

Summary of Consolidated Financial Results [Japanese GAAP] For the Third Quarter of the Fiscal Year Ending March 31, 2020

January 31, 2020

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, General Manager of Finance & Accounting Division,
Financial Group

Filing date of quarterly securities report: February 13, 2020
Scheduled date for start of dividend payments: –
Preparation of supplementary materials for quarterly financial results: None
Quarterly results presentation meeting: None

1. Consolidated Business Results for the First Three Quarters of the Fiscal Year Ending March 31, 2020 (April 1, 2019–December 31, 2019)

(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, 2020	131,825	2.3	14,231	(2.3)	14,682	(8.2)	11,302	6.8
First three quarters of fiscal year ended March 31, 2019	128,901	3.3	14,563	(19.7)	15,990	(13.7)	10,580	(18.4)

Note: Comprehensive income

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

First three quarters of fiscal year ended March 31, 2019: 9,459 million yen ((54.8)%)

	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, 2020	65.33	65.30
First three quarters of fiscal year ended March 31, 2019	61.11	61.09

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2019	302,680	218,443	71.9
As of March 31, 2019	293,571	229,043	73.6

Reference: Equity As of December 31, 2019: 217,744 million yen
As of March 31, 2019: 216,041 million yen

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, 2019	–	15.00	–	15.00	30.00
Fiscal year ending March 31, 2020	–	15.00	–		
Fiscal year ending March 31, 2020 (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, 2020 (April 1, 2019–March 31, 2020)

(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	176,000	1.9	16,500	(17.3)	17,000	(21.3)	12,800	(13.8)	73.98

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, 2019: 177,503,570 shares
 - As of March 31, 2019: 182,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of December 31, 2019: 5,275,358 shares
 - As of March 31, 2019: 9,358,749 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First three quarters of fiscal year ending March 31, 2020: 173,012,317 shares
 - First three quarters of fiscal year ended March 31, 2019: 173,145,466 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

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 Results Forecasts” on page 3 of the Supplementary Information.

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	9
Business Combinations, etc.	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, 2019 to December 31, 2019), the global economy as a whole saw continued slow growth. This was mainly due to the deceleration of external demand in the manufacturing industry, while consumer spending remained steady on the back of an improved employment and income environment in the U.S. and Europe. The trend of deceleration in economic growth persisted in China, owing to the impact from trade friction between the U.S. and China, among other factors. The Japanese economy showed signs of a gradual rebound despite weak exports. This resulted mainly from moderate growth in capital investment and a resurgence in consumer spending.

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 this fiscal year. We worked to cut costs further to reinforce our profit structure, in addition to focusing on strengthening R&D, optimal allocation of business resources into core businesses, and expanding our overseas business.

Owing to these actions, net sales for the first three quarters of this consolidated fiscal year outperformed the same period of the previous fiscal year in the functional chemicals business, the pharmaceuticals business, and the safety systems business, resulting in total net sales of 131,825 million yen, an increase of 2,924 million yen (2.3%) year-on-year.

Operating income totaled 14,231 million yen, a decrease of 331 million yen (2.3%) year-on-year.

Ordinary income totaled 14,682 million yen, a decrease of 1,307 million yen (8.2%) year-on-year due to an increase in exchange losses.

Profit attributable to owners of parent was 11,302 million yen, an increase of 721 million yen (6.8%) year-on-year due to a decrease in income taxes-deferred.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 53,260 million yen, an increase of 1,892 million yen (3.7%) year-on-year.

The functional materials business recorded growth in sales over the same period of the previous fiscal year. This growth was resulted from strong sales of epoxy resins for 5G base stations, which more than covered for the deceleration in demand from the semiconductor market.

The color materials business outperformed the same period of the previous fiscal year, boosted by strong sales of colorants for inkjet printers for industrial applications and materials for thermal paper, despite the negative impact from deceleration of the Chinese market.

The catalyst business outperformed the same period of the previous fiscal year.

In the Polatechno Group, sales of components for X-ray analysis systems were strong, but sluggish sales of dye-type polarizing films resulted in underperformance of the Polatechno Group as a whole, compared with the same period of the previous fiscal year.

Segment profit was 4,537 million yen, a decrease of 1,011 million yen (18.2%) year-on-year.

[Pharmaceuticals Business]

Sales stood at 36,327 million yen, an increase of 831 million yen (2.3%) year-on-year.

Pharmaceuticals in Japan were impacted by drug price revisions accompanying the increase in the consumption tax rate, but the segment outperformed the same period of the previous fiscal year as growth in sales for the antibody biosimilar, INFLIXIMAB BS for I.V. Infusion, and for TRASTUZUMAB BS for I.V. Infusion contributed to performance along with growth in generic anti-cancer drugs as the switch to generic drugs continued.

Although exports and diagnostic agents underperformed the same period of the previous fiscal year, sales of active pharmaceutical ingredients and contract production for the Japanese domestic market outperformed the same period of the previous fiscal year.

Segment profit totaled 3,947 million yen, an increase of 991 million yen (33.5%) year-on-year.

[Safety Systems Business]

Sales stood at 36,182 million yen, an increase of 797 million yen (2.3%) year-on-year.

Business in Japan outperformed the same period of the previous fiscal year due to firm sales of both airbag inflators and micro gas generators for seatbelt pretensioners.

The overseas business overall saw sales decline from the same period of the previous year as the deceleration of Chinese market growth caused sales of air bag inflators and squibs to underperform year-on-year. While sales of micro gas generators for seatbelt pretensioners outperformed the same period of the previous fiscal year due to the increase in the automotive safety component installation rate, this did not compensate for the above decline.

Segment profit was 4,934 million yen, a decrease of 476 million yen (8.8%) year-on-year.

[Other]

Sales totaled 6,055 million yen, a decrease of 596 million yen (9.0%) compared to the same period of the previous fiscal 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 decreased compared to the same period of the previous fiscal year.

Segment profit totaled 1,145 million yen, an increase of 155 million yen (15.7%) year-on-year.

(2) Analysis of Financial Position

Status of Assets, Liabilities, and Net Assets

Total assets were 302,680 million yen, an increase of 9,108 million yen from the end of the previous consolidated fiscal year. The main increases were in cash and deposits, an increase of 5,295 million yen; notes and accounts receivable-trade, an increase of 2,421 million yen; property, plant and equipment, an increase of 1,946 million yen; and inventories, an increase of 1,153 million yen. The main decrease was in securities, a decrease of 3,604 million yen.

Liabilities were 84,237 million yen, an increase of 19,708 million yen compared to the end of the previous consolidated fiscal year. The main increases were in bonds payable, an increase of 12,000 million yen; and short-term loans payable, an increase of 8,581 million yen. The main decrease was in long-term loans payable, a decrease of 2,216 million yen.

Net assets were 218,443 million yen, a decrease of 10,600 million yen compared to the end of the previous consolidated fiscal year. The main decreases were in non-controlling interests, a decrease of 12,303 million yen; and dividends paid, a decrease of 5,194 million yen. The main increase was in profit attributable to owners of parent, an increase of 11,302 million yen.

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

The global economy will benefit from the anticipated firmness of the U.S. and European economies, and this will affect the future business environment surrounding the Nippon Kayaku Group. However, there is concern over a downswing in the global economic environment due to increased uncertainty over the future caused by trade friction and the political climate. The Chinese economy is expected to improve, due in part to various government policies which will underpin growth. Although a continued rebound in the Japanese economy is expected as employment and income environment continues to improve and also due to support from various government policies, we need to keep a cautious eye on the impact that a downswing in the global economy would have.

Under these conditions, the Nippon Kayaku Group aims to construct a solid financial structure which flexibly adapts to changes in the business environment, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

The business results forecasts for fiscal year ending March 31, 2020 have been revised from the forecasts announced on November 7, 2019. See the Notice of Revision to the Business Results Forecasts posted on the corporate website today for further details.

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

(1) Consolidated Balance Sheets

	As of March 31, 2019	As of December 31, 2019
	Million yen	
Assets		
Current assets		
Cash and deposits	42,432	47,727
Notes and accounts receivable-trade	52,917	55,338
Electronically recorded monetary claims-operating	2,000	2,623
Securities	10,773	7,169
Merchandise and finished goods	27,251	32,517
Work in process	1,719	1,625
Raw materials and stores	20,680	16,662
Other	4,211	4,758
Allowance for doubtful accounts	(29)	(24)
Total current assets	161,958	168,398
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,800	40,569
Machinery, equipment and vehicles, net	25,194	26,406
Other, net	22,252	22,216
Total property, plant and equipment	87,246	89,193
Intangible assets		
Goodwill	1,000	835
Other	2,492	2,492
Total intangible assets	3,493	3,327
Investments and other assets		
Investment securities	35,426	34,288
Net defined benefit asset	2,448	2,484
Other	3,003	5,009
Allowance for doubtful accounts	(25)	(22)
Total investments and other assets	40,852	41,760
Total non-current assets	131,592	134,281
Deferred assets	21	—
Total assets	293,571	302,680

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2020

	As of March 31, 2019	As of December 31, 2019
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,575	19,077
Short-term loans payable	5,472	14,053
Accounts payable-other	10,670	10,097
Income taxes payable	2,542	604
Other	7,151	7,572
Total current liabilities	41,412	51,405
Non-current liabilities		
Bonds payable	—	12,000
Long-term loans payable	8,778	6,562
Net defined benefit liability	418	425
Other	13,919	13,843
Total non-current liabilities	23,116	32,831
Total liabilities	64,528	84,237
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	17,596	15,715
Retained earnings	182,133	182,642
Treasury stock	(10,490)	(6,141)
Total shareholders' equity	204,171	207,149
Accumulated other comprehensive income		
Unrealized holding gains on other securities	11,374	10,732
Translation adjustments	627	(104)
Remeasurements of defined benefit plans	(133)	(32)
Total accumulated other comprehensive income	11,869	10,595
Non-controlling interests	13,002	698
Total net assets	229,043	218,443
Total liabilities and net assets	293,571	302,680

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, 2019	First three quarters of fiscal year ending March 31, 2020
	Million yen	
Net sales	128,901	131,825
Cost of sales	81,974	87,160
Gross profit on sales	46,927	44,664
Selling, general and administrative expenses	32,364	30,433
Operating income	14,563	14,231
Non-operating income		
Interest income	138	211
Dividend income	680	711
Equity in earnings of affiliates	255	117
Foreign exchange gains	244	–
Other	682	578
Total non-operating income	2,001	1,618
Non-operating expenses		
Interest expense	178	152
Foreign exchange losses	–	553
Other losses	396	460
Total non-operating expenses	575	1,166
Ordinary income	15,990	14,682
Extraordinary income		
Gain on sales of non-current assets	30	3
Gain on sales of investment securities	–	373
Total extraordinary income	30	376
Extraordinary loss		
Loss on disposal of non-current assets	314	398
Loss on valuation of investment securities	269	82
Total extraordinary loss	584	481
Profit before income taxes	15,436	14,578
Income taxes-current	3,705	3,650
Income taxes-deferred	412	(427)
Total income taxes	4,118	3,223
Profit	11,318	11,354
Profit attributable to non-controlling interests	737	52
Profit attributable to owners of parent	10,580	11,302

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.

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2020

Consolidated Statements of Comprehensive Income

	First three quarters of fiscal year ended March 31, 2019	First three quarters of fiscal year ending March 31, 2020
	Million yen	
Profit	11,318	11,354
Other comprehensive income		
Unrealized holding gains on other securities	(550)	(641)
Translation adjustments	(1,564)	(942)
Remeasurements of defined benefit plans	259	105
Share of other comprehensive income of companies accounted for by the equity-method	(3)	(1)
Total other comprehensive income	(1,858)	(1,479)
Comprehensive income	9,459	9,875
Comprehensive income attributable to:		
Owners of parent	8,692	10,028
Non-controlling interests	766	(153)

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)

(1) Cancellation of Treasury Shares

Nippon Kayaku canceled 5,000,000 treasury shares on May 20, 2019, pursuant to the resolution passed by the Board of Directors on May 10, 2019. This consequently reduced additional paid-in capital by 7 million yen, retained earnings by 5,599 million yen, and treasury shares by 5,606 million yen during the first three quarters of the consolidated fiscal year under review.

(2) Acquisition of Treasury Shares

Nippon Kayaku acquired 915,700 treasury shares pursuant to the resolution passed by the Board of Directors on November 7, 2019. This resulted in a 1,255 million yen increase in treasury shares to 6,141 million yen as of December 31, 2019.

(3) Acquisition of Additional Subsidiary Shares

Nippon Kayaku acquired additional shares in the consolidated subsidiary Polatechno Co., Ltd. on October 18, 2019. The share acquisition was executed through a Demand for the Sale of Shares and Polatechno Co., Ltd. became a wholly owned subsidiary on November 12, 2019. This resulted in a decrease of 1,874 million yen in additional paid-in capital to 15,715 million yen as of December 31, 2019.

Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
For the Third Quarter of the Fiscal Year Ending March 31, 2020

(Segment Information and Other Items)

I. First three quarters of the fiscal year ended March 31, 2019 (April 1, 2018– December 31, 2018)

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	51,368	35,495	35,384	122,248	6,652	128,901	–	128,901
Sales to third parties								
Intersegment sales and transfers	138	0	–	138	82	220	(220)	–
Total	51,507	35,495	35,384	122,387	6,734	129,122	(220)	128,901
Segment profit	5,549	2,956	5,411	13,917	989	14,906	(343)	14,563

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

Note 2: The 343 million yen downward adjustment to segment profit reflects a negative 450 million yen in corporate expense not allocable to the reportable segments and 107 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. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment

(Material change in the amount of goodwill)

The business combination with RaySpec Limited which was implemented on December 26, 2017, was subject to provisional accounting in fiscal year ended March 31, 2018 and confirmed during the previous consolidated fiscal year. This has resulted in a decrease in the amount of goodwill in the functional chemicals business segment.

II. First three quarters of the fiscal year ending 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	4,537	3,947	4,934	13,419	1,145	14,565	(333)	14,231

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

Note 2: The 333 million yen downward adjustment to segment profit reflects a negative 349 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.

(Business Combinations, etc.)

(Regarding the Acquisition of Shares via Tender Offer and the Demand for the Sale of Shares)

Nippon Kayaku decided to acquire the consolidated subsidiary POLATECHNO CO., LTD. (hereafter, “Polatechno”) via tender offer (hereafter, “this tender offer”), based on the Financial Instruments & Exchange Act. The resolution was approved at the Board of Directors meeting held on August 27, 2019. This tender offer was executed and the acquisition was completed on October 10, 2019.

A Demand for the Sale of Shares was subsequently exercised based on Article 179, Paragraph 1 of the Companies Act, and Nippon Kayaku made Polatechno a wholly owned subsidiary on November 12, 2019.

1. Summary of Business Combination

(1) Name and business description of the business to be combined

Name of company: POLATECHNO CO., LTD.

Business description: Manufacture and sale of components for LCD displays, components for LCD projectors, etc.

(2) Dates of business combination

Acquisition via tender offer: October 18, 2019

(deemed acquisition date: October 1, 2019)

Acquisition via the Demand for the Sale of Shares: November 12, 2019

(deemed acquisition date: October 1, 2019)

(3) Legal form of business combination

Acquisition of shares for cash

(4) Name of company after combination

No change.

(5) Percentage of subsidiary shares held after additional acquisition:

Percentage of shares held prior to business combination: 66.45%

Percentage of shares held after tender offer: 99.20%

Percentage of shares held after the Demand for the Sale of Shares: 100.00%

2. Breakdown of the cost of acquiring additional shares of the subsidiary and type of payment (including the shares Nippon Kayaku intends to acquire via the Demand for the Sale of Shares)

Acquisition for cash: 13,808 million yen

Acquisition cost: 13,808 million yen

3. Overview of Accounting Method Implemented

These transactions qualify as transactions under common control specified in the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013) and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, September 13, 2013) and Nippon Kayaku is handling these as transactions under common control.