Consolidated Financial Results for the Six Months Ended September 30, 2020 [Japanese GAAP]

October 27, 2020

Company name: SHIKOKU CHEMICALS CORPORATION
Stock exchange listing: Tokyo Stock Exchange
Code number: 4099
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Scheduled date of filing quarterly securities report: November 11, 2020
Scheduled date of commencing dividend payments: December 4, 2020
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	23,408	(8.9)	2,609	(26.9)	2,822	(22.2)	1,924	(24.1)
September 30, 2019	25,693	2.2	3,567	3.7	3,626	(3.2)	2,534	(0.3)

(Note) Comprehensive income: Six months ended September 30, 2020: ¥3,133 million [70.2 %]
Six months ended September 30, 2019: ¥1,840 million [(31.8) %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2020	34.39	–
September 30, 2019	43.38	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2020	97,868	72,489	73.3
As of March 31, 2020	100,896	71,647	70.2

(Reference) Equity: As of September 30, 2020: ¥71,694 million
As of March 31, 2020: ¥70,839 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, 2020	-	12.00	-	12.00	24.00
Year ending March 31, 2021	-	12.00			
Year ending March 31, 2021 (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, 2021 (from April 1, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending March 31, 2021	49,000	(5.0)	6,800	(13.4)	7,000	(12.7)	4,800	(14.4)	86.42

(Note) 1. Revisions to the financial results forecast most recently announced: Yes
2. Please also see "Notice regarding the Financial Results Forecast" announced today (October 27, 2020) for the consolidated financial results forecast.

*** 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: No
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):
September 30, 2020: 55,877,263 shares
March 31, 2020: 58,948,063 shares
2) Total number of treasury shares at the end of the period:
September 30, 2020: 335,700 shares
March 31, 2020: 1,900,015 shares
3) Average number of shares during the period:
Six months ended September 30, 2020: 55,971,000 shares
Six months ended September 30, 2019: 58,420,268 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 operating 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 the use thereof, 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 4 of the attached documents to the quarterly financial statements.

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

(1) Explanation of Operating Results

The Japanese economy during the six months ended September 30, 2020 deteriorated sharply against the backdrop of the spread of the novel coronavirus disease (COVID-19) and the issuing of the state of emergency declaration. After the lifting of the declaration, signs of recovery have been seen mainly in individual consumption amid gradual resumption of economic activities. However, the pace of such recovery is expected to be slow for the time being, amid concerns over a resurgence of the spread of infections, the escalating U.S.-China conflict in the lead up to the U.S. presidential election, and downward risks for the global economy.

Under these circumstances, for the six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020), the Group posted net sales of ¥23,408 million (down 8.9% year-on-year), operating profit of ¥2,609 million (down 26.9% year-on-year), ordinary profit of ¥2,822 million (down 22.2% year-on-year) and profit attributable to owners of parent of ¥1,924 million (down 24.1% year-on-year), all of which fell below the previous year's results.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, remained sluggish both in Japan and abroad, affected by the global production adjustments for automobiles and tires amid the spread of COVID-19. However, sales are on a recovery track as production activities bottomed out in the first quarter and are returning to normal gradually. Sales of carbon disulfide for rayon and cellophane, and sodium sulfate for bath agents and detergents remained sluggish.

(Organic chemicals)

Regarding cyanuric acid derivatives for disinfectants, sales of agents for swimming pools were stagnant in the domestic market, affected by the cancellation of swimming lessons at schools due to the spread of COVID-19, while sales of agents for plumbing systems (sanitary devices) were strong with increased demand for disinfection and sterilization as a result of rising awareness of hygiene at home. Sales remained strong in the U.S. market with increased demand for agents for home swimming pools, supported by favorable weather conditions from spring and restrictions on outings.

(Fine chemicals)

Regarding Glicoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, sales of products for use in PWBs for the automotive industry fell below the previous year's result, affected by the production adjustments for automobiles. Sales of advanced & specialty chemicals such as epoxy resin curing agent (imidazoles) were affected by deterioration in market conditions in products for automobile-related use, while sales grew in newly developed products.

As a result, net sales for the chemicals operations segment were ¥14,297 million (down 9.2% year-on-year), and segment profit was ¥2,131 million (down 27.9% year-on-year), both falling below the previous year's results.

2) Housing Materials operations

With the spread of COVID-19, there has been a strong sense of uncertainty over the prospects of domestic and foreign economies, causing a wait-and-see attitude to continue as seen in a growing trend of investments being deferred. Given the weakness in housing starts and capital investment, sales of interior, exterior finishes and paving materials and exterior products remained sluggish.

As a result, net sales for the housing materials operations segment were ¥8,711 million (down 9.2% year-on-year), and segment profit was ¥1,337 million (down 12.4% year-on-year), both falling below the previous year's results.

Reference information

[Sales results]

(Million yen)

Segment name	Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)	Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)	YoY change (%)
Chemicals operations			
Inorganic chemicals	6,227	4,669	75.0
Organic chemicals	5,519	5,744	104.1
Fine chemicals	3,993	3,882	97.2
Subtotal	15,740	14,297	90.8
Housing Materials operations			
Interior, exterior finishes and paving materials	836	710	84.9
Exterior products	8,756	8,001	91.4
Subtotal	9,593	8,711	90.8
Total of reportable segments	25,333	23,009	90.8
Other	360	399	111.0
Total	25,693	23,408	91.1

(Note) Figures above are exclusive of consumption taxes.

[Overseas net sales]

	Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)		Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	3,828	14.9	3,094	13.2
North America	2,846	11.1	3,279	14.0
Other regions	1,092	4.3	907	3.9
Total	7,767	30.2	7,281	31.1
Consolidated net sales	25,693		23,408	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets decreased by ¥3,027 million from the end of the previous fiscal year to ¥97,868 million. Major increases were ¥2,511 million in investment securities and ¥1,318 million in construction in progress, and major decreases were ¥3,779 million in cash and deposits and ¥1,997 million in notes and accounts receivable - trade.

Liabilities decreased by ¥3,868 million from the end of the previous fiscal year to ¥25,379 million. A major decrease was ¥1,548 million in notes and accounts payable - trade.

Net assets increased by ¥841 million from the end of the previous fiscal year to ¥72,489 million. Major increases were ¥1,810 million in treasury shares and ¥1,224 million in valuation difference on available-for-sale securities, and a major decrease was ¥2,100 million in retained earnings.

As a result, equity ratio rose to 73.3%, from 70.2% at the end of the previous fiscal year.

(Status of Cash Flows)

Cash flows provided by operating activities totaled ¥3,093 million (a decrease of ¥1,308 million year-on-year). Major cash inflows were profit before income taxes of ¥2,845 million, decrease in trade receivables of ¥2,007 million and depreciation of ¥892 million, while major cash outflows were decrease in trade payables of ¥1,597 million and income taxes paid of ¥1,333 million.

Cash flows used in investing activities totaled ¥1,043 million (a decrease of ¥1,178 million year-on-year). A major cash inflow was proceeds from redemption of securities of ¥3,500 million, while major cash outflows were purchase of investment securities of ¥2,247 million and purchase of securities of ¥2,000 million.

Cash flows used in financing activities totaled ¥2,289 million (an increase of ¥1,257 million year-on-year). The major component was purchase of treasury shares of ¥1,605 million.

As a result, cash and cash equivalents totaled ¥32,327 million (a decrease of ¥279 million from 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 changed from the most recent plan (announced on July 28, 2020). Assumptions for the exchange rates of major currencies are ¥105 to U.S. dollar and ¥120 to Euro.

For details, please see the “Notice regarding the Financial Results Forecast” announced today (October 27, 2020).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	26,607	22,827
Notes and accounts receivable – trade	13,057	11,060
Electronically recorded monetary claims - operating	2,095	2,042
Securities	11,000	11,997
Merchandise and finished goods	6,912	6,214
Work in process	47	62
Raw materials and supplies	3,100	2,952
Other	283	273
Allowance for doubtful accounts	(0)	(0)
Total current assets	63,103	57,429
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,148	5,117
Machinery, equipment and vehicles, net	3,929	3,489
Land	8,849	8,849
Construction in progress	736	2,054
Other, net	651	574
Total property, plant and equipment	19,315	20,086
Intangible assets	143	112
Investments and other assets		
Investment securities	16,607	19,119
Deferred tax assets	1,159	587
Other	570	536
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	18,333	20,240
Total non-current assets	37,792	40,439
Total assets	100,896	97,868

(Million yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	6,530	4,982
Electronically recorded obligations - operating	415	348
Short-term borrowings	2,730	2,530
Current portion of long-term borrowings	693	91
Income taxes payable	1,356	911
Other	6,022	4,365
Total current liabilities	17,747	13,229
Non-current liabilities		
Long-term borrowings	7,157	7,991
Deferred tax liabilities	1	1
Deferred tax liabilities for land revaluation	1,111	1,111
Provision for retirement benefits for directors (and other officers)	88	69
Retirement benefit liability	2,201	2,164
Asset retirement obligations	379	379
Provision for share-based remuneration	23	24
Other	537	407
Total non-current liabilities	11,500	12,150
Total liabilities	29,248	25,379
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,815	5,740
Retained earnings	56,063	53,963
Treasury shares	(2,183)	(373)
Total shareholders' equity	66,563	66,198
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,972	3,197
Deferred gains or losses on hedges	(4)	–
Revaluation reserve for land	2,533	2,533
Foreign currency translation adjustment	(109)	(134)
Remeasurements of defined benefit plans	(115)	(101)
Total accumulated other comprehensive income	4,276	5,495
Non-controlling interests	808	794
Total net assets	71,647	72,489
Total liabilities and net assets	100,896	97,868

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	25,693	23,408
Cost of sales	15,545	14,575
Gross profit	10,148	8,833
Selling, general and administrative expenses		
Transportation and storage costs	2,195	2,204
Advertising expenses	385	179
Salaries	1,118	1,101
Retirement benefit expenses	89	102
Provision for retirement benefits for directors (and other officers)	10	9
Research and development expenses	635	588
Other	2,146	2,037
Total selling, general and administrative expenses	6,580	6,224
Operating profit	3,567	2,609
Non-operating income		
Interest income	11	19
Dividend income	271	250
Miscellaneous income	27	48
Total non-operating income	310	318
Non-operating expenses		
Interest expenses	8	11
Sales discounts	66	62
Foreign exchange losses	142	27
Loss on abandonment of inventories	25	–
Miscellaneous loss	8	3
Total non-operating expenses	251	105
Ordinary profit	3,626	2,822
Extraordinary income		
Subsidy income	44	35
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	–	4
Total extraordinary income	45	39
Extraordinary losses		
Loss on retirement of non-current assets	7	16
Total extraordinary losses	7	16
Profit before income taxes	3,663	2,845
Income taxes	1,113	930
Profit	2,550	1,915
Profit (loss) attributable to non-controlling interests	16	(9)
Profit attributable to owners of parent	2,534	1,924

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit	2,550	1,915
Other comprehensive income		
Valuation difference on available-for-sale securities	(695)	1,224
Deferred gains or losses on hedges	(2)	4
Foreign currency translation adjustment	(22)	(24)
Remeasurements of defined benefit plans, net of tax	11	13
Total other comprehensive income	(709)	1,218
Comprehensive income	1,840	3,133
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,829	3,143
Comprehensive income attributable to non-controlling interests	11	(10)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit before income taxes	3,663	2,845
Depreciation	1,061	892
Increase (decrease) in retirement benefit liability	12	(29)
Decrease (increase) in retirement benefit asset	12	13
Interest and dividend income	(282)	(270)
Interest expenses	8	11
Subsidy income	(44)	(35)
Loss on retirement of property, plant and equipment	7	16
Decrease (increase) in trade receivables	2,714	2,007
Decrease (increase) in inventories	210	818
Increase (decrease) in trade payables	(2,322)	(1,597)
Other, net	(25)	(540)
Subtotal	5,017	4,133
Interest and dividends received	282	270
Interest paid	(9)	(12)
Subsidies received	44	35
Income taxes (paid) refund	(932)	(1,333)
Net cash provided by (used in) operating activities	4,401	3,093
Cash flows from investing activities		
Purchase of securities	(3,500)	(2,000)
Proceeds from redemption of securities	–	3,500
Purchase of property, plant and equipment	(732)	(1,313)
Payments for retirement of property, plant and equipment	(1)	(15)
Purchase of investment securities	(4)	(2,247)
Proceeds from sales and redemption of investment securities	–	5
Decrease (increase) in time deposits	2,000	1,000
Other, net	16	27
Net cash provided by (used in) investing activities	(2,221)	(1,043)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(300)	(200)
Proceeds from long-term borrowings	800	900
Repayments of long-term borrowings	(874)	(667)
Purchase of treasury shares	(0)	(1,605)
Dividends paid	(642)	(686)
Dividends paid to non-controlling interests	(3)	(3)
Other, net	(12)	(26)
Net cash provided by (used in) financing activities	(1,032)	(2,289)
Effect of exchange rate change on cash and cash equivalents	(108)	(39)
Net increase (decrease) in cash and cash equivalents	1,038	(279)
Cash and cash equivalents at beginning of period	27,441	32,607
Cash and cash equivalents at end of period	28,479	32,327

(4) 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 at its Board of Directors' meeting held on May 26, 2020 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 1,508,700 shares of treasury shares. As a result, during the six months ended September 30, 2020, treasury shares increased by ¥1,605 million.

(Cancellation of treasury shares)

The Company resolved at its Board of Directors' meeting held on May 26, 2020 to cancel its treasury shares pursuant to the provisions in Article 178 of the Companies Act, and cancelled 3,070,800 shares of treasury shares. As a result, during the six months ended September 30, 2020, capital surplus, retained earnings and treasury shares decreased by ¥75 million, ¥3,338 million and ¥3,413 million, respectively.

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

(Calculation of tax expenses)

We make 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 second 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.

(Segment information, etc.)

I. For the six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

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

(Million yen)

	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	15,740	9,593	25,333	360	25,693	—	25,693
Inter-segment net sales or transfers	0	1	1	134	135	(135)	—
Total	15,740	9,594	25,335	494	25,829	(135)	25,693
Segment profit	2,955	1,527	4,482	27	4,509	(942)	3,567

(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 ¥(942) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(943) 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 six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

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

(Million yen)

	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	14,297	8,711	23,009	399	23,408	—	23,408
Inter-segment net sales or transfers	0	1	1	153	154	(154)	—
Total	14,297	8,712	23,010	552	23,563	(154)	23,408
Segment profit	2,131	1,337	3,468	54	3,523	(913)	2,609

(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 ¥(913) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(914) 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.