Consolidated Financial Results for the Nine Months Ended December 31, 2020 [Japanese GAAP]

January 27, 2021

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: February 9, 2021
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, 2020 (from April 1, 2020 to December 31, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2020	36,024	(5.6)	4,888	(12.2)	5,206	(9.6)	3,911	(2.9)
December 31, 2019	38,160	(2.0)	5,564	(6.0)	5,760	(9.0)	4,027	(7.1)

(Note) Comprehensive income: Nine months ended December 31, 2020: ¥5,310 million [13.5 %]
Nine months ended December 31, 2019: ¥4,680 million [205.3 %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2020	70.05	–
December 31, 2019	69.27	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	100,400	73,998	72.9
As of March 31, 2020	100,896	71,647	70.2

(Reference) Equity: As of December 31, 2020: ¥73,172 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
Year ending	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
March 31, 2021	49,000	(5.0)	6,800	(13.4)	7,000	(12.7)	4,800	(14.4)	86.42

(Note) Revisions to the financial results forecast most recently announced: None

*** 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):
December 31, 2020: 55,877,263 shares
March 31, 2020: 58,948,063 shares
2) Total number of treasury shares at the end of the period:
December 31, 2020: 335,838 shares
March 31, 2020: 1,900,015 shares
3) Average number of shares during the period:
Nine months ended December 31, 2020: 55,842,155 shares
Nine months ended December 31, 2019: 58,145,828 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 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 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 nine months ended December 31, 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 were seen mainly in individual consumption amid gradual resumption of economic activities. However, there is a risk that economic activities will slow down again due mainly to the reissuing of the state of emergency declaration following the recent surge in infection cases. The pace of recovery in overseas economies is also expected to be sluggish as the spread of COVID-19 infection has not been contained in the U.S., Europe and many parts of the world.

Under these circumstances, for the nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020), the Group posted net sales of ¥36,024 million (down 5.6% year-on-year), operating profit of ¥4,888 million (down 12.2% year-on-year), ordinary profit of ¥5,206 million (down 9.6% year-on-year) and profit attributable to owners of parent of ¥3,911 million (down 2.9% 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, while 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, 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 homes. 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 topped the previous year's result on the back of recovery in the electronics market mainly in China and Taiwan. Sales of advanced & specialty chemicals such as epoxy resin curing agent (imidazoles) grew in newly developed products although sales were affected by the deterioration in market conditions in products for automobile-related use.

As a result, net sales for the chemicals operations segment were ¥21,983 million (down 3.7% year-on-year), and segment profit was ¥3,892 million (down 9.8% 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 ¥13,356 million (down 9.3% year-on-year), and segment profit was ¥2,256 million (down 12.4% year-on-year), both falling below the previous year's results.

Reference information

[Sales results]

(Million yen)

Segment name	Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)	Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)	YoY change (%)
Chemicals operations			
Inorganic chemicals	9,212	7,608	82.6
Organic chemicals	7,467	8,188	109.7
Fine chemicals	6,153	6,185	100.5
Subtotal	22,832	21,983	96.3
Housing Materials operations			
Interior, exterior finishes and paving materials	1,268	1,108	87.4
Exterior products	13,462	12,248	91.0
Subtotal	14,731	13,356	90.7
Total of reportable segments	37,564	35,340	94.1
Other	596	684	114.7
Total	38,160	36,024	94.4

(Note) Figures above are exclusive of consumption taxes.

[Overseas net sales]

	Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)		Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	5,644	14.8	5,103	14.1
North America	3,892	10.2	4,496	12.5
Other regions	1,457	3.8	1,405	3.9
Total	10,994	28.8	11,004	30.5
Consolidated net sales	38,160		36,024	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets decreased by ¥495 million from the end of the previous fiscal year to ¥100,400 million. Major increases were ¥2,638 million in investment securities and ¥2,175 million in construction in progress, and a major decrease was ¥3,662 million in cash and deposits.

Liabilities decreased by ¥2,845 million from the end of the previous fiscal year to ¥26,402 million. Major decreases were ¥720 million in income taxes payable and ¥610 million in current portion of long-term borrowings.

Net assets increased by ¥2,350 million from the end of the previous fiscal year to ¥73,998 million. Major increases were ¥1,810 million in treasury shares and ¥1,400 million in valuation difference on available-for-sale securities, and a major decrease was ¥781 million in retained earnings.

As a result, equity ratio rose to 72.9%, from 70.2% 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 not been changed from the most recent plan (announced on October 27, 2020). Assumptions for the exchange rates of major currencies are ¥105 to U.S. dollar and ¥120 to Euro.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	26,607	22,945
Notes and accounts receivable – trade	13,057	12,420
Electronically recorded monetary claims - operating	2,095	2,556
Securities	11,000	11,999
Merchandise and finished goods	6,912	6,259
Work in process	47	38
Raw materials and supplies	3,100	2,878
Other	283	285
Allowance for doubtful accounts	(0)	(0)
Total current assets	63,103	59,382
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,148	5,034
Machinery, equipment and vehicles, net	3,929	3,271
Land	8,849	8,853
Construction in progress	736	2,911
Other, net	651	538
Total property, plant and equipment	19,315	20,609
Intangible assets	143	99
Investments and other assets		
Investment securities	16,607	19,246
Deferred tax assets	1,159	533
Other	570	532
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	18,333	20,308
Total non-current assets	37,792	41,018
Total assets	100,896	100,400

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	6,530	6,184
Electronically recorded obligations - operating	415	347
Short-term borrowings	2,730	2,530
Current portion of long-term borrowings	693	83
Income taxes payable	1,356	636
Other	6,022	4,539
Total current liabilities	17,747	14,320
Non-current liabilities		
Long-term borrowings	7,157	7,974
Deferred tax liabilities	1	4
Deferred tax liabilities for land revaluation	1,111	1,111
Provision for retirement benefits for directors (and other officers)	88	73
Retirement benefit liability	2,201	2,131
Asset retirement obligations	379	379
Provision for share-based remuneration	23	29
Other	537	377
Total non-current liabilities	11,500	12,082
Total liabilities	29,248	26,402
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,815	5,740
Retained earnings	56,063	55,282
Treasury shares	(2,183)	(373)
Total shareholders' equity	66,563	67,517
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,972	3,372
Deferred gains or losses on hedges	(4)	—
Revaluation reserve for land	2,533	2,533
Foreign currency translation adjustment	(109)	(157)
Remeasurements of defined benefit plans	(115)	(94)
Total accumulated other comprehensive income	4,276	5,655
Non-controlling interests	808	825
Total net assets	71,647	73,998
Total liabilities and net assets	100,896	100,400

(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, 2019	Nine months ended December 31, 2020
Net sales	38,160	36,024
Cost of sales	22,767	21,807
Gross profit	15,392	14,216
Selling, general and administrative expenses		
Transportation and storage costs	3,355	3,365
Advertising expenses	510	296
Salaries	1,675	1,671
Retirement benefit expenses	132	153
Provision for retirement benefits for directors (and other officers)	15	13
Research and development expenses	956	861
Other	3,182	2,966
Total selling, general and administrative expenses	9,828	9,328
Operating profit	5,564	4,888
Non-operating income		
Interest income	14	33
Dividend income	418	397
Miscellaneous income	31	78
Total non-operating income	463	510
Non-operating expenses		
Interest expenses	11	16
Sales discounts	99	93
Foreign exchange losses	120	77
Loss on abandonment of inventories	25	—
Miscellaneous loss	9	5
Total non-operating expenses	266	192
Ordinary profit	5,760	5,206
Extraordinary income		
Subsidy income	44	35
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	–	478
Total extraordinary income	45	513
Extraordinary losses		
Loss on retirement of non-current assets	10	16
Loss on sales of investment securities	–	38
Loss on valuation of investment securities	–	7
Total extraordinary losses	10	63
Profit before income taxes	5,796	5,656
Income taxes	1,730	1,725
Profit	4,065	3,931
Profit attributable to non-controlling interests	37	19
Profit attributable to owners of parent	4,027	3,911

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit	4,065	3,931
Other comprehensive income		
Valuation difference on available-for-sale securities	616	1,401
Deferred gains or losses on hedges	(8)	4
Foreign currency translation adjustment	(10)	(47)
Remeasurements of defined benefit plans, net of tax	17	20
Total other comprehensive income	615	1,379
Comprehensive income	4,680	5,310
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,640	5,290
Comprehensive income attributable to non-controlling interests	39	20

(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 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 nine months ended December 31, 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 nine months ended December 31, 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 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.

(Segment information, etc.)

[Segment information]

I. For the nine months ended December 31, 2019 (from April 1, 2019 to December 31, 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	22,832	14,731	37,564	596	38,160	—	38,160
Inter-segment net sales or transfers	0	2	3	180	183	(183)	—
Total	22,833	14,734	37,567	776	38,344	(183)	38,160
Segment profit	4,317	2,575	6,893	56	6,950	(1,386)	5,564

(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 ¥(1,386) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(1,386) 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, 2020 (from April 1, 2020 to December 31, 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	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.