

Consolidated Financial Results for the Six Months Ended September 30, 2019 (JPGAAP)



November 8, 2019

Name of listed company: Nissan Chemical Corporation

Stock Exchange: Tokyo

Code Number: 4021

URL: <http://www.nissanchem.co.jp/>

Representative: Kojiro Kinoshita, President

Inquiry to: Nobuhiro Arita, Associate Executive Officer and Deputy Head of Finance and Accounting Department Tel. +81 3 4463 8404

Scheduled submission date of quarterly report: November 14, 2019

Scheduled dividend payment date: December 2, 2019

Supplemental information: Yes

Financial results meeting : Yes (For institutional investors and financial analysts)

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (% indicates the rate of increase/decrease against the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2019	96,466	(1.6)	18,026	(7.1)	18,646	(9.5)	14,523	(5.8)
Six months ended September 30, 2018	98,038	7.7	19,399	12.4	20,613	15.6	15,409	16.9

(Note) Comprehensive income: Six months ended September 30, 2019 : 11,051 million yen , (33.7%)

Six months ended September 30, 2018 : 16,669 million yen , (0.2%)

	Basic earnings per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2019	98.75	—
Six months ended September 30, 2018	103.53	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	223,511	180,007	79.8
As of March 31, 2019	246,990	182,074	73.0

(Reference) Shareholders' equity: As of September 30, 2019 : 178,424 million yen

As of March 31, 2019 : 180,345 million yen

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	—	40.00	—	42.00	82.00
Year ending March 31, 2020	—	42.00	—	—	—
Year ending March 31, 2020 (Outlook)	—	—	—	46.00	88.00

(Note) Revision of the latest released dividend outlook: None

3. Outlook of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(% indicates the rate of increase/decrease against the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending March 31, 2020	209,000	2.0	38,600	4.1	39,700	1.5	30,600	4.2	208.92

(Note) Revision of the latest released outlook of financial results: Yes

Please refer to " Revision of Financial Results Outlook " for details.

4. Notes

- (1) Changes in significant consolidated subsidiaries
(Changes in specified subsidiaries involving changes in scope of consolidation) : None
- (2) Application of special accounting treatment to preparation of quarterly financial statements : None
- (3) Changes of accounting policies and accounting estimates, and restatement
- 1. Changes of accounting policies due to revisions of accounting standards : None
 - 2. Changes of accounting policies other than the above : None
 - 3. Changes in accounting estimates : None
 - 4. Restatements : None

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding (including treasury shares)

As of September 30, 2019 : 147,000,000 shares

As of March 31, 2019 : 149,000,000 shares

2. Number of treasury shares

As of September 30, 2019 : 653,844 shares

As of March 31, 2019 : 1,217,872 shares

3. Average number of shares outstanding

As of September 30, 2019 : 147,069,733 shares

As of September 30, 2018 : 148,836,896 shares

(Note) The Company has introduced a "Board Benefit Trust (BBT)" from the second quarter of the current consolidated fiscal year, and repurchased its own shares based on the trust agreement. As a result, treasury shares increased by 799 million yen.

Also, the shares held by the Trust (included in treasury shares) are deducted in calculating the number of treasury shares at the end of the period and the average number of shares during the period.

The number of shares held by the Trust (included in treasury shares) at the end of second quarter of the current consolidated fiscal year was 166,200 shares.

In addition, the average number of shares held by the Trust during the second quarter of the current consolidated cumulative period was 41,550 shares. This is not included in the average number of shares outstanding.

* Presentation regarding implementation status of quarterly review procedures

The financial release is not subject to quarterly review.

* Explanations regarding appropriate use of business forecasts and other special notes

The business forecast contained in this report is based on information available at the time of disclosure.

Actual operating results may differ materially from the forecast due to various factors.

For supplemental information, please refer to our website.

Financial results audio webcast will be released on our website as well.

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1. Qualitative Information on Quarterly Results

(1) Business Performance

During the first half of the current fiscal year (April 1, 2019 to September 30, 2019), domestic demand for consumer spending and capital expenditures remained strong, while exports to Asia and other regions remained sluggish, and corporate production continued to be stagnant. Under these circumstances, the Chemicals Segment sales increased in Fine Chemicals, while decreased in Basic Chemicals. Sales in the Performance Materials Segment decreased in Semiconductor Materials and Inorganic Materials, while increased in Display Materials. Sales of the Agricultural Chemicals Segment declined, mainly in oversea markets. In the Pharmaceuticals Segment, in-house drug discovery sales decreased, while sales of "Custom Chemicals" (custom manufacturing and process researching services for pharmaceutical companies) were almost the same as previous year.

As a result, business performance during the first half of the current fiscal year was as follows. Sales and each income were below the same period of previous fiscal year, however operating income, ordinary income and net income attributable to owners of parent exceeded the outlook announced in May.

(Amounts rounded down to the nearest million yen)

	Consolidated cumulative period for the second quarter of FY2018 (Results)	Consolidated cumulative period for the second quarter of FY2019 (Results)	Change	Consolidated cumulative period for the second quarter of FY2019 (Outlooks)
Net sales	98,038	96,466	(1,572)	99,000
Operating income	19,399	18,026	(1,373)	17,800
Ordinary income	20,613	18,646	(1,967)	18,400
Net income attributable to owners of parent	15,409	14,523	(886)	13,700

Explanations by segments are as below.

The Chemicals Segment

In Basic Chemicals, sales of melamine (adhesives agent for particle board) were almost the same as previous year, while sales of high purity sulfuric acid (agent used for cleaning semiconductor) declined. In Fine Chemicals, sales of "TEPIC" for electrical materials (solder resist, LED sealants) decreased, while sales for general use (powder coating agent for paint) increased.

As a result, sales of this segment were 16,842 million yen (a decrease of 138 million yen) and operating income were 343 million yen (a decrease of 801 million yen). Compared to outlook (Note), net sales were below 2.1 billion yen and operating income were below 1.0 billion yen.

(Note) Outlooks are described on page 17 and 18 of the FY2018 Presentation Materials (announced on May 15, 2019)

The Performance Materials Segment

In Display Materials, sales of "SUNEVER" (LCD alignment coating) for both small-and medium-sized products such as smartphones and large-scale products such as TVs performed well. In Semiconductor Materials, sales of antireflective coatings for semiconductors (ARC®) were affected by a decrease in utilization by some customers. In Inorganic Materials, sales of "SNOWTEX" for polishing electronic materials declined. Sales of Organo / Monomer sol (various kinds of coating materials, resin additive) and Oilfield materials (for enhancing oil recovery) also declined.

As a result, sales of this segment were 31,387 million yen (a decrease of 579 million yen) and operating income were 8,234 million yen (an increase of 113 million yen). Compared to outlook (Note), net sales were below 0.3 billion yen and operating income were above 0.8 billion yen.

(Note) Outlooks are described on page 17 and 18 of the FY2018 Presentation Materials (announced on May 15, 2019)

* ARC® is registered trade mark of Brewer Science, Inc.

The Agricultural Chemicals Segment

Sales of Fluralaner (active ingredients for veterinary pharmaceuticals) declined due to inventory adjustments, however it was above the initial outlook. Sales of domestic agrochemicals were strong due to sales of "GRACIA" (insecticide) launched in May in Japan. Sales of ROUNDUP increased from the previous year, which was affected by natural disasters and other factors. Sales of overseas agrochemicals decreased due to lower sales of "TARGA" (herbicide) and "PERMIT" (herbicide).

As a result, sales of this segment were 27,871 million yen (a decrease of 808 million yen) and operating income were 9,430 million yen (a decrease of 416 million yen). Compared to outlook (Note), net sales were below 0.4 billion yen and operating income were above 0.2 billion yen.

(Note) Outlooks are described on page 17 and 18 of the FY2018 Presentation Materials (announced on May 15, 2019)

The Pharmaceuticals Segment

Sales of "LIVALO" (anti-cholesterol drug) declined due to lower sales prices in generic products both in Japan and overseas. Sales of "Custom Chemicals" were almost the same as the previous year.

As a result, sales of this segment were 3,431 million yen (a decrease of 284 million yen) and operating income were 530 million yen (a decrease of 75 million yen). Compared to the outlook (Note), both net sales and operating income were as expected.

(Note) Outlooks are described on page 17 and 18 of the FY2018 Presentation Materials (announced on May 15, 2019)

Trading

As a result, sales of this segment were 33,316 million yen (a decrease of 127 million yen) and operating income were 1,017 million yen (a decrease of 83 million yen). Compared to outlook (Note), net sales were below 0.7 billion yen and operating income were as expected.

(Note) Outlooks are described on page 17 and 18 of the FY2018 Presentation Materials (announced on May 15, 2019)

Others

Net sales for this segment were 9,831 million yen (a decrease of 670 million yen) and operating income were 129 million yen (a decrease of 105 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of September 30, 2019 was 223,511 million yen (a decrease of 23,479 million yen from March 31, 2019). It is mainly due to the decrease of notes and accounts receivable - trade.

Also, total liabilities as of September 30, 2019 was 43,503 million yen (a decrease of 21,413 million yen). It is mainly due to the decrease of loans payable.

Net assets as of September 30, 2019 was 180,007 million yen (a decrease of 2,066 million yen).

As a result of these factors, equity ratio was 79.8% (an increase of 6.8% from March 31, 2019).

(Position of Cash Flow)

Deducting income taxes paid from income before income taxes and non-controlling interests, depreciation and gain and loss on working capital, net cash provided by operating activities for the six months ended September 30, 2019 was 31,936 million yen (29,145 million yen for the same period of the previous year).

Due to the investment on plant and equipment, net cash used in investing activities for the six months ended September 30, 2019 was 2,423 million yen (5,966 million yen).

Due to the decrease in loans payable, payment for dividends and share repurchase, net cash used in financing activities for the six months ended September 30, 2019 was 33,449 million yen (31,478 million yen).

As a result of these factors, cash and cash equivalents at the end of this period was 31,870 million yen (29,493 million yen), reflecting exchange of 376 million yen. It decreased by 4,312 million yen from March 31, 2019.

(3) Outlook of Consolidated Financial Results and Other Forward-looking Information

Outlook for the year ending March 31, 2020 was revised as follows based on the cumulative second quarter and demand outlook.

Revision of consolidated financial results' outlook for the year ending March 31, 2020
(April 1, 2019 to March 31, 2020)

(Amounts rounded to the nearest billion yen)

	Previous outlook(A)	Revised outlook (B)	Increase or decrease (B-A)	Rate of change (%)	(Reference) Results for the previous fiscal year
Net sales	210.5	209.0	(1.5)	(0.7)%	204.9
Operating income	38.7	38.6	(0.1)	(0.3)%	37.1
Ordinary income	40.2	39.7	(0.5)	(1.2)%	39.1
Net income attributable to owners of parent	30.2	30.6	+0.4	+1.3%	29.4
Basic earnings per share	205.83 yen	208.92 yen	—	—	197.67 yen

Revision of consolidated net sales and operating income outlook for the year ending March 31, 2020

(Amounts rounded to the nearest billion yen)

	Net sales		Operating income	
	Previous	Revised	Previous	Revised
Chemicals	39.0	37.3	4.0	3.4
Performance Materials	64.3	63.5	15.0	15.1
Agricultural Chemicals	64.2	64.3	19.0	19.6
Pharmaceuticals	7.0	7.0	1.0	1.1
Trading	67.8	67.1	2.0	2.1
Others	23.3	22.4	0.6	0.6
Adjustment	(55.1)	(52.6)	(2.9)	(3.3)
Total	210.5	209.0	38.7	38.6

(4) Basic Policy on Distribution of Earnings

The Company's basic policy of profit allocation is returning to shareholders by improving company value through increasing revenue in the medium and long terms.

In medium-term business plan "Vista2021" Stage II launched from April 2019, the Company aims to realize dividend payout ratio to be 42.5% in FY2019 and to be 45% after FY2020. In addition, total payout ratio is aimed to be 72.5% in FY2019 and to be 75% in FY2020.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	36,183	31,870
Notes and accounts receivable - trade	69,193	51,823
Merchandise and finished goods	32,215	32,197
Work in process	41	705
Raw materials and supplies	9,742	11,622
Other	5,146	5,400
Allowance for doubtful accounts	(32)	(26)
Total current assets	152,490	133,593
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	25,251	24,693
Other, net	27,477	27,461
Total property, plant and equipment	52,729	52,154
Intangible assets		
Software	721	631
Other	796	795
Total intangible assets	1,517	1,427
Investments and other assets		
Investment securities	35,229	30,365
Other	5,117	6,062
Allowance for doubtful accounts	(92)	(92)
Total investments and other assets	40,253	36,334
Total non-current assets	94,500	89,917
Total assets	246,990	223,511

(Million yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,809	15,786
Short-term loans payable	25,465	5,319
Income taxes payable	4,330	5,117
Provision for bonuses	2,137	2,070
Provision for directors' bonuses	25	12
Other	10,430	11,503
Total current liabilities	60,198	39,808
Non-current liabilities		
Long-term loans payable	1,116	856
Provision for business structure improvement	370	310
Provision for loss on business of subsidiaries and affiliates	309	309
Net defined benefit liability	152	181
Other	2,768	2,037
Total non-current liabilities	4,717	3,694
Total liabilities	64,916	43,503
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,613	13,613
Retained earnings	143,200	141,584
Treasury shares	(6,291)	(3,159)
Total shareholders' equity	169,464	170,980
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,634	8,066
Foreign currency translation adjustment	(11)	(863)
Remeasurements of defined benefit plans	258	241
Total accumulated other comprehensive income	10,880	7,443
Non-controlling interests	1,728	1,583
Total net assets	182,074	180,007
Total liabilities and net assets	246,990	223,511

(2) Consolidated Statements of Income / Consolidated Statements of Comprehensive Income
- Consolidated Statements of Income

(Million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
Net sales	98,038	96,466
Cost of sales	54,961	56,267
Gross profit	43,077	40,198
Selling, general and administrative expenses	23,677	22,171
Operating income	19,399	18,026
Non-operating income		
Interest income	12	12
Dividend income	332	359
Equity in earnings of affiliates	408	395
Other	1,023	595
Total non-operating income	1,777	1,362
Non-operating expenses		
Interest expenses	59	70
Loss on disposal of non-current assets	315	200
Plant stop losses	134	218
Foreign exchange losses	-	222
Other	52	29
Total non-operating expenses	563	742
Ordinary income	20,613	18,646
Extraordinary income		
Gain on sales of investment securities	-	1,694
Total extraordinary income	-	1,694
Extraordinary losses		
Licensing arrangement fee	-	834
Total extraordinary losses	-	834
Income before income taxes and non-controlling interests	20,613	19,506
Income taxes - current	5,397	5,034
Income taxes - deferred	(276)	(100)
Total income taxes	5,121	4,934
Net income	15,492	14,572
Net income attributable to non-controlling interests	82	49
Net income attributable to owners of parent	15,409	14,523

- Consolidated Statements of Comprehensive Income

(Million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
Net income	15,942	14,572
Other comprehensive income		
Valuation difference on available-for-sale securities	850	(2,567)
Foreign currency translation adjustment	352	(935)
Remeasurements of defined benefit plans, net of tax	(26)	(17)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	1,176	(3,521)
Comprehensive income	16,669	11,051
(Comprehensive income attributable to)		
Owners of parent	16,564	11,085
Non-controlling interests	104	(34)

(3) Consolidated Statements of Cash Flows

(Million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
Cash flows from operating activities		
Income before income taxes and non-controlling interests	20,613	19,506
Depreciation and amortization	5,049	4,698
Interest and dividend income	(345)	(372)
Loss (gain) on sales of investment securities	(268)	(1,694)
Interest expenses	59	70
Loss (gain) on disposal of non-current assets	315	200
Decrease (increase) in notes and accounts receivable - trade	12,093	17,051
Decrease (increase) in inventories	(3,739)	(2,980)
Increase (decrease) in notes and accounts payable - trade	(2,054)	(1,824)
Other	1,875	689
Subtotal	33,600	35,346
Interest and dividend income received	789	945
Interest expenses paid	(60)	(70)
Income taxes paid	(5,183)	(4,285)
Net cash provided by (used in) operating activities	29,145	31,936
Cash flows from investing activities		
Purchase of investment securities	(905)	(6)
Proceeds from sales of investment securities	398	2,909
Purchase of property, plant and equipment	(5,168)	(4,175)
Payments for retirement of property, plant and equipment	(268)	(176)
Purchase of intangible assets	(116)	(128)
Net decrease (increase) in short-term loans receivable	91	(618)
Purchase of long-term prepaid expenses	(13)	(420)
Other	17	193
Net cash provided by (used in) investing activities	(5,966)	(2,423)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(19,650)	(19,400)
Repayments of long-term loans payable	(1,277)	(930)
Cash dividends paid	(5,380)	(6,206)
Dividends paid to non-controlling interests	(167)	(111)
Share repurchase	(5,002)	(6,799)
Other	(0)	-
Net cash provided by (used in) financing activities	(31,478)	(33,449)
Effect of exchange rate change on cash and cash equivalents	90	(376)
Net increase (decrease) in cash and cash equivalents	(8,209)	(4,312)
Cash and cash equivalents at beginning of period	37,702	36,183
Cash and cash equivalents at end of period	29,493	31,870

(4) Notes to Consolidated Financial Statements

(Notes on Assumption of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

The Company canceled 1,000,000 treasury shares on May 10, 2019 based on the resolution of Board of Directors' meeting held on April 23, 2019. In addition, the Company canceled 1,000,000 treasury shares on August 30, 2019 based on the resolution of Board of Directors' meeting held on August 20, 2019. As a result, retained earnings and treasury shares decreased by 9,932 million yen during the second quarter of current consolidated fiscal year.

Also, the Company repurchased 1,269,600 treasury shares based on the resolution of Board of Directors' meeting held on May 15, 2019. As a result, treasury shares increased by 5,999 million yen during the second quarter of current consolidated fiscal year. In addition, the Company repurchased 166,200 treasury shares based on the trust agreement of the Board Benefit Trust (BBT) resolved by the Board of Director's meeting on July 30, 2019. As a result, treasury shares increased by 799 million yen during the second quarter of current consolidated fiscal year.

(Segment Information)

1. Information Regarding Sales, Income (Loss) of Reportable Segments

1) For the Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	12,299	28,403	26,732	3,716	23,115	3,771	98,038	—	98,038
Intersegment Sales	4,681	3,563	1,947	—	10,327	6,731	27,252	(27,252)	—
Total Sales	16,981	31,967	28,680	3,716	33,443	10,502	125,291	(27,252)	98,038
Segment Income or Loss (Operating Income or Loss)	1,145	8,120	9,846	605	1,100	235	21,054	(1,655)	19,399

Notes: (1) The (1,655) million yen adjustment in segment income includes (205) million yen in intersegment eliminations and (1,450) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.

2) For the Six Months Ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	12,184	27,775	26,285	3,420	22,809	3,984	96,459	6	96,466
Intersegment Sales	4,658	3,612	1,586	11	10,507	5,847	26,222	(26,222)	—
Total Sales	16,842	31,387	27,871	3,431	33,316	9,831	122,682	(26,216)	96,466
Segment Income or Loss (Operating Income or Loss)	343	8,234	9,430	530	1,017	129	19,686	(1,660)	18,026

Notes: (1) The (1,660) million yen adjustment in segment income includes (164) million yen in intersegment eliminations, 6 million yen sales not attributable to any reporting segment, and (1,501) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.

(Significant Subsequent Events)

The Company, at the board of Director's meeting held on November 8, 2019, has decided to repurchase its shares in the market under Article 156 of the Japanese Corporation Act, as applied pursuant to Article 165, Paragraph 3 of the same Act.

1. Purpose of repurchase

To facilitate flexible implementation of capital policy in response to changes in the business environment.

2. Details of repurchase

(1) Class of shares : Common shares of the company

(2) Total number of shares : Up to 1,300,000 shares

(0.89% of total shares outstanding, excluding treasury shares)

(3) Total amount : Up to 4,000,000,000 yen

(4) Period of repurchase : From November 11, 2019 to April 30, 2020

(For reference) Number of treasury shares as of September 30, 2019

Total number of shares issued (excluding treasury shares) : 146,512,356 shares

Number of treasury shares : 487,644 shares

* Not including 166,200 shares of treasury shares which the Board Benefit Trust (BBT) has hold.