

Consolidated Financial Report for the First Quarter Ended June 30, 2020

July 31, 2020

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 Representative: Masato Izumihara,
 President and Representative Director
 Security code: 4208 (shares listed on First Section of Tokyo
 Stock Exchange and Fukuoka Stock Exchange)
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(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Quarter Ended June 30, 2020

(From April 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
April – June 2020	136,108 (17.5)%	(664) —	(1,291) —	(1,331) —
April – June 2019	165,058 (2.4)%	7,318 19.7%	7,737 (24.5)%	4,541 (34.4)%

(Note) Comprehensive Income: From April 1, 2020 to June 30, 2020: 1,640 Million Yen (51.8)%
 From April 1, 2019 to June 30, 2019: 3,403 Million Yen (27.8)%

	Net income per share (Yen)	Diluted net income per share (Yen)
April – June 2020	(13.16)	—
April – June 2019	44.94	44.80

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
June 30, 2020	725,043	351,337	45.4
March 31, 2020	727,269	354,447	45.7

(Reference) Shareholders' equity: As of June 30, 2020: 329,186 Million Yen
 As of March 31, 2020: 332,395 Million Yen

[Shareholders' equity = Net assets – Share acquisition rights – Non-controlling interests]

2. Cash Dividends

	Cash dividends per share (Yen)				
	First quarter	Second quarter	Third quarter	Year end	Annual
April 2019 – March 2020	—	45.00	—	45.00	90.00
April 2020 – March 2021	—	—	—	—	—
April 2020 – March 2021 (Forecast)	—	45.00	—	45.00	90.00

(Note) Revision of the latest forecast of cash dividends: Yes

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021

(From April 1, 2020 to March 31, 2021)

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share(Yen)
April – September 2020	293,000 (12.6)%	6,000 (64.2)%	4,000 (76.0)%	2,500 (76.8)%	24.73
April 2020 – March 2021	614,000 (8.1)%	26,000 (23.6)%	23,500 (34.2)%	14,000 (39.1)%	138.47

(Note) Revision of the latest forecast of consolidated financial results: No

(Notes)

(1) Changes in significant subsidiaries during the first quarter ended June 30, 2020: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first quarter ended June 30, 2020.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For more details, please refer to “5. Consolidated Financial Statements (4) Notes to Quarterly Consolidated Financial Statements (Application of the special accounting methods for preparing the quarterly consolidated financial statements)”.

(3) Changes in accounting policies applied, changes in accounting estimates and retrospective restatement

Changes in accounting policies applied due to revisions of accounting standards: No

Changes in accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(4) Number of shares outstanding (common stock)

	June 30, 2020	March 31, 2020
Numbers of shares outstanding at period end	106,200,107	106,200,107
Numbers of shares of treasury stock at period end	5,063,556	5,098,529

	April – June 2020	April – June 2019
Weighted-average number of shares outstanding during period	101,127,869	101,052,002

(Information regarding quarterly review procedures)

The financial information contained in this report is not subject to quarterly review procedures by independent auditors.

(Cautionary statement on forward-looking statements)

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational. It may be substantially different from the actual performance because of various factors such as economic conditions in key markets, supply and demand of products, the prices of raw material and fuel, interest rates, and exchange rates.

4. Qualitative Information on Operating Results

(1) Overview of Operating Results

During the current term, net sales of the Company Group decreased because the outbreak of COVID-19 greatly affected its overall business performance, especially in the Chemical Segment. For example, sales volume of products for auto such as the synthetic rubbers and battery materials decreased and pricing of products such as nylon and caprolactam declined as well. Operating profit decreased despite the impact of falling coal prices because declines in product pricing such as nylon, caprolactam greatly affected overall business performance. In addition, non-operating income shrank due to worsening share of profit of entities accounted for using equity method and reduced dividend income, causing a decrease in both ordinary profit and profit attributable to owners of parent.

As a result, the Company Group reports its consolidated results during the current term as follows:

(Billions of yen)

Item	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
April – June 2020 ①	136.1	(0.6)	(1.2)	(1.3)
April – June 2019 ②	165.0	7.3	7.7	4.5
Difference ① - ②	(28.9)	(7.9)	(9.0)	(5.8)
Percentage change	(17.5)%	—	—	—

(2) Overview by Segment

Net sales

(Billions of yen)

Segment	April – June 2020 ①	April – June 2019 ②	Difference ① – ②	Percentage Change
Chemicals	52.5	74.5	(21.9)	(29.4)%
Construction Materials	69.1	75.4	(6.2)	(8.3)%
Machinery	16.7	18.8	(2.1)	(11.5)%
Others	0.7	1.1	(0.4)	(39.5)%
Adjustment	(3.1)	(4.9)	1.8	—
Total	136.1	165.0	(28.9)	(17.5)%

Operating profit

(Billions of yen)

Segment	April – June 2020 ①	April – June 2019 ②	Difference ① – ②	Percentage Change
Chemicals	(2.7)	4.6	(7.4)	—
Construction Materials	1.9	2.3	(0.3)	(15.8)%
Machinery	0.2	0.4	(0.2)	(44.6)%
Others	0.0	0.1	(0.0)	(68.4)%
Adjustment	(0.1)	(0.2)	0.1	—
Total	(0.6)	7.3	(7.9)	—

Chemicals – Decreases in both net sales and operating profit

■ Engineering Plastics & Fine Chemicals

The Caprolactam Business recorded a decrease in net sales due to declines in product pricing after the outbreak of COVID-19, which caused market prices for raw materials such as crude oil and benzene to decrease.

The Nylon Business recorded a decrease in net sales because sales volume of products grew at a sluggish pace combined with falling product pricing due to weak market prices for caprolactam, as well as weakened demand for products such as those used in the automobile industry due to the outbreak of COVID-19.

The Industrial Chemicals Business recorded a sales decrease, due to decreases in production and shipment as the result of the once-every-two-year inspection in the ammonia product factory.

The Fine Chemicals Business recorded a decrease in net sales because sales volume of its products decreased, particularly the products for automobile, due to the outbreak of COVID-19.

Both net sales and operating profit decreased in the Engineering Plastics and Fine Chemicals Businesses as a whole because the biennial inspection of the ammonia product factory was conducted and effects of the outbreak of COVID-19 such as declines in pricing of the products.

■ The Synthetic Rubber Business recorded decreases in both net sales and operating profit due to drastically reduced shipment of the products mainly used for tires, as well as falling market prices.

■ Specialty Products

The Battery Materials Business recorded a net sales decrease due to reduced sale volume caused by harsher competition in the Chinese market and shrinking demand for products used in the automobile industry due to the outbreak of COVID-19.

The Polyimide Business recorded an increase in net sales, because sales volume of the COF films mainly used on displays remained stable and expansion of demand for varnish used for organic EL panels drove an increase in sale volume.

Both net sales and operating profit decreased in the Specialty Products Business as a whole because sluggish sales in the Battery Materials Business greatly affected it overall.

■ The Pharmaceutical Business recorded decreases in both net sales and operating profit because product shipment was sluggish in comparison with the same period of the previous fiscal year when sales of both drugs developed by UBE and those manufactured under contract were strong.

■ Both net sales and operating profit decreased in the Chemicals Segment as a whole due to both sales volume and product pricing decreasing, mainly due to the outbreak of COVID-19 and the biennial inspection of the ammonia product factory.

Construction Materials – Decreases in both net sales and operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a decrease in net sales because product shipment decreased due to the outbreak of COVID-19, which caused delay of public construction projects as well as suspension of construction project orders from mainly major general contractors.

■ The Calcia and Magnesia Business recorded a decrease in net sales due to decreases in sales volume of the quicklime used in the steel industry and the magnesia used in the steel and electric power industries.

■ The Energy Business recorded a net sales decrease, due to decreases in sales prices of coal.

■ Both net sales and operating profit decreased in the Construction Materials Segment as a whole. Although falling prices for the coal used as a raw material had some positive impact, the decline in calcia and magnesia sales volume greatly affected the overall business.

Machinery – Decreases in both net sales and operating profit

■ The Molding Machine Business recorded a decrease in net sales due to sluggish sales resulting from the severe business environment faced by the automobile industry.

■ The Industrial Machines Business recorded an increase in net sales thanks to the strong sales of products such as conveyors used in the electric power industry.

■ The Steel Products Business recorded a decrease in net sales because product pricing fell as raw material prices declined.

■ The Machinery Segment as a whole recorded decreases in both net sales and operating profit because sluggish sales of molding machines and falling steel product pricing greatly affected the overall business.

Others – Decreases in both net sales and operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	41,226	54,171
Notes and accounts receivable - trade	158,140	134,430
Merchandise and finished goods	43,171	43,095
Work in process	21,200	22,543
Raw materials and supplies	29,371	30,773
Other	11,353	12,444
Allowance for doubtful accounts	(505)	(498)
Total current assets	303,956	296,958
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	87,942	88,104
Machinery, equipment and vehicles, net	139,844	138,889
Land	76,059	76,197
Other, net	26,197	29,568
Total property, plant and equipment	330,042	332,758
Intangible assets		
Goodwill	524	535
Other	6,890	6,846
Total intangible assets	7,414	7,381
Investments and other assets		
Investment securities	53,326	54,661
Other	32,860	33,577
Allowance for doubtful accounts	(497)	(499)
Total investments and other assets	85,689	87,739
Total non-current assets	423,145	427,878
Deferred assets	168	207
Total assets	727,269	725,043

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	92,620	82,053
Short-term borrowings	43,484	43,466
Current portion of bonds payable	—	10,000
Income taxes payable	4,369	1,363
Provision for bonuses	7,049	10,340
Other provisions	1,134	1,058
Other	50,680	52,986
Total current liabilities	199,336	201,266
Non-current liabilities		
Bonds payable	60,000	60,000
Long-term borrowings	84,420	83,037
Provisions	3,738	1,562
Retirement benefit liability	7,442	7,586
Asset retirement obligations	1,916	1,924
Other	15,970	18,331
Total non-current liabilities	173,486	172,440
Total liabilities	372,822	373,706
Net assets		
Shareholders' equity		
Share capital	58,435	58,435
Capital surplus	40,300	40,280
Retained earnings	245,980	240,090
Treasury shares	(12,645)	(12,557)
Total shareholders' equity	332,070	326,248
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,984	2,362
Deferred gains or losses on hedges	9	(143)
Foreign currency translation adjustment	2,122	4,365
Remeasurements of defined benefit plans	(3,790)	(3,646)
Total accumulated other comprehensive income	325	2,938
Share acquisition rights	573	510
Non-controlling interests	21,479	21,641
Total net assets	354,447	351,337
Total liabilities and net assets	727,269	725,043

(2) Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

• Consolidated Statements of Income

For the first quarter ended June 30, 2019 and 2020

(Millions of yen)

	April 1, 2019 - June 30, 2019	April 1, 2020 - June 30, 2020
Net sales	165,058	136,108
Cost of sales	136,738	117,813
Gross profit	28,320	18,295
Selling, general and administrative expenses	21,002	18,959
Operating profit (loss)	7,318	(664)
Non-operating income		
Interest income	81	56
Dividend income	668	438
Rental income	253	242
Amortization of negative goodwill	5	10
Share of profit of entities accounted for using equity method	613	7
Other	570	347
Total non-operating income	2,190	1,100
Non-operating expenses		
Interest expenses	254	224
Rental expenses	163	158
Foreign exchange losses	330	203
Other	1,024	1,142
Total non-operating expenses	1,771	1,727
Ordinary profit (loss)	7,737	(1,291)
Extraordinary income		
Gain on sales of investment securities	—	19
Gain on bargain purchase	—	145
Gain on extinguishment of tie-in shares	—	514
Total extraordinary income	—	678
Extraordinary losses		
Loss on disposal of non-current assets	213	181
Loss on valuation of investment securities	263	—
Total extraordinary losses	476	181
Profit (loss) before income taxes	7,261	(794)
Income taxes	2,696	854
Profit (loss)	4,565	(1,648)
Profit (loss) attributable to non-controlling interests	24	(317)
Profit (loss) attributable to owners of parent	4,541	(1,331)

• Consolidated Statements of Comprehensive Income
For the first quarter ended June 30, 2019 and 2020

(Millions of yen)

	April 1, 2019 – June 30, 2019	April 1, 2020 – June 30, 2020
Profit (loss)	4,565	(1,648)
Other comprehensive income		
Valuation difference on available-for-sale securities	(264)	359
Deferred gains or losses on hedges	(472)	(152)
Foreign currency translation adjustment	(422)	3,056
Remeasurements of defined benefit plans, net of tax	17	144
Share of other comprehensive income of entities accounted for using equity method	(21)	(119)
Total other comprehensive income	(1,162)	3,288
Comprehensive income	3,403	1,640
Comprehensive income attributable to owners of parent	3,364	1,282
Comprehensive income attributable to non-controlling interests	39	358

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2019 – June 30, 2019	April 1, 2020 – June 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	7,261	(794)
Depreciation and amortization	9,089	9,021
Amortization of negative goodwill	(5)	(10)
Increase (decrease) in allowance for doubtful accounts	(87)	0
Interest and dividend income	(749)	(494)
Interest expenses	254	224
Share of loss (profit) of entities accounted for using equity method	(613)	(7)
Loss (gain) on sales of non-current assets	(16)	(5)
Decrease (increase) in trade receivables	16,233	25,090
Decrease (increase) in inventories	(8,096)	(2,112)
Increase (decrease) in trade payables	(6,775)	(12,791)
Other, net	3,032	3,520
Subtotal	19,528	21,642
Interest and dividends received	1,334	1,171
Interest paid	(238)	(198)
Income taxes paid	(5,054)	(4,418)
Net cash provided by (used in) operating activities	15,570	18,197
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(10,063)	(7,902)
Proceeds from sales of property, plant and equipment	273	45
Purchase of investment securities	(42)	(2)
Proceeds from sales of investment securities	—	58
Purchase of shares of subsidiaries and associates	(318)	(1,613)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	66
Decrease (increase) in short-term loans receivable	12	(236)
Other, net	(100)	(20)
Net cash provided by (used in) investing activities	(10,238)	(9,604)

(Millions of yen)

	April 1, 2019 – June 30, 2019	April 1, 2020 – June 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(484)	29
Increase (decrease) in commercial papers	14,000	—
Proceeds from long-term borrowings	2,086	299
Repayments of long-term borrowings	(1,985)	(1,720)
Proceeds from issuance of bonds	—	9,950
Redemption of bonds	(10,000)	—
Purchase of treasury shares	(1)	(1)
Dividends paid	(8,102)	(4,562)
Dividends paid to non-controlling interests	(320)	(196)
Other, net	(150)	(271)
Net cash provided by (used in) financing activities	(4,956)	3,528
Effect of exchange rate change on cash and cash equivalents	(61)	438
Net increase (decrease) in cash and cash equivalents	315	12,559
Cash and cash equivalents at beginning of period	32,295	40,609
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	371
Cash and cash equivalents at end of period	32,610	53,539

(4) Notes to Quarterly Consolidated Financial Statements

(Note to events and conditions which indicate there could be substantial doubt about going concern assumption)

None.

(Note to significant changes in shareholders' equity)

None.

(Application of the specific accounting methods for preparing the quarterly consolidated financial statements)

Tax expenses are calculated by estimating an effective tax rate for net income based on reasonable assumptions of an effective tax rate after application of tax effect accounting for net income before tax for the consolidated fiscal year, including the current term, and by multiplying the quarterly net income before tax by the estimated tax rate of net income. However, for subsidiaries for which calculating tax expenses using the said estimation of the effective tax rate would significantly lack rationality, tax expenses are calculated by using the statutory effective tax rate.

Income taxes adjustment is included in income taxes.

6. Segment Information

(1) Information concerning Net Sales and Operating Profit by Reportable Business Segment

For the First Quarter Ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(Millions of yen)

	Reported segment					Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Construction Materials	Machinery	Others	Total		
Net sales							
External sales	74,325	71,915	17,985	833	165,058	—	165,058
Internal sales or transfers	195	3,540	902	353	4,990	(4,990)	—
Total	74,520	75,455	18,887	1,186	170,048	(4,990)	165,058
Segment profit (operating profit)	4,678	2,302	451	136	7,567	(249)	7,318

(Note 1) (249) million yen for adjustment for Segment profit includes (58) million yen for the elimination of transaction between the Segments and (191) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

(Note 2) Segment profit is adjusted with operating profit recorded in the consolidated statements of income.

For the First Quarter Ended June 30, 2020 (April 1, 2020 to June 30, 2020)

(Millions of yen)

	Reported segment					Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Construction Materials	Machinery	Others	Total		
Net sales							
External sales	52,444	66,824	16,380	460	136,108	—	136,108
Internal sales or transfers	154	2,372	344	258	3,128	(3,128)	—
Total	52,598	69,196	16,724	718	139,236	(3,128)	136,108
Segment profit or loss (operating profit or loss)	(2,748)	1,938	250	43	(517)	(147)	(664)

(Note 1) (147) million yen for adjustment for Segment profit or loss includes 7 million yen for the elimination of transaction between the Segments and (154) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

(Note 2) Segment profit or loss is adjusted with operating profit or loss recorded in the consolidated statements of income.

(2) Information Concerning Impairment Loss for Non-current Assets and Goodwill by Reportable Segment (Material gain on bargain purchase)

Gain on negative goodwill of 145 million yen generated acquisition of shares of Premium Composite Technology North America, Inc. to convert it to our consolidated subsidiary was recorded in the Chemicals Segment.

(Reference) Consolidated Key Indicators

(Billions of yen – except where noted)

	April – June 2019	April – June 2020	April 2020 – March 2021 (forecast)	April 2019 – March 2020
Capital investment	5.6	10.8	47.0	47.6
Depreciation and amortization	9.0	9.0	37.0	36.8
Research and development expenses	3.2	2.7	14.0	12.8
Adjusted operating profit *1	8.6	(0.1)	29.0	37.8
Interest-bearing debt	192.3	202.1	190.0	190.7
Shareholders' equity *2	324.8	329.1	337.0	332.3
Total assets	730.0	725.0	720.0	727.2
D/E ratio (times)	0.59	0.61	0.56	0.57
Shareholders' equity ratio (%)	44.5	45.4	46.8	45.7
Return on sales - ROS (%) *3	4.4	(0.5)	4.2	5.1
Return on assets - ROA (%) *4	—	—	4.0	5.2
Return on equity - ROE (%) *5	—	—	4.2	6.9
Number of employees	11,213	11,120	11,000	10,890

*1 Adjusted operating profit: Operating profit + Interest and dividend income + Share of profit of entities accounted for using equity method

*2 Shareholders' equity: Net assets – Share acquisition rights – Non-controlling interests

*3 ROS: Operating profit / Net sales

*4 ROA: Adjusted operating profit / Average total assets

*5 ROE: Profit attributable to owners of parent / Average shareholders' equity