

Cosmo Bio (TYO: 3386)

The 3Q cumulative total was in line with the plan despite an increase in revenue and a decrease in profit. We would like to see the progress of strategic measures confirmed in the full-year results.

◇ 3Q FY12/2024 Financial Highlights

Cosmo Bio's 3Q FY12/2024 results, announced on November 7, 2024, showed an increase in revenue but a decrease in profit but were generally in line with forecasts. On a cumulative basis, sales were 7.4 billion yen (+7% YoY), operating profit was 360 million yen (-17% YoY), and ordinary profit was 380 million yen (-30% YoY). Quarterly profit attributable to owner of parent was 290 million yen (-20% YoY).

Sales growth has accelerated since the 2Q, and the performance now exceeds the company's expectations. Both research reagents and equipment have seen sales increase by 7%. Sales are progressing smoothly with university and corporate customers, and business with bio-ventures is also picking up.

However, the dollar-yen exchange rate fell to 150 yen per dollar on a cumulative basis (a depreciation of 12 yen YoY), and the gross profit margin fell 2.4 percentage points to 33.4% on a cumulative basis. Meanwhile, the company increased personnel expenses and other costs as expected, resulting in declining profits.

◇ FY12/2024 full-year earnings forecast unchanged

The company has again left its full-year earnings forecast unchanged. The forecast for the second half of the year is 150 yen to the dollar, sales of 9.8 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).

The current market rate for the dollar-yen exchange rate is weaker than the assumed rate, so caution is needed. However, the company believes that there is no need to change its initial plan, as the results up to the 3Q have progressed as expected, and it is also feeling a response to the increasing revenue trend.

◇ Stock Price Trends and Points to Watch

The company announced its 2Q results on August 5, 2024, when the stock market was in a sharp decline, and announced a full-year dividend increase and a share buyback 'to achieve management conscious of capital costs and stock prices.' The company's share price has since performed strongly, outperforming the TOPIX. The yen has weakened since October, but the company's share price has had no negative impact.

The main reasons for this are that, in addition to the fact that sales have been strong and profits are on track to meet expectations, there is little concern about a fall in valuations (although the 22x forecast PER is no longer considered undervalued), with a PBR of 0.77x and a forecast dividend yield of 4.25% (3.07% for the year-end dividend alone). Furthermore, the company has repurchased 95,200 shares worth approximately 100 million yen in total by the end of October, and it is expected to buy back approximately 200 million yen worth of shares by July 31, 2025. In addition, the company has set out a medium-term plan for improving its performance and ROE, with the aim of 'to achieve management conscious of capital costs and stock prices'.

The next point to watch, on top of the dollar to yen rate, is whether the full-year results for FY12/2024 will be in line with expectations, whether the full-year earnings forecast for FY12/2025 will show an increase in profits, whether shareholder returns will be maintained or increased, and what progress will be shown in strategic measures that will lead to medium-term earnings growth and the achievement of an ROE of 8%.

In particular, we are looking forward to seeing the globalization of the trading company business through the use of IT (we expect to see an increase in profits and a reduction in foreign exchange risk through the strengthening of exports), the launch of Scientist³, a matching site for commissioned services, and the visualization of the potential of the Chicken egg bioreactor business.

3Q results update

Pharmaceuticals and pharmaceutical wholesalers

As of December 12, 2024

Share price (12/11)	1,153 Yen
52weeks high/low	¥1,150/1,160
Avg Vol (3 month)	6.0 thou shrs
Market Cap	¥6.97 bn
Enterprise Value	¥3.47 bn
PER (24/12 CE)	21.7 X
PBR (23/12 act)	0.8 X
Dividend Yield (24/12)	4.3 %
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



%	1M%	3M%	12M%
Share price	-1.28	4.63	18.99
Japan TSE TOPIX	0.26	6.71	18.28

Points of interest

In the short term, the focus is on the dollar-yen exchange rate, which determines import costs. In the medium to long term, the focus is on the globalization of trading company functions, which aims to expand business while mitigating foreign exchange risk, Scientist³, a commissioned service matching service, and developing value-added businesses such as the Chicken egg bioreactor business.

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

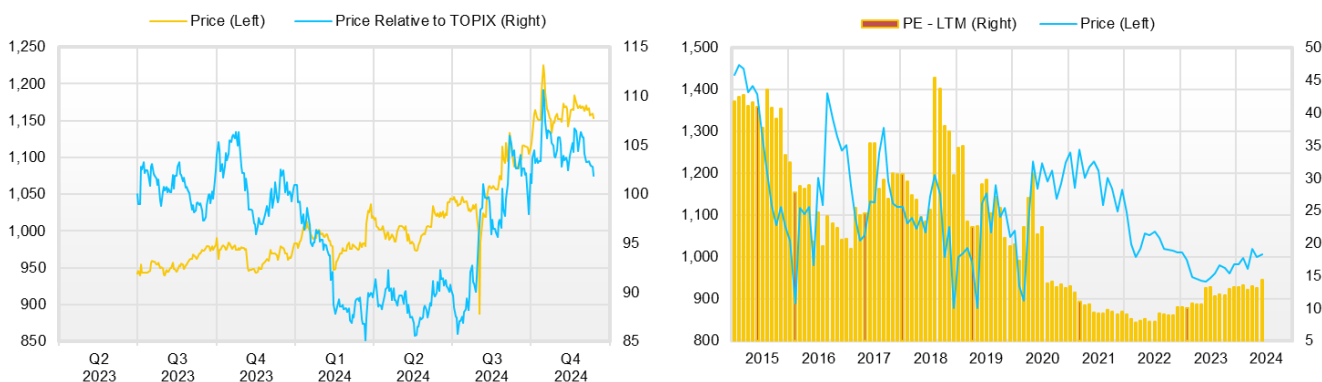
Cosmo Bio Co., Ltd. is a trading company specializing in biotechnology with the objective of 'contributing to the advancement of life science'. It is one of the leading providers of life science research reagents, offering as many as 12 million items from approximately 500 manufacturers worldwide. In 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	36.00
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



■ 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

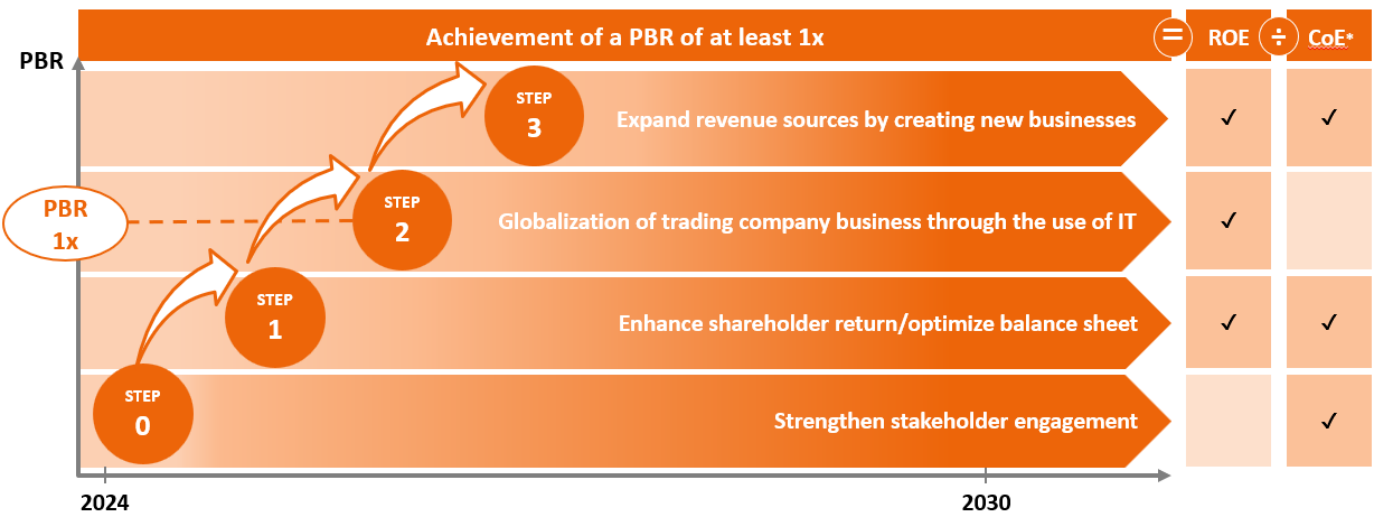
- New business creation centered on the chicken egg bioreactor business is planned to generate a new source of revenue.

*CoE: Cost of Equity

Source: Omega Investment from company materials

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

【Reposted】 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

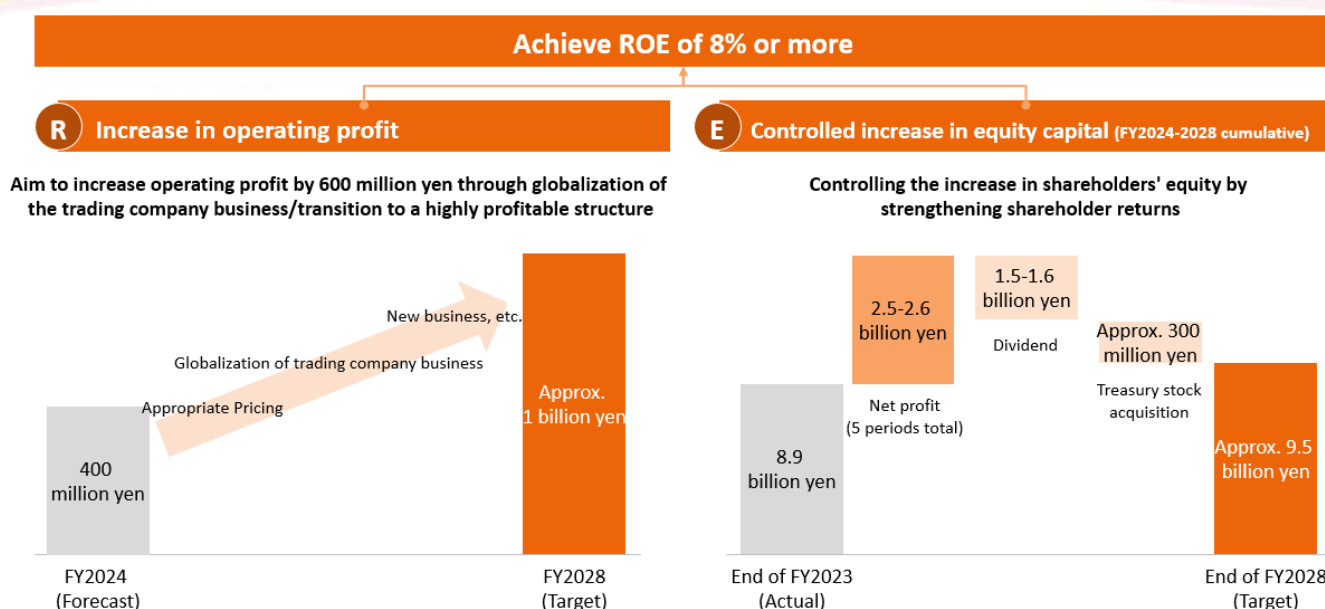
PBR	ROE	Elements of improvement	Status quo (FY2023)	Plan (FY2028)	Relationship between improvement factors and each measure			
					STEP 0 Strengthening Dialogue	STEP 1 Strengthening of shareholder return	STEP 2 Globalization	STEP 3 New business
PBR	ROE	Operating profit ratio	5.6% (in %)	6.0% (1.0) ~ 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

【Reposted】 Key points in ‘Towards cost of capital and share price conscious management’

Business Overview | Business of Contract Research & Manufacturing Organization (CRMO) | Information to Shareholders



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

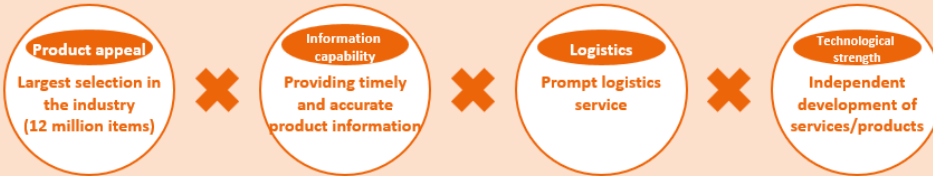
- Renovate the product database currently in use for global business development.
- Expand overseas sales network to increase overseas sales and reduce operation costs

(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

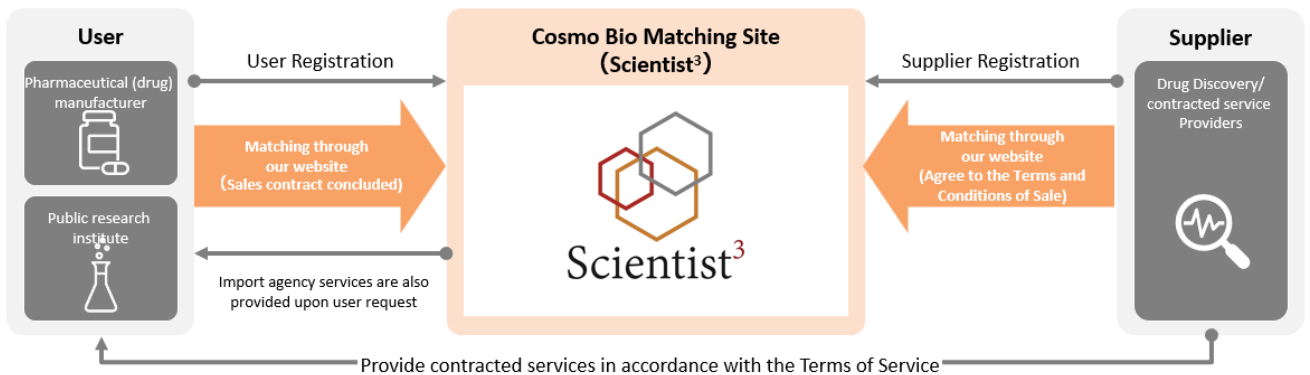
Business Overview | Business of Contract Research & Manufacturing Organization (CRMO) | Information to Shareholders



STEP 2

Globalization of trading company business through the use of IT: Early expansion of Scientist³

- 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.)

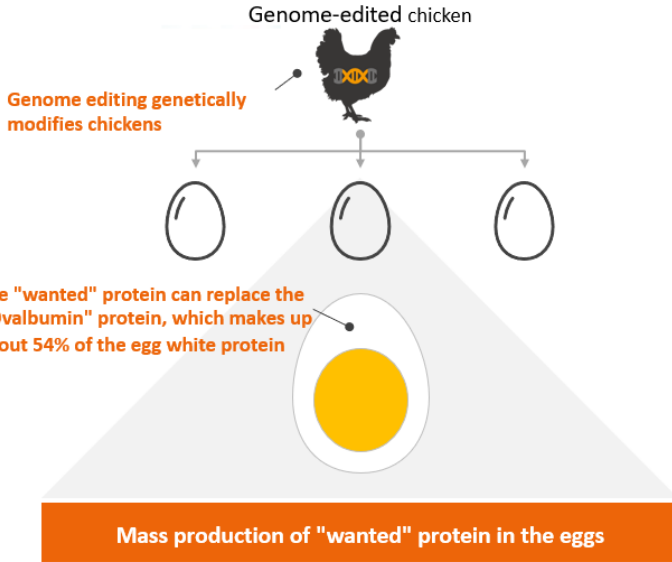
Source: Omega Investment from company materials

【Reposted】 Key points in ‘Towards cost of capital and share price conscious management’

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

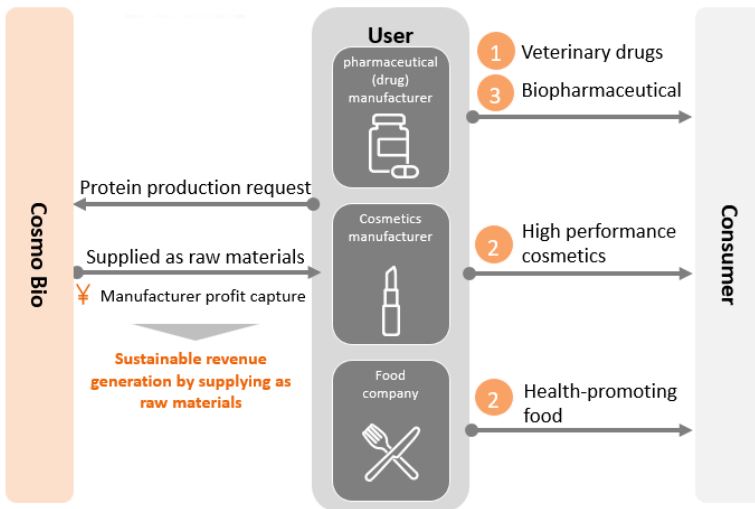
- 1 **Unique gene modification technology**
 - World's first "chicken egg bioreactor technology using genome editing" (patented).
 - AIST granted us a patent license and technical support to commercialize the product.
- 2 **Capable of mass production of "wanted" proteins**
 - Proteins with structure 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

STEP 3

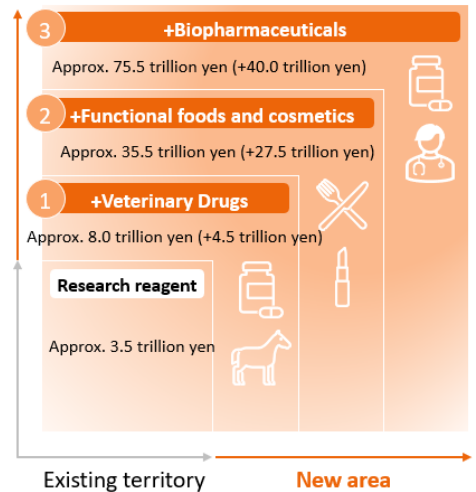
Expand revenue sources through the creation of new businesses: Business model of the business and markets to be targeted

Business model of this business



Cumulative global market size*

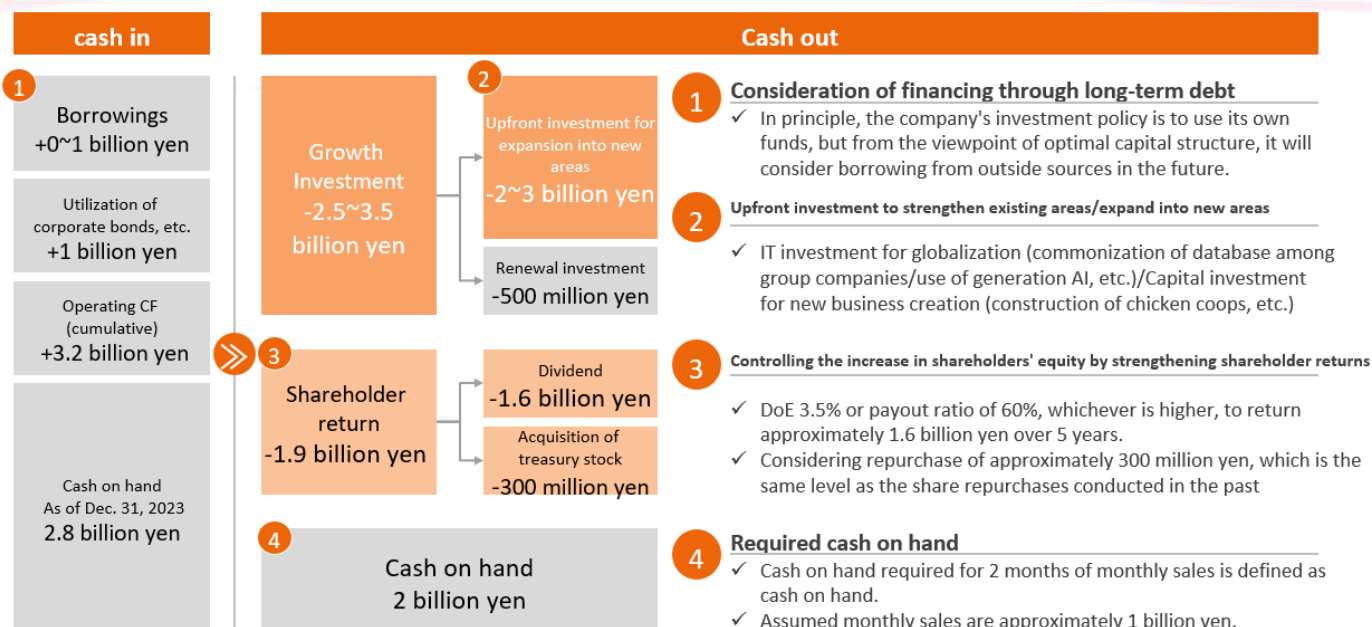
* Figures in parentheses () are not cumulative totals, but rather the size of each market.



*(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

Capital Allocation Policy



Source: Omega Investment from company materials

Financial data (quarterly basis)

Unit: million yen	2022/12		2023/12				2024/12		
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
(Income Statement)									
Sales	2,016	2,426	2,828	1,999	2,050	2,463	2,943	2,186	2,280
Year-on-year	-1.5%	3.2%	-7.2%	-3.1%	1.7%	1.5%	4.1%	9.4%	11.2%
Cost of Goods Sold (COGS)	1,305	1,576	1,789	1,273	1,350	1,678	1,956	1,460	1,522
Gross Income	711	850	1,039	726	700	785	987	726	758
Gross Income Margin	35.3%	35.0%	36.7%	36.3%	34.1%	31.9%	33.5%	33.2%	33.2%
SG&A Expense	635	736	638	668	711	712	681	708	713
EBIT (Operating Income)	76	114	401	58	-11	73	306	18	45
Year-on-year	-57.5%	-26.0%	-30.9%	23.4%	-114.5%	-36.0%	-23.7%	-69.0%	-509.1%
Operating Income Margin	3.8%	4.7%	14.2%	2.9%	-0.5%	3.0%	10.4%	0.8%	2.0%
EBITDA	112	153	435	94	28	112	336	50	79
Pretax Income	70	100	416	136	2	99	353	37	48
Consolidated Net Income	51	76	279	98	1	83	240	27	34
Minority Interest	5	13	15	1	-5	8	10	-2	2
Net Income ATOP	47	63	264	97	5	76	230	28	33
Year-on-year	-62.4%	-48.4%	-27.9%	136.6%	-89.4%	20.6%	-12.9%	-71.1%	560.0%
Net Income Margin	2.3%	2.6%	9.3%	4.9%	0.2%	3.1%	7.8%	1.3%	1.4%
(Balance Sheet)									
Cash & Short-Term Investments	3,347	3,036	3,026	3,852	3,637	3,025	2,813	3,224	3,044
Total assets	10,098	10,313	10,695	10,852	10,773	10,872	11,594	11,739	11,333
Total Debt	136	27	183	228	219	25	316	418	370
Net Debt	-3,211	-3,009	-2,843	-3,624	-3,418	-3,000	-2,497	-2,806	-2,674
Total liabilities	1,565	1,693	1,865	1,762	1,772	1,844	2,101	1,953	1,853
Total Shareholders' Equity	7,979	8,052	8,250	8,509	8,426	8,445	8,903	9,197	8,889
(Profitability %)									
ROA	5.79	5.07	3.91	4.44	4.12	4.17	3.66	3.01	3.31
ROE	7.34	6.53	5.13	5.69	5.24	5.36	4.76	3.84	4.23
(Per-share) Unit: JPY									
EPS	8.1	10.8	45.4	16.6	0.9	13.0	39.4	4.8	5.7
BPS	1,372.3	1,385.1	1,419.2	1,458.0	1,443.9	1,447.2	1,525.8	1,569.7	1,532.0
Dividend per Share	36.00	36.00	36.00	36.00	36.00	30.00	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
(Income Statement)										
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%
(Balance Sheet)										
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
(Cash Flow)										
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
(Profitability %)										
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
(Per-share) Unit: JPY										
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



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.