	47	63	264	97	5	76	230	28
Year-on-year	-73.9%	-62.4%	-48.4%	-27.9%	136.6%	-89.4%	20.6%	-12.9%	-71.1%
Net Income Margin	2.0%	2.3%	2.6%	9.3%	4.9%	0.2%	3.1%	7.8%	1.3%
<b>(Balance Sheet)</b>									
Cash & Short-Term Investments	3,570	3,347	3,036	3,026	3,852	3,637	3,025	2,813	3,224
Total assets	10,315	10,098	10,313	10,695	10,852	10,773	10,872	11,594	11,739
Total Debt	131	136	27	183	228	219	25	316	418
Net Debt	-3,439	-3,211	-3,009	-2,843	-3,624	-3,418	-3,000	-2,497	-2,806
Total liabilities	1,762	1,565	1,693	1,865	1,762	1,772	1,844	2,101	1,953
Total Shareholders' Equity	8,004	7,979	8,052	8,250	8,509	8,426	8,445	8,903	9,197
<b>(Profitability %)</b>									
ROA	6.56	5.79	5.07	3.91	4.44	4.12	4.17	3.66	3.01
ROE	8.44	7.34	6.53	5.13	5.69	5.24	5.36	4.76	3.84
<b>(Per-share) Unit: JPY</b>									
EPS	7.1	8.1	10.8	45.4	16.6	0.9	13.0	39.4	4.8
BPS	1,376.4	1,372.3	1,385.1	1,419.2	1,458.0	1,443.9	1,447.2	1,525.8	1,569.7
Dividend per Share	36.00	36.00	36.00	36.00	36.00	36.00	30.00	30.00	30.00
Shares Outstanding (million shrs)	6.05	6.05	6.05	6.05	6.05	6.05	6.05	6.05	6.05

Source: Omega Investment from company materials



## Financial data (full-year basis)

Unit: million yen	2014/12	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12	2023/12
<b>(Income Statement)</b>										
Sales	7,235	7,357	7,427	7,068	7,261	7,590	8,092	9,231	9,553	9,340
Year-on-year	2.6%	1.7%	1.0%	-4.8%	2.7%	4.5%	6.6%	14.1%	3.5%	-2.2%
Cost of Goods Sold	4,811	4,976	4,655	4,535	4,607	4,710	4,940	5,572	6,112	6,090
Gross Income	2,424	2,381	2,772	2,533	2,654	2,880	3,152	3,659	3,441	3,250
Gross Income Margin	33.5%	32.4%	37.3%	35.8%	36.6%	37.9%	39.0%	39.6%	36.0%	34.8%
SG&A Expense	2,262	2,181	2,257	2,339	2,330	2,474	2,399	2,609	2,624	2,729
EBIT (Operating Income)	162	200	515	194	324	406	753	1,050	817	521
Year-on-year	-40.2%	23.5%	157.5%	-62.3%	67.0%	25.3%	85.5%	39.4%	-22.2%	-36.2%
Operating Income Margin	2.2%	2.7%	6.9%	2.7%	4.5%	5.3%	9.3%	11.4%	8.6%	5.6%
EBITDA	248	279	600	350	507	613	928	1,216	958	669
Pretax Income	330	407	456	400	403	388	1,008	1,099	790	653
Consolidated Net Income	200	249	276	250	278	246	701	768	552	461
Minority Interest	-1	19	22	12	17	8	27	31	35	19
Net Income ATOP	201	230	254	237	260	237	674	737	517	442
Year-on-year	-35.8%	14.4%	10.4%	-6.7%	9.7%	-8.8%	184.4%	9.3%	-29.9%	-14.5%
Net Income Margin	2.8%	3.1%	3.4%	3.4%	3.6%	3.1%	8.3%	8.0%	5.4%	4.7%
<b>(Balance Sheet)</b>										
Cash & Short-Term Investments	1,482	1,498	1,948	1,483	2,268	2,516	3,259	3,555	3,036	3,025
Total assets	8,161	7,790	7,934	8,126	8,485	8,890	9,640	10,072	10,313	10,872
Total Debt	20	20	20	20	20	20	20	28	27	25
Net Debt	-1,462	-1,478	-1,928	-1,463	-2,248	-2,496	-3,239	-3,527	-3,009	-3,000
Total liabilities	1,629	1,412	1,350	1,286	1,430	1,566	1,776	1,750	1,693	1,844
Total Shareholders' Equity	6,050	5,951	6,135	6,381	6,581	6,843	7,358	7,787	8,052	8,445
<b>(Cash Flow)</b>										
Net Operating Cash Flow	297	129	573	294	909	569	803	648	306	744
Capital Expenditure	70	175	252	546	152	182	76	156	119	120
Net Investing Cash Flow	-227	-263	99	-440	-186	-135	42	-145	-313	-766
Net Financing Cash Flow	-122	-151	-107	-109	-85	-85	-97	-420	-236	-201
Free Cash Flow	244	80	444	-185	858	428	767	617	251	677
<b>(Profitability %)</b>										
ROA	2.45	2.88	3.23	2.96	3.14	2.74	7.27	7.48	5.07	4.17
ROE	3.25	3.83	4.20	3.80	4.03	3.55	9.49	9.73	6.53	5.36
<b>(Per-share) Unit: JPY</b>										
EPS	33.9	38.8	42.8	40.0	43.9	40.0	113.7	126.9	89.1	75.8
BPS	1,020.6	1,003.9	1,034.9	1,076.4	1,110.2	1,154.4	1,241.2	1,344.5	1,385.1	1,447.2
Dividend per Share	20.00	16.00	18.00	14.00	14.00	14.00	34.00	36.00	36.00	30.00
Shares Outstanding (million shrs)	6.05	6.05	6.05	6.05	6.05	6.05	6.05	6.05	6.05	6.05

Source: Omega Investment from company materials



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