

Consolidated Financial Results for the Nine Months Ended December 31, 2019 (JPGAAP)



February 7, 2020

Name of listed company: Nissan Chemical Corporation

Stock Exchange: Tokyo

Code Number: 4021

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

Representative: KINOSHITA Kojiro, President

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Scheduled submission date of quarterly report: February 13, 2020

Scheduled dividend payment date: —

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 Nine Months Ended December 31, 2019 (From April 1, 2019 to December 31, 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	%
Nine months ended December 31, 2019	138,042	(2.7)	21,440	(10.0)	22,473	(11.5)	17,541	(6.9)
Nine months ended December 31, 2018	141,872	6.9	23,821	6.4	25,391	6.0	18,833	6.2

(Note) Comprehensive income: Nine months ended December 31, 2019 : 16,562 million yen , 7.3%

Nine months ended December 31, 2018 : 15,443 million yen , (32.0%)

	Basic earnings per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2019	119.51	—
Nine months ended December 31, 2018	126.64	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2019	224,827	177,089	78.0
As of March 31, 2019	246,990	182,074	73.0

(Reference) Shareholders' equity: As of December 31, 2019 : 175,453 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: None

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 December 31, 2019 : 147,000,000 shares

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

2. Number of treasury shares

As of December 31, 2019 : 1,150,124 shares

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

3. Average number of shares outstanding

As of December 31, 2019 : 146,776,558 shares

As of December 31, 2018 : 148,719,567 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 third quarter of the current consolidated fiscal year was 166,200 shares.

In addition, the average number of shares held by the Trust during the third quarter of the current consolidated cumulative period was 83,100 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 outlooks and other special notes

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

Actual operating results may differ materially from the outlook 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 year ended December 31 (April 1, 2019 to December 31, 2019), although capital investment was on an upward trend, the company profitability of the manufacturing industry was deteriorated due to a slump of exports in the overseas economy.

Under these circumstances, sales of Basic Chemicals decreased in the Chemicals Segment. Sales in the Performance Materials Segment, Display Materials increased, while Semiconductor Materials and Inorganic Materials decreased. Sales of the Agricultural Chemicals Segment decreased, mainly in oversea markets. In the Pharmaceuticals Segment, sales of "Custom Chemicals" (custom manufacturing and process researching services for pharmaceutical companies) remained the same as previous year, while sales of In-house drug discovery decreased.

As a result, business performances during the nine months of the current fiscal years were as follows. Sales and each income were below the same period of the previous fiscal year, however operating income, ordinary income and net income attributable to owners of the parent exceeded outlooks announced in November.

Consolidated Results of Cumulative Period for the Third Quarter

(Amounts rounded down to the nearest million yen)

	3Q FY2018 (Results)	3Q FY2019 (Results)	Change	3Q FY2019 (Outlooks)	Change from Outlooks
Net sales	141,872	138,042	(3,830)	139,000	(957)
Operating income	23,821	21,440	(2,380)	20,600	+840
Ordinary income	25,391	22,473	(2,917)	21,500	+973
Net income attributable to owners of parent	18,833	17,541	(1,291)	16,800	+741

(Note) Outlooks are described on page 7 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

Explanations by segments are as below.

The Chemicals Segment

In the Basic Chemicals, sales of high purity sulfuric acid (agent used for cleaning semiconductor) remained almost the same as previous year, while sales of melamine (adhesives agent for particle board) decreased due to the impact of market conditions. In the Fine Chemicals, sales of "TEPIC" (epoxy compound for LED sealants) for electrical materials (solder resist inks, LED-sealing materials, etc.) decreased, while sales for general use (powder coating agent for paint) increased.

As a result, sales of this segment were 25,497 million yen (a decrease of 1,124 million yen) and operating income were 897 million yen (a decrease of 1,345 million yen). Compared to outlooks (Note), net sales were below 1.3 billion yen and operating income were below 0.8 billion yen.

(Note) Outlooks are described on page 13 and 14 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

The Performance Materials Segment

In the 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 the Semiconductor Materials, sales of antireflective coatings for semiconductors (ARC®) were affected by a decrease in utilization by some customers. In the Inorganic Materials, sales of "SNOWTEX" for polishing electronic materials decreased. Sales of Organo / Monomer sol (various kinds of coating materials, resin additive) and Oilfield materials (for enhancing oil recovery) also decreased.

As a result, sales of this segment were 48,394 million yen (a decrease of 249 million yen) and operating income were 13,072 million yen (an increase of 623 million yen). Compared to outlooks (Note), net sales were above 0.8 billion yen and operating income were above 1.4 billion yen.

(Note) Outlooks are described on page 13 and 14 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

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

The Agricultural Chemicals Segment

Sales of Fluralaner (active ingredients for veterinary pharmaceuticals) decreased due to the impact of inventories of customers. Sales of domestic agrochemicals were strong due to sales of "GRACIA" (insecticide) launched in May in Japan. ROUNDUP revenues increased from the previous year due to natural disasters in the first half of the fiscal year, and remained steady in the third quarter of the fiscal year. Overseas sales of agrochemicals decreased mainly for "TARGA" (herbicide) and "LEIMAY" (fungicide).

As a result, sales of this segment were 33,443 million yen (a decrease of 1,205 million yen) and operating income were 7,535 million yen (a decrease of 992 million yen). Compared to outlooks (Note), both net sales and operating income were above 0.3 billion yen.

(Note) Outlooks are described on page 13 and 14 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

The Pharmaceuticals Segment

Sales of "LIVALO" (anti-cholesterol drug) decreased due to lower sales prices due to an increase 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 4,960 million yen (a decrease of 590 million yen), and operating income were 553 million yen (a decrease of 457 million yen). Compared to outlooks (Note), net sales were the same and operating income were below 0.1 billion yen.

(Note) Outlooks are described on page 13 and 14 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

Trading

Sales of this segment were 50,781 million yen (a decrease of 743 million yen), and operating income were 1,634 million yen (a decrease of 74 million yen). Compared to outlooks (Note), net sales were the same and operating income were above 0.1 billion yen.

(Note) Outlooks are described on page 13 and 14 of the 2Q FY2019 Financial Results (announced on November 8, 2019)

Others

Sales of this segment were 14,931 million yen (a decrease of 2,744 million yen) and operating income were 158 million yen (a decrease of 290 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of December 31, 2019 was 224,827 million yen (a decrease of 22,163 million yen from March 31, 2019). It is mainly due to the decrease of notes and accounts receivable - trade.

Also, total liabilities as of December 31, 2019 was 47,738 million yen (a decrease of 17,178 million yen). It is mainly due to the decrease of loans payable.

Net assets as of December 31, 2019 was 177,089 million yen (a decrease of 4,984 million yen).

As a result of these factors, equity ratio was 78.0% (an increase of 5.0% 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 nine months ended December 31, 2019 was 34,859 million yen (32,434 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 nine months ended December 31, 2019 was 12,914 million yen (9,684 million yen).

Due to the decrease in loans payable, payment for dividends and share repurchase, net cash used in financing activities for the nine months ended December 31, 2019 was 39,960 million yen (37,255 million yen).

As a result of these factors, cash and cash equivalents at end of this period was 17,989 million yen (23,099 million yen), reflecting exchange of 177 million yen. It decreased by 18,193 million yen from March 31, 2019.

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

There is no change in the outlook of consolidated business results for the fiscal year ending March 31, 2020 from the statement announced on November 8, 2019.

(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 December 31, 2019
Assets		
Current assets		
Cash and deposits	36,183	17,989
Notes and accounts receivable - trade	69,193	47,800
Merchandise and finished goods	32,215	37,393
Work in process	41	957
Raw materials and supplies	9,742	12,439
Other	5,146	9,237
Allowance for doubtful accounts	(32)	(29)
Total current assets	152,490	125,788
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	25,251	24,492
Other, net	27,477	28,072
Total property, plant and equipment	52,729	52,564
Intangible assets		
Goodwill	4	6,127
Software	721	577
Other	791	756
Total intangible assets	1,517	7,461
Investments and other assets		
Investment securities	35,229	33,621
Other	5,117	5,483
Allowance for doubtful accounts	(92)	(92)
Total investments and other assets	40,253	39,011
Total non-current assets	94,500	99,038
Total assets	246,990	224,827

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,809	19,618
Short-term loans payable	25,465	9,006
Income taxes payable	4,330	1,171
Provision for bonuses	2,137	665
Provision for directors' bonuses	25	19
Other	10,430	12,479
Total current liabilities	60,198	42,962
Non-current liabilities		
Long-term loans payable	1,116	856
Provision for business structure improvement	370	294
Provision for loss on business of subsidiaries and affiliates	309	309
Net defined benefit liability	152	202
Other	2,768	3,114
Total non-current liabilities	4,717	4,775
Total liabilities	64,916	47,738
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,613	13,613
Retained earnings	143,200	138,450
Treasury shares	(6,291)	(5,436)
Total shareholders' equity	169,464	165,569
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,634	10,022
Foreign currency translation adjustment	(11)	(371)
Remeasurements of defined benefit plans	258	232
Total accumulated other comprehensive income	10,880	9,884
Non-controlling interests	1,728	1,635
Total net assets	182,074	177,089
Total liabilities and net assets	246,990	224,827

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

- Consolidated Statements of Income

(Million yen)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
Net sales	141,872	138,042
Cost of sales	82,409	83,295
Gross profit	59,463	54,747
Selling, general and administrative expenses	35,641	33,306
Operating income	23,821	21,440
Non-operating income		
Interest income	17	19
Dividend income	676	656
Equity in earnings of affiliates	603	523
Other	1,026	709
Total non-operating income	2,324	1,908
Non-operating expenses		
Interest expenses	81	95
Loss on disposal of non-current assets	473	301
Plant stop losses	134	218
Other	64	259
Total non-operating expenses	754	874
Ordinary income	25,391	22,473
Extraordinary income		
Gain on sales of investment securities	-	1,727
Total extraordinary income	-	1,727
Extraordinary losses		
Licensing arrangement fee	-	834
Total extraordinary losses	-	834
Income before income taxes and non-controlling interests	25,391	23,366
Income taxes - current	4,983	5,186
Income taxes - deferred	1,455	584
Total income taxes	6,439	5,771
Net income	18,952	17,595
Net income attributable to non-controlling interests	118	53
Net income attributable to owners of parent	18,833	17,541

- Consolidated Statements of Comprehensive Income

(Million yen)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
Net income	18,952	17,595
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,450)	(611)
Foreign currency translation adjustment	(18)	(395)
Remeasurements of defined benefit plans, net of tax	(39)	(25)
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(3,509)	(1,032)
Comprehensive income	15,443	16,562
(Comprehensive income attributable to)		
Owners of parent	15,332	16,545
Non-controlling interests	110	17

(3) Consolidated Statements of Cash Flows

(Million yen)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
Cash flows from operating activities		
Income before income taxes and non-controlling interests	25,391	23,366
Depreciation and amortization	7,889	7,382
Amortization of goodwill	-	211
Interest and dividend income	(694)	(675)
Loss (gain) on sales of investment securities	(268)	(1,727)
Interest expenses	81	95
Loss (gain) on disposal of non-current assets	473	301
Decrease (increase) in notes and accounts receivable - trade	17,250	21,238
Decrease (increase) in inventories	(11,166)	(9,033)
Increase (decrease) in notes and accounts payable - trade	1,729	1,916
Other	(171)	(1,205)
Subtotal	40,515	41,870
Interest and dividend income received	1,139	1,249
Interest expenses paid	(74)	(91)
Income taxes paid	(9,145)	(8,169)
Net cash provided by (used in) operating activities	32,434	34,859
Cash flows from investing activities		
Purchase of investment securities	(908)	(326)
Proceeds from sales of investment securities	398	2,944
Purchase of property, plant and equipment	(7,441)	(6,563)
Payments for retirement of property, plant and equipment	(376)	(266)
Payments for acquisition of business	-	(6,335)
Net decrease (increase) in short-term loans receivable	(1,231)	(1,983)
Purchase of long-term prepaid expenses	(46)	(433)
Other	(77)	48
Net cash provided by (used in) investing activities	(9,684)	(12,914)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(19,485)	(15,756)
Repayments of long-term loans payable	(1,277)	(930)
Cash dividends paid	(11,320)	(12,360)
Dividends paid to non-controlling interests	(167)	(111)
Share repurchase	(5,004)	(9,076)
Setting up the trust for share repurchase	-	(1,724)
Other	(0)	-
Net cash provided by (used in) financing activities	(37,255)	(39,960)
Effect of exchange rate change on cash and cash equivalents	(97)	(177)
Net increase (decrease) in cash and cash equivalents	(14,603)	(18,193)
Cash and cash equivalents at beginning of period	37,702	36,183
Cash and cash equivalents at end of period	23,099	17,989

(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 third 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. In addition, the Company repurchased 496,000 treasury shares based on the resolution of Board of Directors' meeting held on November 8, 2019. As a result, treasury shares increased by 8,275 million yen during the third 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 third quarter of current consolidated fiscal year.

(Segment Information)

1. For the Nine Months Ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

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

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	19,321	43,090	31,372	5,535	36,482	6,070	141,872	—	141,872
Intersegment Sales	7,299	5,554	3,276	15	15,043	11,606	42,795	(42,795)	—
Total Sales	26,621	48,644	34,649	5,551	51,525	17,676	184,668	(42,795)	141,872
Segment Income or Loss (Operating Income or Loss)	2,242	12,448	8,527	1,011	1,709	449	26,389	(2,568)	23,821

Notes: (1) The (2,568) million yen adjustment in segment income includes (426) million yen in intersegment eliminations and (2,141) 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) Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Major change in goodwill)

Not applicable.

2. For the Nine Months Ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

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

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	18,401	42,930	30,022	4,940	35,736	6,005	138,035	6	138,042
Intersegment Sales	7,095	5,464	3,420	20	15,045	8,926	39,973	(39,973)	—
Total Sales	25,497	48,394	33,443	4,960	50,781	14,931	178,008	(39,966)	138,042
Segment Income or Loss (Operating Income or Loss)	897	13,072	7,535	553	1,634	158	23,852	(2,412)	21,440

Notes: (1) The (2,412) million yen adjustment in segment income includes (226) million yen in intersegment eliminations, 6 million yen sales not attributable to any reporting segment, and (2,192) 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) Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Major change in goodwill)

With the acquisition of the Quinoxifen Fungicide Product Line from Corteva, Inc. in the Agricultural Chemicals segment, goodwill increased by 6,335 million yen. This is a tentative amount, since we could not identify the identifiable assets and liabilities, estimate the fair value, and complete the allocation of acquisition cost at the date of the acquisition.