

Brief Statement on Consolidated Financial Results for the Third Quarter (ended September 30, 2019) of Fiscal Year 2019 (ending December 31, 2019) [Japanese Accounting Standards]

November 6, 2019
TSE First Section

Company name: SUMCO Corporation

Code: 3436 URL: <https://www.sumcosi.com/>

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Scheduled date of filing of quarterly security report: November 14, 2019

Scheduled date of commencement of dividend payment: —

Supplementary materials for quarterly financial results: Yes

Quarterly results briefing: Yes (For institutional investors and security analysts)

(Amounts smaller than one million yen are rounded down)

1. Consolidated Business Results for the Third Quarter (January 1, 2019–September 30, 2019) of Fiscal Year 2019 (ending December 31, 2019)

(1) Consolidated Business Results (fiscal year-to-date)

(Percentage figures represent year-on-year changes)

	Net sales		Operating Income		Ordinary Income		Net income attributable to owners of the parent	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
3Q of FY2019	228,511	(5.8)	42,459	(33.9)	41,209	(34.3)	28,132	(34.1)
3Q of FY2018	242,456	27.3	64,252	123.1	62,702	158.8	42,663	156.7

(Note) Comprehensive income

3Q of FY2019: 29,003 million yen ((40.1%)); 3Q of FY2018: 48,439 million yen (101.3%)

	Net income per share for quarter (yen)	Diluted net income per share for quarter (yen)
3Q of FY2019	95.92	—
3Q of FY2018	145.47	—

(2) Consolidated Financial Position

	Total assets (millions of yen)	Equity (millions of yen)	Shareholders' equity ratio (%)
3Q of FY2019	568,940	331,452	51.8
FY2018	588,250	325,545	48.4

(Reference) Shareholders' equity: 3Q of FY2019: 294,668 million yen; FY2018: 284,997 million yen

2. Dividend Payments

	Yearly dividend per share				
	First quarter (yen)	Second quarter (yen)	Third quarter (yen)	Year-end (yen)	Full year (yen)
FY2018	—	30.00	—	32.00	62.00
FY2019	—	25.00	—		
FY2019 (Forecast)				10.00	35.00

Note: Revisions to dividend forecasts made during the quarter under review: Yes

3. Consolidated Business Forecasts for the Fiscal Year 2019 (January 1, 2019–December 31, 2019)

(Percentage figures represent changes from previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
Full year	297,500	(8.5)	49,400	(42.0)	47,700	(42.6)	32,100	(45.2)	109.45

Note: (1) Revisions to consolidated business forecasts made during the quarter under review: Yes

(2) SUMCO discloses forecasts for the forthcoming quarter only. Please see “(2) Explanation of Business Forecasts” on page 2 of Supplementary Materials.

* Notes

(1) Changes in important subsidiaries during the quarter under review: No

New Company: — Exclusion: —

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statement: No

(3) Changes in accounting policies, changes in accounting estimates and corrections of prior-period errors

[1] Changes in accounting policies applied with revisions of accounting standards: Yes

[2] Changes in accounting policies other than [1]: No

[3] Changes in accounting estimates: No

[4] Corrections of prior-period errors: No

Note: Please see “(3) Notes on Consolidated Financial Statements (Changes in Accounting Policies)” on page 6 of Supplementary Materials.

(4) Number of issued shares (common stock)

[1] Issued shares as of the end of period (including treasury stock):

293,285,539 shares as of the end of third quarter of FY2019; 293,285,539 shares as of the end of FY2018

[2] Treasury stock as of the end of period:

7,635 shares as of the end of third quarter of FY2019; 7,575 shares as of the end of FY2018

[3] Average number of shares during period (fiscal year-to-date):

293,277,933 shares during the third quarter of FY2019; 293,278,113 shares during the third quarter of FY2018

* This Brief Statement on Consolidated Financial Results is not subject to quarterly review procedures by certified public accountants or auditing companies.

* Explanations regarding appropriate use of business forecasts and other special instructions:

Business forecasts and other forward-looking statements contained in this Brief Statement on Consolidated Financial Results are based on information currently available to the Company and on certain assumptions that the Company considers to be reasonable, and do not constitute guarantees of future performance. Actual results may differ significantly from those projected in the forward-looking statements as a result of various factors. Regarding the assumptions underlying business forecasts, please see “(2) Explanation of Business Forecasts” on page 2 of Supplementary Materials.

Quarterly results briefing for institutional investors and security analysts is scheduled on November 6, 2019. Supplementary materials for quarterly financial results are available in our website after starting the briefing.

(Supplementary Materials)**Contents**

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1. Qualitative Information for the Third Quarter of Fiscal Year 2019

(1) Explanation of Business Results

During the third quarter of fiscal year 2019 (July 1, 2019–September 30, 2019), the market for 300 mm semiconductor silicon wafers saw continued inventory adjustment by customers in the memory segment that accounts for the majority of the market, even as demand recovered for logic. Sluggish demand continued for small diameter wafers of 200 mm or less, especially for industrial and consumer sectors impacted by a slowdown in growth of the global economy.

In this environment, in line with the SUMCO Vision, the SUMCO Group sought to maintain our strong presence with customers through technology development aimed at meeting their needs for leading-edge, distinctive products, while endeavoring also to improve our profitability by optimizing pricing.

As a result, for the period under review, the Group registered consolidated net sales of 228,511 million yen, operating income of 42,459 million yen, ordinary income of 41,209 million yen. Net income attributable to owners of the parent of 28,132 million yen, as a result of posting Gain on revision of retirement benefit plan of 917 million yen.

(2) Explanation of Business Forecasts

The fourth quarter outlook for the 300 mm semiconductor silicon wafer market is for continued inventory adjustment by customers in the memory segment, while demand for logic should recover solidly. Sluggish demand continues for small diameter wafers of 200 mm or less, especially for industrial and consumer sectors impacted by a slowdown in growth of the global economy.

The impact on wafer demand from trade friction between the US and China and other such factors continues to be of concern.

Given this market environment, the Group will continue seeking a competitive edge by developing technologies for state-of-the-art wafers for which continued demand growth is expected, while endeavoring to meet customer demands for these products through ongoing augmenting of equipment capacity.

It is difficult for the Group to formulate reasonable business forecasts for long-term, since the semiconductor industry to which the Group belongs is characterized by drastic and short-term changes in the business environment. Therefore, the Group has adopted the policy of disclosing business forecasts for the forthcoming quarter only.

SUMCO announces its consolidated business forecasts for the fiscal year 2019 as follows.

Consolidated Business Forecasts for the Fiscal Year 2019 (January 1, 2019–December 31, 2019)

	Net sales (millions of yen)	Operating income (millions of yen)	Ordinary income (millions of yen)	Net income attributable to owners of the parent (millions of yen)	Net income per share (yen)
Previous Forecasts (A)	—	—	—	—	—
Revised Forecasts (B)	297,500	49,400	47,700	32,100	109.45
Changes (B-A)	—	—	—	—	
Rate of changes (%)	—	—	—	—	
(Reference) Results for FY2018	325,059	85,165	83,068	58,580	199.74

(Notes) (1) Business forecasts and other forward-looking statements contained in this Brief Statement on Consolidated Financial Results are based on information currently available to the Company and on certain assumptions that the Company considers to be reasonable, and do not constitute guarantees of future performance. Actual results may differ significantly from those projected in the forward-looking statements as a result of various factors.

(2) The above forecasts for the fourth quarter of fiscal year 2019 (October 1, 2019–December 31, 2019) was made assuming translation rates of one U.S. dollar to 108 yen.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(millions of yen)

	End of FY2018 (December 31, 2018)	End of 3Q of FY2019 (September 30, 2019)
Assets		
Current assets		
Cash and time deposits	57,900	43,457
Notes and accounts receivable – trade	64,979	57,406
Marketable securities	21,000	17,700
Finished products	15,562	19,348
Work in process	18,812	16,515
Raw materials and supplies	153,145	149,911
Other	8,483	7,343
Allowance for doubtful accounts	(12)	(12)
Total current assets	339,872	311,669
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	72,316	71,603
Machinery, equipment and vehicles, net	63,335	72,946
Land	20,314	20,294
Construction in progress	22,597	27,068
Other, net	1,073	1,600
Total property, plant and equipment	179,636	193,514
Intangible assets		
Goodwill	5,187	3,968
Other	6,342	7,154
Total intangible assets	11,529	11,122
Investments and other assets		
Investment securities	102	101
Long-term advance payments	38,153	36,394
Deferred income tax assets	15,130	12,054
Other	4,109	4,363
Allowance for doubtful accounts	(284)	(280)
Total investments and other assets	57,212	52,633
Total non-current assets	248,378	257,270
Total assets	588,250	568,940

(millions of yen)

	End of FY2018 (December 31, 2018)	End of 3Q of FY2019 (September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	27,932	23,613
Short-term borrowings	33,107	26,194
Current portion of long-term lease obligations	1,022	696
Accrued income taxes	6,493	3,259
Reserve for bonuses	2,043	3,985
Other	43,117	24,283
Total current liabilities	113,716	82,033
Long-term liabilities		
Long-term debt	118,598	125,834
Long-term lease obligations	643	349
Net defined benefit liability	24,939	24,763
Other	4,807	4,506
Total long-term liabilities	148,988	155,455
Total liabilities	262,704	237,488
Equity		
Shareholders' equity		
Capital stock	138,718	138,718
Capital surplus	30,763	30,763
Retained earnings	117,812	129,249
Treasury stock	(12)	(12)
Total shareholders' equity	287,282	298,719
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	0	0
Deferred loss on derivatives under hedge accounting	(0)	(0)
Land revaluation surplus	2,885	2,885
Foreign currency translation adjustments	(1,227)	(3,561)
Remeasurements of defined benefit plans	(3,944)	(3,375)
Total accumulated other comprehensive loss	(2,285)	(4,051)
Non-controlling interests	40,548	36,784
Total equity	325,545	331,452
Total liabilities and equity	588,250	568,940

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Consolidated Statement of Income)

(millions of yen)

	3Q of FY2018 (January 1, 2018– September 30, 2018)	3Q of FY2019 (January 1, 2019– September 30, 2019)
Net sales	242,456	228,511
Cost of sales	156,582	165,105
Gross profit	85,874	63,405
Selling, general and administrative expenses	21,621	20,945
Operating income	64,252	42,459
Non-operating income		
Interest income	437	537
Dividend income	40	32
Other	197	186
Total non-operating income	676	756
Non-operating expenses		
Interest expense	1,124	800
Foreign exchange loss	—	403
Other	1,102	802
Total non-operating expenses	2,226	2,006
Ordinary income	62,702	41,209
Extraordinary income		
Gain on revision of retirement benefit plan	—	917
Total extraordinary income	—	917
Extraordinary loss		
Loss on disaster	865	—
Total extraordinary loss	865	—
Income before income taxes	61,836	42,126
Income taxes	10,198	9,684
Net income	51,638	32,441
Net income attributable to non-controlling interests	8,974	4,309
Net income attributable to owners of the parent	42,663	28,132

(Consolidated Statement of Comprehensive Income)

(millions of yen)

	3Q of FY2018 (January 1, 2018– September 30, 2018)	3Q of FY2019 (January 1, 2019– September 30, 2019)
Net income	51,638	32,441
Other comprehensive income		
Net unrealized loss (gain) on available-for-sale securities	0	(0)
Deferred gain (loss) on derivatives under hedge accounting	(7)	0
Foreign currency translation adjustments	(1,191)	(4,038)
Remeasurements of defined plans, net of tax	(2,001)	599
Total other comprehensive loss	(3,199)	(3,438)
Comprehensive income	48,439	29,003
Total comprehensive income attributable to:		
Owners of the parent	40,186	26,366
Non-controlling interests	8,252	2,636

(3) Notes on Consolidated Financial Statements

(Notes regarding Going Concern Assumption)

Not applicable

(Notes regarding Significant Changes in Shareholders' Equity)

Not applicable

(Changes in Accounting Policies)

1. Overseas subsidiaries adopting the US-GAAP have started to apply ASC 606, Revenue From Contracts With Customers as of the first quarter consolidated accounting term.

As a result of this change, revenue is recognized at the time the promised goods or services are transferred to the customer, in an amount that reflects the consideration expected to be received in exchange for the goods or services.

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing on the starting date of application the cumulative effects of applying this standard, adjusting retained earnings at the beginning of the first quarter consolidated accounting term.

As a result, "Retained earnings" balance at the beginning of the first quarter consolidated accounting term increased by 27 million yen. The impact on profit and loss in the third quarter (January 1, 2019–September 30, 2019) is minor.

2. At overseas subsidiaries adopting IFRS, the leases standard (IFRS 16) is applied from the first quarter consolidated accounting term.

With this change, all leases are in principle recognized as right-of-use assets indicating the right to use the underlying assets, and as lease liabilities representing the obligation to make lease payments. After recognizing right-of-use assets and lease liabilities, the depreciation and amortization costs of the right-of-use assets and the interest costs of the lease liabilities are booked.

On the consolidated balance sheet, the right-of-use assets are shown as "Property, plant and equipment: other-net" and lease liabilities are included in "Long-term lease obligations."

As a permitted transitional measure in applying this accounting standard, a method is adopted of recognizing on the starting date of application the cumulative effects of applying this standard, adjusting "Retained earnings" at the beginning of the first quarter consolidated accounting term.

As a result, "Retained earnings" at the beginning of the first quarter consolidated accounting term declined by 6 million yen. The impact on profit and loss in the third quarter (January 1, 2019–September 30, 2019) is minor.