

Summary of Consolidated Financial Results [Japanese GAAP] For the Third Quarter of the Fiscal Year Ending March 31, 2021

January 29, 2021

Listed company: Nippon Kayaku Co., Ltd.
Listed stock exchange: First Section, Tokyo Stock Exchange
Code No.: 4272 URL: <https://www.nipponkayaku.co.jp/english/>

Representative (name, position): Atsuhiro Wakumoto, President
Director in charge of inquiries: Tsutomu Kawamura, Executive Director, General Manager of Finance & Accounting Division, Financial Group

Filing date of quarterly securities report: February 10, 2021
Scheduled date for start of dividend payments: –
Preparation of supplementary materials for quarterly financial results: Yes
Quarterly results presentation meeting: Yes (for securities analysts and institutional investors)

1. Consolidated Business Results for the First Three Quarters of the Fiscal Year Ending March 31, 2021 (April 1, 2020–December 31, 2020)

(Figures shown are rounded down to the nearest million yen.)

(1) Consolidated Operating Results

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three quarters of fiscal year ending March 31, 2021	125,655	(4.7)	11,790	(17.2)	12,145	(17.3)	8,971	(20.6)
First three quarters of fiscal year ended March 31, 2020	131,825	2.3	14,231	(2.3)	14,682	(8.2)	11,302	6.8

Note: Comprehensive income

First three quarters of fiscal year ending March 31, 2021: 14,274 million yen (44.6%)

First three quarters of fiscal year ended March 31, 2020: 9,875 million yen (4.4%)

	Profit attributable to owners of parent per share-primary	Profit attributable to owners of parent per share-diluted
	Yen	Yen
First three quarters of fiscal year ending March 31, 2021	52.53	52.53
First three quarters of fiscal year ended March 31, 2020	65.33	65.30

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	288,456	219,167	75.7
As of March 31, 2020	278,496	210,019	75.2

Reference: Equity As of December 31, 2020: 218,471 million yen
As of March 31, 2020: 209,344 million yen

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2021

2. Status of Dividends

	Dividend amount per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Year
	Yen				
Fiscal year ended March 31, 2020	—	15.00	—	15.00	30.00
Fiscal year ending March 31, 2021	—	15.00	—		
Fiscal year ending March 31, 2021 (forecast)				15.00	30.00

Note: Changes to the most recent dividend forecast: None

3. Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020–March 31, 2021)

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	171,700	(2.0)	14,900	(14.8)	15,300	(15.1)	12,000	(6.4)	70.26

Note: Changes to the most recent forecast for consolidated business results: Yes

Notes

- (1) Significant changes in subsidiaries during the first three quarters (changes in designated subsidiaries that result in changes in scope of consolidation): None
- (2) Adoption of special accounting methods for presenting the quarterly consolidated financial statements: None
- (3) Changes to accounting policies and estimates and restatements
 - [1] Changes to accounting policies associated with revision of accounting standards or similar items: None
 - [2] Changes other than [1]: None
 - [3] Changes to accounting estimates: None
 - [4] Restatements: None
- (4) Number of shares issued (common stock)
 - [1] Number of shares issued at end of the fiscal period (including treasury stock)
 - As of December 31, 2020: 177,503,570 shares
 - As of March 31, 2020: 177,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of December 31, 2020: 6,710,387 shares
 - As of March 31, 2020: 6,709,685 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First three quarters of fiscal year ending March 31, 2021: 170,793,503 shares
 - First three quarters of fiscal year ended March 31, 2020: 173,012,317 shares

*Quarterly summary financial statements are not subject to audit by a certified public accountant or audit firm.

*Analysis related to appropriate use of the business results forecasts, and other notes

(Disclaimer concerning forward-looking statements)

The information in this report constitutes forward-looking statements regarding future events and performance. This information is based on the beliefs and assumptions of management in light of information currently available to it at the time of announcement and subject to a number of uncertainties that may affect future results. Actual business results may differ substantially from the forecasts herein due to various factors. For matters pertaining to business forecasts, please refer to “(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts” on page 3 of the Supplementary Information.

(How to obtain the materials for the briefing on quarterly financial results)

We have scheduled a teleconference for securities analysts and institutional investors on Friday, January 29, 2021. The materials for the briefing will be posted on the corporate website.

Supplementary Information

Contents

1. Qualitative Information Concerning Results for the First Three Quarters	2
(1) Analysis of Operating Results	2
(2) Analysis of Financial Position	3
(3) Analysis of Forward-looking Statements, including Consolidated Business Results Forecasts	3
2. Quarterly Consolidated Financial Statements and Notes to Quarterly Consolidated Financial Statements	4
(1) Consolidated Balance Sheets	4
(2) Consolidated Statements of Income & Consolidated Statements of Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes Regarding Assumptions for the Going Concern)	8
(Notes in Case of Significant Change in Shareholders' Equity)	8
(Segment Information and Other Items)	8
(Business Combinations, etc.)	9
(Additional Information)	10

1. Qualitative Information Concerning Results for the First Three Quarters

(1) Analysis of Operating Results

In the first three quarters of this consolidated fiscal year (April 1, 2020 to December 31, 2020), a deceleration in the overall global economy occurred from restrictions on economic activity to prevent the spread of the novel coronavirus. The U.S. and Europe experienced rapid deterioration in their economies from March onward, but measures taken to combat the virus and economic measures implemented by each country provided underlying support and signs of a gradual rebound were seen in consumer spending and corporate revenues. In China, the economy continued to recover as economic activity resumed. The Japanese economy saw improvement in consumer spending and corporate revenues, but the unpredictability of the timing for bringing the pandemic under control caused uncertainty over the future to persist.

Amid these conditions, the Nippon Kayaku Group worked to implement the key themes and resolve the mid- and long-term key issues outlined in “**KAYAKU Next Stage**,” the mid-term business plan launched in the fiscal year ended March 31, 2020, while also making active use of flextime, telecommuting, and other systems to accommodate the restrictions on corporate activity. We took these steps to ensure the safety of employees working in the Company and at Group companies while also implementing a new lifestyle and promote efficient workstyles aimed at minimizing the impact on our business.

As a result, net sales for the first three quarters of this consolidated fiscal year totaled 125,655 million yen, a decrease of 6,169 million yen (4.7%) year-on-year. Sales in the pharmaceuticals business outperformed the same period of the previous fiscal year, while sales in the functional chemicals and the safety systems businesses declined.

Operating income totaled 11,790 million yen, a decrease of 2,441 million yen (17.2%) year-on-year.

Ordinary income totaled 12,145 million yen, a decrease of 2,537 million yen (17.3%) year-on-year.

Profit attributable to owners of parent was 8,971 million yen, a decrease of 2,330 million yen (20.6%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 52,127 million yen, a decrease of 1,133 million yen (2.1%) year-on-year.

The functional materials business outperformed the same period of the previous fiscal year, despite a decline in vehicle-related sales. This resulted from strong sales of epoxy resins used in semiconductor encapsulation and circuit boards due to increased demand for IT equipment such as high-speed (5G) communications devices and PCs.

The color materials business underperformed the same period of the previous fiscal year due to slow sales of colorants for inkjet printers in industrial applications and dyes for textiles due to the impact from the spread of the novel coronavirus. Sales of colorants for inkjet printers for consumer use were firm due to telecommuting.

The catalyst business outperformed the same period of the previous fiscal year, both in Japan and overseas.

The Polatechno business saw slow sales of dye-type polarizing films and other optical materials and components due to the impact from the spread of the novel coronavirus, underperforming the same period of the previous fiscal year.

Segment profit totaled 5,186 million yen, a decrease of 766 million yen (12.9%) year-on-year. This resulted from a decline in sales of the color materials business and the Polatechno business.

[Pharmaceuticals Business]

Sales reached 38,313 million yen, an increase of 1,986 million yen (5.5%) year-on-year.

Pharmaceuticals in Japan were impacted by two drug price revisions since the first three quarters of last fiscal year. Nevertheless, the segment outperformed the same period of the previous fiscal year as growth in sales contributed to performance due to market penetration of Portrazza®, a new biomedicine, the switch to biosimilars and generic drugs, and growth in the antibody biosimilars, TRASTUZUMAB BS and INFLIXIMAB BS, in particular. The new drug, APREPITANT capsules, also contributed to sales.

Exports, sales of contract production and diagnostic drug underperformed the same period of the previous fiscal year due to the impact from the spread of the novel coronavirus.

Segment profit was totaled 6,810 million yen, an increase of 1,001 million yen (17.2%) year-on-year. This resulted from a decrease in sales-related expenses due to decreased sales activities as the novel coronavirus spread and growth in sales of antibody biosimilars.

[Safety Systems Business]

Sales fell to 29,830 million yen, a decrease of 6,351 million yen (17.6%) year-on-year.

The automotive market did see a rebound from the slump caused by the spread of the novel coronavirus during the third quarter of this fiscal year, but sales of airbag inflators, micro gas generators for seatbelt pretensioners, and

squibs underperformed the first three quarters of the previous fiscal year owing to the slump in the automotive market in all regions outside of China.

A decline in sales led to segment profit of 3,492 million yen, a decrease of 2,392 million yen (40.6%) from the same period of the previous fiscal year.

[Other]

Sales stood at 5,384 million yen, a decrease of 671 million yen (11.1%) year-on-year.

The agrochemicals business underperformed the same period of the previous fiscal year in both domestic sales and exports.

Sales in real estate and other business increased compared to the same period of the previous fiscal year.

Segment profit totaled 1,279 million yen, a decrease of 203 million yen (13.7%) year-on-year.

(2) Analysis of Financial Position

Status of Assets, Liabilities, and Net Assets

Total assets were 288,456 million yen, an increase of 9,959 million yen from the end of the previous consolidated fiscal year. The main increases were in securities, an increase of 8,972 million yen; notes and accounts receivable-trade, an increase of 7,898 million yen; and investment securities, an increase of 2,504 million yen. The main decrease was in cash and deposits, a decrease of 16,275 million yen.

Liabilities were 69,288 million yen, an increase of 811 million yen compared to the end of the previous consolidated fiscal year. The main increase was in notes and accounts payable-trade, an increase of 3,132 million yen. The main decrease was in income taxes payable, a decrease of 2,459 million yen.

Net assets were 219,167 million yen, an increase of 9,148 million yen compared to the end of the previous consolidated fiscal year. The main increases were in retained earnings, an increase of 3,848 million yen; and translation adjustments, an increase of 3,193 million yen.

(3) Analysis of Forward-looking Statements, including Consolidated Business Results Forecasts

The future business environment surrounding the Nippon Kayaku Group still bears the risk of an economic slowdown despite signs of a recovery in the global economy, due to uncertainty over an economic downswing under the impact from the spread of the novel coronavirus and U.S.-China trade friction, among other factors. The Japanese economy is being supported by monetary easing and the benefits from economic measures implemented by the Japanese government and is expected to gradually improve, but sufficient caution must be exercised with respect to the risk of an economic downturn in Japan and overseas from a resurgence in the novel coronavirus.

Under these conditions, the Nippon Kayaku Group will work to ascertain and respond globally to the changing conditions. We will endeavor to keep our employees safe, while also continuing efforts to minimize the significant impact of this infectious disease on the business results of the Nippon Kayaku Group. The Nippon Kayaku Group also aims to respond flexibly to changes in the business environment and pursue optimal use of operating capital to increase the shareholder value, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

The forecasts for the fiscal year ending March 31, 2021 announced on November 10, 2020 have been revised. See the disclosure today entitled, Notice Concerning Revision of Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2021 for further details.

2. Quarterly Consolidated Financial Statements and Notes to Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2020	As of December 31, 2020
	Million yen	
Assets		
Current assets		
Cash and deposits	43,222	26,947
Notes and accounts receivable-trade	51,940	59,839
Electronically recorded monetary claims-operating	1,846	2,317
Securities	4,132	13,104
Merchandise and finished goods	30,987	29,948
Work in process	1,640	577
Raw materials and stores	14,988	16,672
Other	4,384	5,005
Allowance for doubtful accounts	(39)	(36)
Total current assets	153,102	154,376
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,249	42,200
Machinery, equipment and vehicles, net	24,748	27,074
Other, net	20,961	19,112
Total property, plant and equipment	85,960	88,387
Intangible assets		
Goodwill	748	2,723
Other	2,613	4,432
Total intangible assets	3,362	7,155
Investments and other assets		
Investment securities	30,661	33,166
Net defined benefit asset	1,291	1,344
Other	4,140	4,049
Allowance for doubtful accounts	(22)	(23)
Total investments and other assets	36,071	38,536
Total non-current assets	125,393	134,079
Total assets	278,496	288,456

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2021

	As of March 31, 2020	As of December 31, 2020
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,914	19,047
Short-term loans payable	4,359	3,688
Accounts payable-other	8,917	10,026
Income taxes payable	2,646	186
Other	6,961	6,742
Total current liabilities	38,800	39,690
Non-current liabilities		
Bonds payable	12,000	12,000
Long-term loans payable	6,182	4,931
Net defined benefit liability	426	438
Other	11,067	12,228
Total non-current liabilities	29,676	29,597
Total liabilities	68,477	69,288
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,757	15,756
Retained earnings	184,156	188,004
Treasury stock	(7,871)	(7,872)
Total shareholders' equity	206,975	210,820
Accumulated other comprehensive income		
Unrealized holding gains on other securities	7,856	9,799
Translation adjustments	(4,589)	(1,396)
Remeasurements of defined benefit plans	(897)	(753)
Total accumulated other comprehensive income	2,369	7,650
Non-controlling interests	675	696
Total net assets	210,019	219,167
Total liabilities and net assets	278,496	288,456

This document is an English translation of parts of the Japanese-language original.
All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

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

	First three quarters of fiscal year ended March 31, 2020	First three quarters of fiscal year ending March 31, 2021
	Million yen	
Net sales	131,825	125,655
Cost of sales	87,160	84,992
Gross profit on sales	44,664	40,663
Selling, general and administrative expenses	30,433	28,873
Operating income	14,231	11,790
Non-operating income		
Interest income	211	139
Dividend income	711	676
Equity in earnings of affiliates	117	202
Other	578	632
Total non-operating income	1,618	1,650
Non-operating expenses		
Interest expense	152	110
Foreign exchange losses	553	937
Other losses	460	247
Total non-operating expenses	1,166	1,295
Ordinary income	14,682	12,145
Extraordinary income		
Gain on sales of non-current assets	3	84
Gain on sales of investment securities	373	842
Total extraordinary income	376	926
Extraordinary loss		
Loss on disposal of non-current assets	398	296
Loss on valuation of investment securities	82	—
Loss on liquidation of subsidiaries and associates	—	23
Total extraordinary loss	481	319
Profit before income taxes	14,578	12,752
Income taxes-current	3,650	2,093
Income taxes-deferred	(427)	1,679
Total income taxes	3,223	3,773
Profit	11,354	8,979
Profit attributable to non-controlling interests	52	7
Profit attributable to owners of parent	11,302	8,971

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2021

Consolidated Statements of Comprehensive Income

	First three quarters of fiscal year ended March 31, 2020	First three quarters of fiscal year ending March 31, 2021
	Million yen	
Profit	11,354	8,979
Other comprehensive income		
Unrealized holding gains on other securities	(641)	1,945
Translation adjustments	(942)	3,208
Remeasurements of defined benefit plans	105	143
Share of other comprehensive income of companies accounted for by the equity-method	(1)	(1)
Total other comprehensive income	(1,479)	5,295
Comprehensive income	9,875	14,274
Comprehensive income attributable to:		
Owners of parent	10,028	14,252
Non-controlling interests	(153)	22

This document is an English translation of parts of the Japanese-language original.
All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding Assumptions for the Going Concern)

No items to report

(Notes in Case of Significant Change in Shareholders' Equity)

No items to report

(Segment Information and Other Items)

I. First three quarters of the fiscal year ended March 31, 2020 (April 1, 2019– December 31, 2019)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
	Million yen							
Sales	53,260	36,327	36,182	125,769	6,055	131,825	–	131,825
Sales to third parties								
Intersegment sales and transfers	102	0	–	102	73	175	(175)	–
Total	53,362	36,327	36,182	125,872	6,129	132,001	(175)	131,825
Segment profit	5,953	5,809	5,884	17,648	1,483	19,131	(4,900)	14,231

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 4,900 million yen downward adjustment to segment profit reflects a negative 4,916 million yen in corporate expense not allocable to the reportable segments and 16 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Changes in reportable segments

No items to report

II. First three quarters of the fiscal year ending March 31, 2021 (April 1, 2020– December 31, 2020)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
	Million yen							
Sales								
Sales to third parties	52,127	38,313	29,830	120,271	5,384	125,655	–	125,655
Intersegment sales and transfers	99	0	–	99	72	172	(172)	–
Total	52,226	38,313	29,830	120,370	5,457	125,827	(172)	125,655
Segment profit	5,186	6,810	3,492	15,490	1,279	16,770	(4,980)	11,790

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 4,980 million yen downward adjustment to segment profit reflects a negative 5,009 million yen in corporate expense not allocable to the reportable segments and 29 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Changes in reportable segments

(Revision of the method for allocation of corporate expenses)

From the first quarter of the consolidated fiscal year under review, the Company's general and administrative expenses which has previously been allocated among the reportable segments, have been reclassified as corporate expenses. This was done to reflect the actual state of responsibility for management activities for the entire Group and to more accurately ascertain the performance of each reportable segment.

This has resulted in increases in segment profit in the first three quarters of the consolidated fiscal year under review of 2,212 million yen in the functional chemicals business, 1,386 million yen in the pharmaceuticals business, 1,383 million yen in the safety systems business, and 259 million yen in the other businesses, and a decrease of 5,241 million yen in adjustments to segment profit compared calculations under the previous method.

The segment information provided for the first three quarters of the previous fiscal year has been recalculated to show segment profit and loss after the revision.

(Business Combinations, etc.)

(Transactions, etc. under common control)

(Company split from consolidated subsidiary (simple, abbreviated absorption-type split))

At its Board of Directors meeting held on March 31, 2020, Nippon Kayaku passed the following resolution for the Company to take over the business of manufacturing and selling polarizing films for LCDs, polarizing films for projectors, and other precision-processed products (hereafter, "the business") from its consolidated subsidiary, POLATECHNO CO., LTD. (hereafter, "Polatechno"), via an absorption-type split (hereafter, "the absorption-type split"), effective on October 1, 2020. Nippon Kayaku took over this business as scheduled on October 1, 2020.

1. Summary of transaction

(1) Companies involved in the business combination and names and descriptions of the business

The business of Polatechno, a wholly-owned subsidiary, in manufacturing and selling polarizing films for LCDs, polarizing films for projectors, and other precision-processed products

(2) Date of business combination

Date of Board of Directors resolution approving the absorption-type split agreement (Nippon Kayaku):

March 31, 2020

Date of Board of Directors resolution approving the absorption-type split agreement (Polatechno):

March 27, 2020

Conclusion date of absorption-type split agreement:

May 22, 2020

Date on which the absorption-type split agreement became effective:

October 1, 2020

Note: This absorption-type merger constitutes an abbreviated split under Article 784, Paragraph 1 of the Companies Act for Polatechno, the company splitting off the business; and as a simple split under Article 796, Paragraph 2 of the Companies Act for Nippon Kayaku, the succeeding company. Both companies therefore executed the absorption-type split agreement without obtaining approval from the Shareholders Meeting.

(3) Legal form of business combination

The form is an absorption-type split (simple absorption-type split) in which Polatechno is the splitting company and Nippon Kayaku is the succeeding company.

(4) Name of company after business combination

There are no changes to the names, location of headquarters, capital, and fiscal year-end of either company as a result of this absorption-type split. However, the description of the main business of the split company after the absorption-type split was changed to the land leasing business. The accompanying amendments to the Articles of Incorporation for the split company were approved at the Annual Shareholders Meeting held on June 24, 2020.

(5) Other information concerning the summary of the transaction

Incorporating the business into the Company as a business division will enable more effective use and optimal allocation of the management resources possessed by both companies, such as human resources, sales channels, production locations, and intellectual property. The Company is aiming to improve the efficiency of and expand the business by integrating the R&D structures of both companies to improve the efficiency and speed of R&D, strengthen governance, and achieve other benefits.

2. Summary of accounting standards implemented

The Company accounted for the combination as a transaction under common control in accordance with ASBJ Statement No. 21, Accounting Standard for Business Combinations (January 16, 2019) and ASBJ Guidance No. 10, Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (January 16, 2019). This absorption-type split was eliminated as an internal company transaction in the consolidated financial statements and it therefore had no impact on profit and loss.

(Additional Information)

(Accounting estimates accompanied by the spread of the novel coronavirus)

There are no significant changes in the assumptions regarding the timing for bringing the novel coronavirus under control detailed in the Annual Securities Report (supplemental information) for the previous consolidated fiscal year.