

Consolidated Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]



January 25, 2022

Company name: SHIKOKU CHEMICALS CORPORATION

Stock exchange listing: Tokyo Stock Exchange

Code number: 4099

URL: <https://www.shikoku.co.jp/>

Representative: Naoto Tanaka, President and C.E.O.

Contact: Yoshinori Manabe, Director, Executive Officer, Head of Business Promotion Division

Phone: +81-877-22-4111

Scheduled date of filing quarterly securities report: February 14, 2022

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2021	39,229	8.9	6,158	26.0	6,721	29.1	4,794	22.6
December 31, 2020	36,024	(5.6)	4,888	(12.2)	5,206	(9.6)	3,911	(2.9)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥5,561 million [4.7 %]

Nine months ended December 31, 2020: ¥5,310 million [13.5 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	87.27	—
December 31, 2020	70.05	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2021	109,946	79,514	71.5
As of March 31, 2021	107,344	76,566	70.5

(Reference) Equity: As of December 31, 2021: ¥78,660 million

As of March 31, 2021: ¥75,718 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	-	12.00	-	12.00	24.00
Year ending March 31, 2022	-	12.00	-		
Year ending March 31, 2022 (Forecast)				12.00	24.00

(Note) Revisions to the cash dividends forecasts most recently announced: None

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
	53,500	7.9	8,400	13.5	9,000	12.5	6,700	16.3
								122.12

(Notes) 1. Revisions to the financial results forecast most recently announced: Yes

2. For the forecast of consolidated financial results, please also refer to the “Notice Concerning Financial Results Forecast” announced today (January 25, 2022).

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

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

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (ordinary shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2021: 54,832,263 shares

March 31, 2021: 55,877,263 shares

2) Total number of treasury shares at the end of the period:

December 31, 2021: 205,688 shares

March 31, 2021: 212,603 shares

3) Average number of shares during the period:

Nine months ended December 31, 2021: 54,936,628 shares

Nine months ended December 31, 2020: 55,842,155 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms

* Explanation regarding the appropriate use of financial results forecasts and other special items

Forward-looking statements such as operating results forecasts and other projections contained in this report are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the operating results forecasts and cautionary notes concerning their use, please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” under “1. Qualitative Information on Quarterly Financial Results for the Period under Review” on page 3 of the attached documents to the quarterly financial statements.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in the case of significant changes in shareholders' equity)	8
(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements) ..	8
(Changes in accounting policies)	8
(Additional information)	9
(Segment information, etc.)	10

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Japanese economy during the nine months ended December 31, 2021 saw a gradual recovery following progress in vaccination against the novel coronavirus disease (COVID-19) and the lifting of the state of emergency on September 30. However, economic outlook is becoming more uncertain due to growing impact of the spread of the Omicron strain from the end of the year, consumer sentiment worsened by rising prices on the back of high resource prices and the depreciation of the yen, and supply constraints such as semiconductor shortages. Overseas economies continue to pick up globally, but supply constraints and high resource prices are becoming more serious, raising concerns for rising inflation. Therefore, the situation remains unpredictable.

Under these circumstances, for the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021), the Group posted net sales of ¥39,229 million (up 8.9% year-on-year), operating profit of ¥6,158 million (up 26.0% year-on-year), ordinary profit of ¥6,721 million (up 29.1% year-on-year) and profit attributable to owners of parent of ¥4,794 million (up 22.6% year-on-year), all of which increased from the previous year's results. In addition, even when compared with periods before the COVID-19 pandemic, net sales, ordinary profit, and profit attributable to owners of parent achieved high levels against the backdrop of global economic recovery, hitting record highs.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, largely surpassed those of the previous fiscal year, which was affected by the spread of COVID-19, due to solid demand for replacement tires, despite a decline in automobile production resulting from semiconductor shortages. Sales of carbon disulfide for rayon and cellophane, and sodium sulfate for bath agents and detergents increased year on year due to a rebound from the COVID-19 pandemic.

(Organic chemicals)

Regarding chlorinated isocyanuric acid for disinfectants, the domestic market performed better than the previous year mainly due to a recovery in sales of agents for swimming pools following the partial resumption of swimming lessons at schools. In the U.S. market, the balance between supply and demand is tightening mainly due to a recovery in economic conditions and stay-at-home demand, and the Company tried to improve profitability by passing on soaring resource prices and distribution costs, which resulted in a significant increase in profitability.

(Fine chemicals)

Regarding Glicoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, sales remained solid, against a backdrop of the growth of electronics markets worldwide. Sales of advanced & specialty chemicals such as epoxy resin curing agent (imidazoles), resin modifier (glycoluril derivatives, etc.) and semiconductor processing materials increased year on year, backed by a recovery in demand for use in electronic components and automobiles.

As a result, net sales for the chemicals operations segment were ¥25,499 million (up 16.0% year-on-year), and segment profit was ¥5,734 million (up 47.3% year-on-year), both surpassing the previous year's results.

2) Housing Materials operations

Although the number of new housing starts showed signs of a slight recovery, sales of interior, exterior finishes and paving materials and exterior products remained sluggish, as governments and private companies deferred or had a wait-and-see attitude for their projects or capital investment, against a backdrop of falling consumer sentiment and uncertainty about the future. Profitability also declined due to soaring prices of raw materials including aluminum ingots.

As a result, net sales for the housing materials operations segment were ¥12,772 million (down 4.4% year-

on-year), and segment profit was ¥1,693 million (down 25.0% year-on-year), both falling below the previous year's results.

Reference information

[Overseas net sales]

	Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)		Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	5,103	14.1	6,348	16.2
North America	4,496	12.5	5,587	14.2
Other regions	1,405	3.9	1,560	4.0
Total	11,004	30.5	13,495	34.4
Consolidated net sales	36,024		39,229	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets increased by ¥2,602 million from the end of the previous fiscal year to ¥109,946 million. Major increases were ¥2,094 million in investment securities and ¥860 million in notes and accounts receivable - trade, and a major decrease was ¥2,550 million in cash and deposits.

Liabilities decreased by ¥346 million from the end of the previous fiscal year to ¥30,431 million. Major decreases were ¥1,537 million in retirement benefit liability and ¥565 million in income taxes payable.

Net assets increased by ¥2,948 million from the end of the previous fiscal year to ¥79,514 million. Major increases were ¥2,184 million in retained earnings and ¥685 million in valuation difference on available-for-sale securities.

As a result, equity ratio rose to 71.5%, from 70.5% at the end of the previous fiscal year.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The full-year financial results forecast has been revised from the initial plan (announced on April 27, 2021).

Economic activities picked up during the nine months ended December 31, 2021 following progress in vaccination against COVID-19 and the lifting of the state of emergency on September 30. Although the situation looks to remain unpredictable due to the spread of the Omicron strain from the end of the year and other factors, full-year financial results are now expected to exceed the previously announced forecast, in light of continuing strong sales of chlorinated isocyanuric acid in the U.S. market and improvement in profitability of the chemicals operations due to a depreciation of the yen exchange rate.

Net sales, operating profit, ordinary profit, profit attributable to owners of parent, and basic earnings per share are all forecast to reach new highs.

Assumptions for the average exchange rates for the full year are ¥111 to U.S. dollar and ¥130 to Euro.

For details, please also refer to the "Notice Concerning Financial Results Forecast" announced today (January 25, 2022).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	25,907	23,356
Notes and accounts receivable - trade	12,637	13,497
Electronically recorded monetary claims - operating	2,678	2,503
Securities	13,999	13,600
Merchandise and finished goods	6,259	6,986
Work in process	46	43
Raw materials and supplies	3,024	3,538
Other	471	609
Allowance for doubtful accounts	(1)	(0)
Total current assets	65,024	64,135
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,040	5,294
Machinery, equipment and vehicles, net	3,176	3,973
Land	8,857	8,861
Construction in progress	3,771	4,031
Other, net	646	608
Total property, plant and equipment	21,492	22,769
Intangible assets	165	249
Investments and other assets		
Investment securities	19,705	21,800
Deferred tax assets	324	323
Retirement benefit asset	309	310
Other	325	362
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	20,662	22,792
Total non-current assets	42,319	45,810
Total assets	107,344	109,946

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,602	7,341
Electronically recorded obligations - operating	338	386
Short-term borrowings	2,530	2,530
Current portion of long-term borrowings	74	83
Accrued expenses	1,418	1,122
Income taxes payable	1,389	823
Accrued consumption taxes	201	122
Notes payable - facilities	17	12
Electronically recorded obligations - facilities	75	181
Other	3,055	3,078
Total current liabilities	15,702	15,682
Non-current liabilities		
Long-term borrowings	10,957	11,974
Deferred tax liabilities	16	222
Deferred tax liabilities for land revaluation	1,111	1,111
Provision for retirement benefits for directors (and other officers)	77	86
Retirement benefit liability	2,134	597
Asset retirement obligations	379	380
Provision for share awards	32	44
Other	365	331
Total non-current liabilities	15,075	14,749
Total liabilities	30,778	30,431
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,740	5,740
Retained earnings	57,140	59,324
Treasury shares	(236)	(236)
Total shareholders' equity	69,512	71,696
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,789	4,475
Deferred gains or losses on hedges	(27)	(10)
Revaluation reserve for land	2,533	2,533
Foreign currency translation adjustment	(90)	(46)
Remeasurements of defined benefit plans	0	11
Total accumulated other comprehensive income	6,205	6,963
Non-controlling interests	847	854
Total net assets	76,566	79,514
Total liabilities and net assets	107,344	109,946

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended December 31

(Million yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	36,024	39,229
Cost of sales	21,807	22,705
Gross profit	14,216	16,523
Selling, general and administrative expenses		
Transportation and storage costs	3,365	4,260
Advertising expenses	296	322
Salaries	1,671	1,677
Retirement benefit expenses	153	117
Provision for retirement benefits for directors (and other officers)	13	13
Research and development expenses	861	962
Other	2,966	3,010
Total selling, general and administrative expenses	9,328	10,364
Operating profit	4,888	6,158
Non-operating income		
Interest income	33	49
Dividend income	397	422
Foreign exchange gains	—	110
Miscellaneous income	78	51
Total non-operating income	510	633
Non-operating expenses		
Interest expenses	16	18
Sales discounts	93	—
Foreign exchange losses	77	—
Donations	—	50
Miscellaneous losses	5	2
Total non-operating expenses	192	70
Ordinary profit	5,206	6,721
Extraordinary income		
Gain on sale of non-current assets	0	0
Gain on sale of investment securities	478	—
Subsidy income	35	28
Total extraordinary income	513	28
Extraordinary losses		
Loss on retirement of non-current assets	16	12
Loss on sale of investment securities	38	—
Loss on valuation of investment securities	7	5
Total extraordinary losses	63	18
Profit before income taxes	5,656	6,731
Income taxes	1,725	1,929
Profit	3,931	4,802
Profit attributable to non-controlling interests	19	8
Profit attributable to owners of parent	3,911	4,794

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit	3,931	4,802
Other comprehensive income		
Valuation difference on available-for-sale securities	1,401	687
Deferred gains or losses on hedges	4	17
Foreign currency translation adjustment	(47)	43
Remeasurements of defined benefit plans, net of tax	20	10
Total other comprehensive income	1,379	759
Comprehensive income	5,310	5,561
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,290	5,551
Comprehensive income attributable to non-controlling interests	20	10

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

(Purchase of treasury shares)

The Company resolved on June 10, 2021 to purchase its treasury shares pursuant to the provisions of the articles of incorporation, as set forth in Article 459, Paragraph 1 of the Companies Act, and purchased 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the nine months ended December 31, 2021, treasury shares increased by ¥1,290 million.

(Cancellation of treasury shares)

The Company resolved on June 10, 2021 to cancel its treasury shares pursuant to the provisions in Article 178 of the Companies Act, and cancelled 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the nine months ended December 31, 2021, retained earnings and treasury shares decreased by ¥1,283 million and ¥1,283 million, respectively.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company makes a reasonable estimate of the effective tax rate after the application of tax effect accounting to profit before income taxes for the current fiscal year, including the third quarter under review, and multiply profit before income taxes for the quarter by the estimated effective tax rate.

Income taxes – deferred is included in income taxes.

(Changes in accounting policies)

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as “Revenue Recognition Accounting Standard”) from the beginning of the first quarter to recognize revenue when control of promised goods or services is transferred to a customer in the estimated amount to be received in exchange for those goods or services.

The application of the Revenue Recognition Accounting Standard follows the transitional measures set forth in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, but has no impact on the beginning balance of retained earnings.

In addition, the adoption of the Revenue Recognition Accounting Standard has no impact on profit and loss.

In accordance with the transitional measures set forth in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company made no reclassification of the previous fiscal year's results to conform to the new presentation method. Moreover, in accordance with the transitional measures set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), the Company did not provide information on composition of revenue from contracts with customers for the nine months ended December 31, 2020.

(Adoption of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30,

July 4, 2019, hereinafter referred to as “Fair Value Measurement Accounting Standard”) from the beginning of the first quarter. In accordance with the transitional measures set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company applies the new accounting policies set forth in the Fair Value Measurement Accounting Standard into the future. This application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Establishment of Retirement Benefit Trust)

During the nine months ended December 31, 2021, the Company established a Retirement Benefit Trust for further improving the soundness of the retirement benefit system and contributed ¥1,500 million in cash and deposits. As a result, retirement benefit liability decreased by the same amount.

(Segment information, etc.)

I. For the nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

Information on net sales and profit (loss) by reportable segment

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Net sales to outside customers	21,983	13,356	35,340	684	36,024	—	36,024
Inter-segment net sales or transfers	0	1	2	214	217	(217)	—
Total	21,983	13,358	35,342	898	36,241	(217)	36,024
Segment profit	3,892	2,256	6,149	92	6,242	(1,353)	4,888

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(1,353) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(1,354) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statement of income.

II. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Information on net sales and profit (loss) by reportable segment and information on composition of revenue

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Inorganic chemicals	9,247	—	9,247	—	9,247	—	9,247
Organic chemicals	8,909	—	8,909	—	8,909	—	8,909
Fine chemicals	7,343	—	7,343	—	7,343	—	7,343
Interior, exterior finishes and paving materials	—	1,024	1,024	—	1,024	—	1,024
Exterior products	—	11,748	11,748	—	11,748	—	11,748
Other	—	—	—	956	956	—	956
Revenue from contracts with customers	25,499	12,772	38,272	956	39,229	—	39,229
Net sales to outside customers	25,499	12,772	38,272	956	39,229	—	39,229
Inter-segment net sales or transfers	0	1	2	206	209	(209)	—
Total	25,500	12,774	38,274	1,163	39,438	(209)	39,229
Segment profit	5,734	1,693	7,428	122	7,550	(1,392)	6,158

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(1,392) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(1,392) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statement of income.