Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]

October 26, 2022

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 14, 2022
Scheduled date of commencing dividend payments: December 2, 2022
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, 2022 (from April 1, 2022 to September 30, 2022)

(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, 2022	31,297	23.9	4,371	15.2	5,480	33.1	3,707	26.0
September 30, 2021	25,266	7.9	3,795	45.5	4,116	45.9	2,943	52.9

(Note) Comprehensive income: Six months ended September 30, 2022: ¥3,084 million [4.9 %]
Six months ended September 30, 2021: ¥2,941 million [(6.1) %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	69.29	–
September 30, 2021	53.45	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	114,467	82,013	70.9
As of March 31, 2022	113,805	80,908	70.3

(Reference) Equity: As of September 30, 2022: ¥81,177 million
As of March 31, 2022: ¥80,049 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	–	12.00	–	12.00	24.00
Year ending December 31, 2022	–	13.00			
Year ending December 31, 2022 (Forecast)			–	13.00	26.00

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

3. Forecast of Consolidated Financial Results for the Year Ending December 31, 2022 (from April 1, 2022 to December 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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	46,000	–	5,800	–	6,100	–	3,700	–	68.76

(Notes) 1. Revisions to the financial results forecast most recently announced: None

2. The Company plans to change its fiscal year-end (the last day of the fiscal year) from March 31 to December 31 of each year beginning with the 103rd fiscal year. Due to this change in fiscal year-end, the 103rd fiscal year will be a transitional period of nine months from April 1, 2022 to December 31, 2022. Therefore, the above forecast of consolidated financial results for the year ending December 31, 2022 represents nine-month forecast figures, and the percentage changes from the previous corresponding period are omitted.

*** 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, 2022: 52,973,563 shares
March 31, 2022: 54,018,563 shares
2) Total number of treasury shares at the end of the period:
September 30, 2022: 205,977 shares
March 31, 2022: 205,788 shares
3) Average number of shares during the period:
Six months ended September 30, 2022: 53,514,089 shares
Six months ended September 30, 2021: 55,069,507 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.

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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, 2022 continued to recover with personal consumption showing signs of recovery as restrictions on economic activities were eased and such activities were normalized. Overseas economies continued to pick up globally, especially in Europe and the United States. However, sharp monetary tightening and rising interest rates in multiple countries against the backdrop of growing global inflation pressure posed downside risks to the economy.

Under these circumstances, for the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022), the Group posted net sales of ¥31,297 million (up 23.9% year-on-year), operating profit of ¥4,371 million (up 15.2% year-on-year), ordinary profit of ¥5,480 million (up 33.1% year-on-year) and profit attributable to owners of parent of ¥3,707 million (up 26.0% year-on-year), all of which increased from the previous year's results. In addition, net sales and profits all hit record highs and achieved high levels, driven by overseas demand, against the backdrop of global economic recovery from the COVID-19 pandemic.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, remained almost unchanged from the previous year, despite the impact of a decline in automobile production resulting from semiconductor shortages. As for sales of carbon disulfide for rayon and cellophane, and sodium sulfate for bath agents and detergents, the Company strove to improve profitability by the price pass-through of the impact of yen depreciation in exchange rates and sharp rise in resource prices.

(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. In the U.S. market, the pool market continues to be brisk, and production continues at high capacity. In addition, both sales and profits were higher than the previous year as the Company passed soaring resource prices and distribution costs on selling prices.

(Fine chemicals)

Regarding electronic chemicals, particularly Glicoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, sales were sluggish due to the lockdown in Shanghai and adjustments in the semiconductor market. Sales of advanced & specialty chemicals, such as epoxy resin curing agent (imidazoles), resin modifier (glycoluril derivatives, etc.) and semiconductor processing materials, largely surpassed those of the previous year, thanks to the strong demand on the resin modifier.

As a result, net sales for the chemicals operations segment were ¥22,330 million (up 36.1% year-on-year), and segment profit was ¥4,521 million (up 25.1% year-on-year), both surpassing the previous year's results.

2) Housing Materials operations

The number of new housing starts continued to be weak for owned houses, and demand for interior, exterior finishes and paving materials and exterior products remained sluggish. However, net sales increased from the previous year due to the penetration of the price revision implemented in April 2022. On the other hand, the price revision failed to absorb soaring prices of raw materials, and therefore profitability declined from the previous year.

As a result, net sales for the housing materials operations segment were ¥8,432 million (up 2.8% year-on-year), and segment profit was ¥758 million (down 28.3% year-on-year).

Reference information

[Overseas net sales]

	Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)		Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	3,798	15.0	4,336	13.9
North America	3,746	14.8	8,006	25.6
Other regions	1,009	4.0	1,181	3.8
Total	8,554	33.9	13,524	43.2
Consolidated net sales	25,226		31,297	

(Note) Net sales are classified based on the actual destinations of products.

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets increased by ¥661 million from the end of the previous fiscal year to ¥114,467 million. Major increases were ¥2,282 million in machinery, equipment and vehicles and ¥800 million in securities, and major decreases were ¥1,585 million in investment securities and ¥1,298 million in construction in progress.

Liabilities decreased by ¥443 million from the end of the previous fiscal year to ¥32,453 million. A major increase was ¥1,283 million in electronically recorded obligations - facilities, and a major decrease was ¥1,260 million in notes and accounts payable - trade.

Net assets increased by ¥1,105 million from the end of the previous fiscal year to ¥82,013 million. A major increase was ¥1,722 million in retained earnings, and a major decrease was ¥876 million in valuation difference on available-for-sale securities.

As a result, equity ratio rose to 70.9%, from 70.3% at the end of the previous fiscal year.

(Status of Cash Flows)

Cash flows provided by operating activities totaled ¥3,386 million (an increase of ¥1,110 million year-on-year). Major cash inflows were profit before income taxes of ¥5,149 million, depreciation of ¥1,288 million and decrease in trade receivables of ¥1,170 million, while major cash outflows were income taxes paid of ¥1,881 million and decrease in trade payables of ¥1,481 million.

Cash flows used in investing activities totaled ¥1,488 million (an increase of ¥862 million year-on-year). A major cash outflow was purchase of property, plant and equipment of ¥1,224 million.

Cash flows used in financing activities totaled ¥1,937 million (an increase of ¥8 million year-on-year). The major component was purchase of treasury shares of ¥1,328 million.

As a result, cash and cash equivalents totaled ¥36,373 million (an increase of ¥617 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 not been changed from the initial plan (announced on April 28, 2022). Assumptions for the exchange rates of major currencies are ¥120 to U.S. dollar and ¥130 to Euro.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	23,155	22,973
Notes receivable - trade	1,271	746
Electronically recorded monetary claims - operating	2,622	2,762
Accounts receivable - trade	13,044	12,811
Securities	15,600	16,400
Merchandise and finished goods	7,373	8,001
Work in process	41	36
Raw materials and supplies	3,689	3,782
Other	870	597
Allowance for doubtful accounts	(1)	(0)
Total current assets	67,668	68,111
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,238	5,733
Machinery, equipment and vehicles, net	4,136	6,418
Land	8,523	8,525
Construction in progress	3,776	2,478
Other, net	692	600
Total property, plant and equipment	22,366	23,755
Intangible assets	356	485
Investments and other assets		
Investment securities	22,331	20,745
Deferred tax assets	319	423
Retirement benefit asset	364	374
Other	403	575
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	23,414	22,115
Total non-current assets	46,137	46,356
Total assets	113,805	114,467

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,993	6,733
Electronically recorded obligations - operating	471	481
Short-term borrowings	2,530	2,530
Current portion of long-term borrowings	2,074	2,091
Accrued expenses	1,449	1,637
Income taxes payable	1,849	1,344
Accrued consumption taxes	116	105
Notes payable - facilities	36	2
Electronically recorded obligations - facilities	49	1,333
Other	2,537	2,658
Total current liabilities	19,109	18,919
Non-current liabilities		
Long-term borrowings	11,017	11,051
Deferred tax liabilities	295	39
Deferred tax liabilities for land revaluation	1,008	1,008
Provision for retirement benefits for directors (and other officers)	90	63
Retirement benefit liability	625	606
Asset retirement obligations	380	380
Provision for share awards	50	56
Other	318	328
Total non-current liabilities	13,788	13,534
Total liabilities	32,897	32,453
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,740	5,740
Retained earnings	60,475	62,197
Treasury shares	(250)	(239)
Total shareholders' equity	72,833	74,565
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,853	3,977
Revaluation reserve for land	2,298	2,298
Foreign currency translation adjustment	32	296
Remeasurements of defined benefit plans	30	39
Total accumulated other comprehensive income	7,215	6,611
Non-controlling interests	859	836
Total net assets	80,908	82,013
Total liabilities and net assets	113,805	114,467

(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, 2021	Six months ended September 30, 2022
Net sales	25,266	31,297
Cost of sales	14,869	18,572
Gross profit	10,397	12,724
Selling, general and administrative expenses		
Transportation and storage costs	2,584	3,844
Advertising expenses	204	313
Salaries	1,126	1,129
Retirement benefit expenses	79	72
Provision for retirement benefits for directors (and other officers)	8	8
Research and development expenses	598	754
Other	1,998	2,230
Total selling, general and administrative expenses	6,601	8,353
Operating profit	3,795	4,371
Non-operating income		
Interest income	31	43
Dividend income	284	232
Foreign exchange gains	28	826
Miscellaneous income	41	21
Total non-operating income	385	1,124
Non-operating expenses		
Interest expenses	12	13
Donations	50	–
Miscellaneous losses	2	1
Total non-operating expenses	64	15
Ordinary profit	4,116	5,480
Extraordinary income		
Gain on sale of non-current assets	0	–
Subsidy income	28	21
Total extraordinary income	28	21
Extraordinary losses		
Loss on retirement of non-current assets	9	24
Loss on valuation of investment securities	–	327
Total extraordinary losses	9	352
Profit before income taxes	4,135	5,149
Income taxes	1,198	1,461
Profit	2,937	3,688
Loss attributable to non-controlling interests	(5)	(19)
Profit attributable to owners of parent	2,943	3,707

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	2,937	3,688
Other comprehensive income		
Valuation difference on available-for-sale securities	(24)	(876)
Deferred gains or losses on hedges	9	–
Foreign currency translation adjustment	12	263
Remeasurements of defined benefit plans, net of tax	6	8
Total other comprehensive income	3	(604)
Comprehensive income	2,941	3,084
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,946	3,103
Comprehensive income attributable to non-controlling interests	(4)	(19)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	4,135	5,149
Depreciation	942	1,288
Increase (decrease) in retirement benefit liability	(52)	(12)
Decrease (increase) in retirement benefit asset	1	(4)
Contribution to employees' retirement benefits trust	(1,500)	–
Interest and dividend income	(315)	(276)
Interest expenses	12	13
Loss (gain) on valuation of investment securities	–	327
Subsidy income	(28)	(21)
Loss on retirement of property, plant and equipment	9	24
Loss (gain) on sale of property, plant and equipment	(0)	–
Decrease (increase) in trade receivables	1,632	1,170
Decrease (increase) in inventories	(412)	(454)
Increase (decrease) in trade payables	(785)	(1,481)
Increase (decrease) in accrued consumption taxes	(318)	238
Other, net	37	(980)
Subtotal	3,357	4,981
Interest and dividends received	317	277
Interest paid	(12)	(13)
Subsidies received	28	21
Income taxes refund (paid)	(1,415)	(1,881)
Net cash provided by (used in) operating activities	2,275	3,386
Cash flows from investing activities		
Purchase of securities	(300)	–
Proceeds from redemption of securities	2,000	–
Purchase of property, plant and equipment	(1,681)	(1,224)
Proceeds from sale of property, plant and equipment	4	–
Payments for retirement of property, plant and equipment	(7)	(20)
Purchase of investment securities	(510)	(5)
Other, net	(131)	(238)
Net cash provided by (used in) investing activities	(626)	(1,488)
Cash flows from financing activities		
Proceeds from long-term borrowings	100	100
Repayments of long-term borrowings	(49)	(49)
Purchase of treasury shares	(1,290)	(1,328)
Dividends paid	(669)	(647)
Dividends paid to non-controlling interests	(3)	(3)
Other, net	(15)	(9)
Net cash provided by (used in) financing activities	(1,928)	(1,937)
Effect of exchange rate change on cash and cash equivalents	48	657
Net increase (decrease) in cash and cash equivalents	(230)	617
Cash and cash equivalents at beginning of period	37,207	35,755
Cash and cash equivalents at end of period	36,977	36,373

(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 on August 26, 2022 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. As a result, during the six months ended September 30, 2022, treasury shares increased by ¥1,328 million.

(Cancellation of treasury shares)

The Company resolved on August 26, 2022 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 on September 9, 2022. As a result, during the six months ended September 30, 2022, retained earnings and treasury shares decreased by ¥1,338 million and ¥1,338 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 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, 2021 (from April 1, 2021 to September 30, 2021)

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

(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							
Inorganic chemicals	5,877	–	5,877	–	5,877	–	5,877
Organic chemicals	5,991	–	5,991	–	5,991	–	5,991
Fine chemicals	4,538	–	4,538	–	4,538	–	4,538
Interior, exterior finishes and paving materials	–	672	672	–	672	–	672
Exterior products	–	7,527	7,527	–	7,527	–	7,527
Other	–	–	–	658	658	–	658
Revenue from contracts with customers	16,407	8,199	24,607	658	25,266	–	25,266
Net sales to outside customers	16,407	8,199	24,607	658	25,266	–	25,266
Inter-segment net sales or transfers	0	1	1	147	149	(149)	–
Total	16,408	8,201	24,609	806	25,416	(149)	25,266
Segment profit	3,614	1,058	4,672	75	4,748	(952)	3,795

(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 ¥(952) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(952) 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, 2022 (from April 1, 2022 to September 30, 2022)

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

(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							
Inorganic chemicals	7,088	–	7,088	–	7,088	–	7,088
Organic chemicals	10,314	–	10,314	–	10,314	–	10,314
Fine chemicals	4,927	–	4,927	–	4,927	–	4,927
Interior, exterior finishes and paving materials	–	647	647	–	647	–	647
Exterior products	–	7,784	7,784	–	7,784	–	7,784
Other	–	–	–	534	534	–	534
Revenue from contracts with customers	22,330	8,432	30,762	534	31,297	–	31,297
Net sales to outside customers	22,330	8,432	30,762	534	31,297	–	31,297
Inter-segment net sales or transfers	0	1	2	123	125	(125)	–
Total	22,330	8,433	30,764	657	31,422	(125)	31,297
Segment profit	4,521	758	5,279	57	5,337	(965)	4,371

(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 ¥(965) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(965) 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.