

Summary of Consolidated Financial Statements for the Third Quarter Fiscal 2019 (JPGAAP)

January 31, 2020

Tokuyama Corporation

(URL <https://www.tokuyama.co.jp/eng/>)

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Scheduled date of dividends payout : -

Preparation of supplementary quarterly explanatory materials: Yes

Quarterly business results IR briefing to be held: Yes (for institutional investors and analysts)

1. Consolidated results for fiscal third quarter ended Dec. 31, 2019 (Apr. 1, 2019 – Dec. 31, 2019)

(1) Performance

Note: All amounts are rounded down to the nearest million yen.

	Net sales		Operating profit		Ordinary profit	
	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]
Third Quarter Fiscal 2019	236,543	(0.7)	24,754	(2.8)	23,780	(0.4)
Third Quarter Fiscal 2018	238,289	5.4	25,454	(15.6)	23,674	(10.6)

(Note) Comprehensive income: 3rd Q FY19: 18,426 million yen [10.7 %]

3rd Q FY18: 16,648 million yen [7.7 %]

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(millions of yen)	Year-on-year change [%]	(yen)	(yen)
Third Quarter Fiscal 2019	18,011	(8.0)	259.32	-
Third Quarter Fiscal 2018	19,570	166.5	281.56	-

(2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' Equity ratio (%)	Net assets per share (yen)
Dec 31, 2019	380,908	177,643	43.7	2395.45
Mar 31, 2019	379,630	163,525	40.2	2,199.83

(Reference) Shareholders' equity: Dec 31, 2019: 166,378 million yen Mar 31, 2019: 152,781 million yen

2. Dividends

(Period)	Annual dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Fiscal 2018, ended Mar 31, 2019	(yen) -	(yen) 25.00	(yen) -	(yen) 25.00	(yen) 50.00
Fiscal 2019, ending Mar 31, 2020	-	35.00	-		
Fiscal 2019 (Forecast)				35.00	70.00

(Note) Revision of the latest dividends forecast: No

3. Consolidated performance forecast for fiscal 2018 (Apr. 1, 2019 – Mar. 31, 2020)

(% indicates the rate of change over the corresponding previous periods respectively)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	(millions of yen)	[%]	(millions of yen)	[%]	(millions of yen)	[%]	(millions of yen)	[%]	(yen)
Fiscal 2019	322,000	(0.8)	35,000	(0.7)	34,000	1.8	26,000	(24.2)	374.35

(Note) Revision of the latest consolidated performance forecast: No

***Notes**

(1) Changes in significant subsidiaries during this period (Apr. 1, 2019 – Dec. 31, 2019)

: No

(2) Application of accounting methods specific to the preparation of the quarterly consolidated financial statements

: Yes

(Note) For more details, please refer to “2. Quarterly Consolidated Financial Statements and (4) Notes on Quarterly Consolidated Financial Statements (Change of accounting process specific to preparing quarterly consolidated financial statement)” on page 11 of the Accompanying Materials to this Summary of Quarterly Consolidated Financial Statement.

(3) Changes of accounting policies, changes in accounting estimates, and retrospective restatements

- i. Changes of accounting policies by revision of accounting standards: No
- ii. Changes of accounting policies other than the above: No
- iii. Changes in accounting estimates: No
- iv. Retrospective restatements: No

(4) Number of shares issued (in common stock)

i. Number of shares issued at end of period (including treasury stock):	Third Quarter Fiscal 2019:	69,934,375	Fiscal 2018:	69,934,375
ii. Number of treasury stock at end of period:	Third Quarter Fiscal 2019:	478,293	Fiscal 2018:	482,765
iii. Average number of shares over period:	Third Quarter Fiscal 2019:	69,455,177	Third Quarter Fiscal 2018:	69,509,684

(Note) Notice on the implementation of quarterly review procedures

This summary of quarterly consolidated financial statements is not subject to quarterly review procedures in line with the Financial Instruments and Exchange Act.

(Note) Cautions pertaining to appropriate use of performance forecast and other particular items

(Cautions related to Forward-looking statement)

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.

(Note) About the supplementary materials of quarterly consolidated financial statements

The supplementary materials was uploaded on our website on the same day, January 31, 2020:

Contents for Accompanying Materials

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1. Qualitative information on consolidated results for this quarter

(1) Explanation concerning business results

Consolidated results for the third quarter fiscal 2019 (accumulated figures, April 1, 2019 - December 31, 2019) are summarized as follows:

(Unit: Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Third Quarter Fiscal 2019	236,543	24,754	23,780	18,011
Third Quarter Fiscal 2018	238,289	25,454	23,674	19,570
Rate of change (%)	(0.7)	(2.8)	0.4	(8.0)

Net sales

Consolidated net sales decreased 0.7%, or ¥1,745 million compared with the corresponding period of the previous year, to ¥236,543 million. This was largely attributable to weak sales of major products.

Cost of sales

Cost of sales decreased 1.5%, or ¥2,458 million compared with the corresponding period of the previous year, to ¥163,756 million. This decrease largely reflected the downswing in raw material and fuel costs as a result of the decrease in domestic naphtha and coal prices.

SG&A expenses

SG&A expenses increased 3.0%, or ¥1,413 million compared with the corresponding period of the previous year, to ¥48,032 million. In addition to the increase in advertising expenses associated with the release of new products to the market, this increase largely reflected R&D expenses of thermal management material.

Operating profit

Operating profit decreased 2.8%, or ¥700 million compared with the corresponding period of the previous year, to ¥24,754 million. This was largely attributable to a weak sales volume in major products.

Non-operating income/expenses, Ordinary profit

Non-operating income/expenses improved ¥806 million compared with the corresponding period of the previous year.

As a result of the above, ordinary profit increased 0.4%, or ¥106 million compared with the corresponding period of the previous year, to ¥23,780 million.

Extraordinary income/losses, Profit before income taxes, Profit, Profit attributable to owners of parent

Extraordinary income/losses deteriorated by ¥523 million compared with the corresponding period of the previous year.

As a result of the above, profit before income taxes decreased 1.8%, or ¥417 million compared with the corresponding period of the previous year, to ¥23,390 million.

Profit after deducting income taxes calculated in an appropriate way decreased 6.5%, or ¥1,309 million compared with the corresponding period of the previous year, to ¥18,682 million.

Profit attributable to owners of parent decreased 8.0%, or ¥1,559 million compared with the corresponding period of the previous year, to ¥18,011 million.

(Operating results by segment)

Tokuyama changed the management categorizations of a certain subsidiary effective from the first quarter of the fiscal year under review. Data for the corresponding period of the previous fiscal year has been adjusted to reflect this change to enable the year-on-year comparison presented as follows.

Net sales

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
Third Quarter Fiscal 2019	71,165	38,452	66,418	42,341	49,167	267,545	(31,001)	236,543
Third Quarter Fiscal 2018	74,232	42,053	69,071	40,020	44,308	269,687	(31,398)	238,289
Rate of change (%)	(4.1)	(8.6)	(3.8)	5.8	11.0	(0.8)	-	(0.7)

Operating profit

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
Third Quarter Fiscal 2019	11,785	4,474	2,629	2,324	4,867	26,081	(1,326)	24,754
Third Quarter Fiscal 2018	12,694	6,862	2,222	2,390	2,777	26,947	(1,492)	25,454
Rate of change (%)	(7.2)	(34.8)	18.3	(2.8)	75.3	(3.2)	-	(2.8)

(Note) Net sales and operating profit in each segment include inter-segment transactions.

Chemicals

Caustic soda earnings declined. Despite firm sales volume trends, this downturn in earnings was largely due to the increase in raw material prices coupled with a deterioration in overseas market conditions.

Vinyl chloride resin earnings increased due to the Company's ability to maintain the spread between raw material prices and selling prices.

Propylene oxide earnings decreased owing to a drop in sales volume for polyurethane, main application.

Calcium chloride earnings declined. This largely reflected weak sales volume due to less snow and an increase in logistics costs.

As a result of the above, segment net sales decreased 4.1% compared with the corresponding period of the previous fiscal year, to ¥71,165 million and operating profit decreased 7.2% to ¥11,785 million. The segment reported lower earnings on lower sales.

Specialty Products

Despite signs of a recovery in the semiconductor market, earnings from semiconductor-grade polycrystalline silicon and thermal management materials declined. This largely reflected the downturn in sales volumes attributable to inventory adjustments by customers.

In high-purity chemicals for electronic manufacturing, its business result was almost same as the corresponding period of the previous fiscal year. This was due to sales volume mainly overseas recovered.

As a result of the above, segment net sales decreased 8.6% compared with the corresponding period of the previous fiscal year, to ¥38,452 million and operating profit decreased 34.8% to ¥4,474 million. The segment reported lower earnings on lower sales.

Cement

Cement earnings decreased. Despite manufacturing costs decreased due to a down in coal prices, this downturn in earnings was largely due to decrease in sales volume and an increase in fixed costs such as depreciation.

In the resource recycling business, its earnings increased due to the Company accepted a higher volume of waste than the corresponding period of the previous year.

As a result of the above, segment net sales decreased 3.8% compared with the corresponding period of the previous fiscal year, to ¥66,418 million and operating profit increased 18.3% to ¥2,629 million. The segment reported higher earnings on lower sales.

Life & Amenity

Earnings from plastic lens-related materials increased on the back of the robust shipping trends of photochromic materials for eyeglass lenses.

Dental materials earnings decreased. Despite an increase in sales volume mainly overseas, this decrease was mainly due to the increase in advertising expenses associated with the release of new products to the market.

Earnings from medical diagnosis systems increased due to firm sales volume of Clinical Testing devices and Systems

Earnings from ion exchange membranes decreased. This was due to a decrease in large-scale projects.

As a result of the above, segment net sales increased 5.8% compared with the corresponding period of the previous fiscal year, to ¥42,341 million and operating profit decreased 2.8% to ¥2,324 million. The segment reported lower earnings on higher sales.

(2) Explanation concerning financial position

(Status of assets, liabilities and net assets)

As of December 31, 2019, total assets amounted to ¥380,908 million, an increase of ¥1,278 million compared with those as of March 31, 2019.

This increase primarily reflects the increase of cash and deposits of ¥4,644 million and property, plant and equipment of ¥4,093 million due to capital investment, despite the decrease of other current assets of ¥5,784 million due to receiving of damages claims relating to the plant construction of the Tokuyama Malaysia Sdn. Bhd.

Total liabilities amounted to ¥203,264 million, down ¥12,840 million compared with those as of March 31, 2019.

The principal factors are a decrease in long-term loans payable and current portion of long-term loans payable, notes and accounts payable - trade, and provision for bonuses of ¥8,354 million, ¥1,972 million, and ¥1,290 million, respectively.

Net assets totaled ¥177,643 million, an increase of ¥14,118 million compared with those as of March 31, 2019.

This mainly reflected the increase of retained earnings of ¥13,838. This was primarily due to posting profit attributable to owners of parent, despite decrease due to the payment of dividend.

(3) Explanation concerning information related to future prediction such as consolidated performance forecast

Although the future business environment is uncertain because of the fluctuations in exchange rate and raw material and fuel prices, the Company's results were in line with our expectations at this time. Therefore, the Company has not revised the performance forecasts, announced on October 31, 2019.

The performance forecast has been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	3/31/2019	12/31/2019
Assets		
Current assets		
Cash and deposits	68,613	73,257
Notes and accounts receivable - trade	80,358	76,646
Lease receivables	30	35
Merchandise and finished goods	16,458	19,496
Work in process	9,554	8,730
Raw materials and supplies	17,462	15,601
Other	10,554	4,769
Allowance for doubtful accounts	△94	△87
Total current assets	202,936	198,450
Non-current assets		
Property, plant and equipment		
Buildings and structures	106,214	108,079
Accumulated depreciation	△76,233	△77,631
Buildings and structures, net	29,981	30,447
Machinery, equipment and vehicles	459,535	463,167
Accumulated depreciation	△414,813	△419,562
Machinery, equipment and vehicles, net	44,721	43,604
Tools, furniture and fixtures	22,106	22,290
Accumulated depreciation	△19,905	△20,062
Tools, furniture and fixtures, net	2,201	2,227
Land	32,296	33,368
Leased assets	4,548	4,878
Accumulated depreciation	△2,237	△2,504
Leased assets, net	2,311	2,374
Construction in progress	4,592	8,175
Total property, plant and equipment	116,104	120,198
Intangible assets		
Goodwill	208	5
Leased assets	71	65
Other	1,693	1,607
Total intangible assets	1,973	1,678
Investments and other assets		
Investment securities	21,718	22,135
Long-term loans receivable	2,444	2,353
Deferred tax assets	21,091	21,642
Retirement benefit asset	9,796	10,156
Other	3,621	4,335
Allowance for doubtful accounts	△57	△44
Total investments and other assets	58,614	60,580
Total non-current assets	176,693	182,458
Total assets	379,630	380,908

(Millions of yen)

	3/31/2019	12/31/2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	47,268	45,296
Short-term borrowings	4,361	3,556
Current portion of long-term borrowings	12,667	16,433
Lease obligations	758	803
Income taxes payable	3,816	2,622
Provision for bonuses	2,664	1,374
Provision for repairs	3,569	4,410
Provision for decommissioning and removal	—	284
Provision for product warranties	137	106
Provision for loss on compensation for damage	91	78
Provision for restructuring	233	44
Other	17,680	17,207
Total current liabilities	93,248	92,217
Non-current liabilities		
Long-term borrowings	109,411	97,291
Lease obligations	1,767	1,840
Deferred tax liabilities	220	234
Provision for retirement benefits for directors (and other officers)	224	228
Provision for share-based remuneration	48	71
Provision for repairs	1,546	1,544
Provision for decommissioning and removal	—	288
Allowance for loss on compensation for building materials	260	207
Provision for environmental measures	222	222
Retirement benefit liability	2,149	2,211
Asset retirement obligations	6	6
Other	6,999	6,900
Total non-current liabilities	122,856	111,047
Total liabilities	216,104	203,264
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	20,018	20,018
Retained earnings	121,901	135,739
Treasury shares	△ 1,823	△ 1,807
Total shareholders' equity	150,095	163,950
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△ 1,566	△ 1,010
Deferred gains or losses on hedges	△ 61	△ 36
Foreign currency translation adjustment	1,672	1,047
Remeasurements of defined benefit plans	2,640	2,428
Total accumulated other comprehensive income	2,685	2,428
Non-controlling interests	10,743	11,265
Total net assets	163,525	177,643
Total liabilities and net assets	379,630	380,908

(2) Quarterly Consolidated Statements of Income

	Millions of yen	
	Q3 FY2018 YTD	Q3 FY2019 YTD
Net sales	238,289	236,543
Cost of sales	166,215	163,756
Gross profit	72,074	72,787
Selling, general and administrative expenses		
Selling expenses	31,090	31,826
General and administrative expenses	15,528	16,206
Total selling, general and administrative expenses	46,619	48,032
Operating profit	25,454	24,754
Non-operating income		
Interest income	75	111
Dividend income	400	345
Share of profit of entities accounted for using equity method	721	674
Outsourcing service income	572	578
Other	2,001	1,622
Total non-operating income	3,770	3,332
Non-operating expenses		
Interest expenses	2,055	1,279
Fiduciary obligation expenses	541	613
Provision for decommissioning and removals	—	572
Cost of loans payable	884	—
Other	2,070	1,840
Total non-operating expenses	5,551	4,306
Ordinary profit	23,674	23,780
Extraordinary income		
Gain on sales of non-current assets	39	20
Gain on bargain purchase	964	—
Gain on sales of investment securities	1	4
Subsidy income	33	13
Gain on insurance claims	46	84
Other	31	—
Total extraordinary income	1,117	122
Extraordinary losses		
Loss on sales of non-current assets	9	16
Impairment loss	125	—
Loss on disaster	18	77
Loss on tax purpose reduction entry of non-current assets	19	1
Loss on disposal of non-current assets	600	414
Loss on sales of investment securities	—	1
Litigation expenses	157	—
Other	52	—
Total extraordinary losses	982	511
Profit before income taxes	23,808	23,390
Income taxes	3,817	4,708
Profit	19,991	18,682
Profit attributable to non-controlling interests	420	670
Profit attributable to owners of parent	19,570	18,011

(3) Quarterly Consolidated Statements of Comprehensive Income

	Millions of yen	
	Q3 FY2018 YTD	Q3 FY2019 YTD
Profit	19,991	18,682
Other comprehensive income		
Valuation difference on available-for-sale securities	△2,768	566
Deferred gains or losses on hedges	92	24
Foreign currency translation adjustment	△431	△429
Remeasurements of defined benefit plans, net of tax	△167	△212
Share of other comprehensive income of entities accounted for using equity method	△68	△205
Total other comprehensive income	△3,343	△255
Comprehensive income	16,648	18,426
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,226	17,753
Comprehensive income attributable to non-controlling interests	421	673

(4) Notes on Quarterly Consolidated Financial Statements

(Change of Accounting Process Specific to Preparing Quarterly Consolidated Financial Statement)
(Calculation of Tax Expense)

The Company rationally estimated the effective tax rate after the application of accounting policy for deferred tax, which was applied to the profit/loss before income tax for the fiscal year under review including the third quarter consolidated accounting period for the fiscal year ending March 31, 2020, and calculated the tax expense by multiplying the estimated effective tax rate to the profit/loss before income tax. However, if the application of said estimated effective tax rate reduces the rationality of the calculation of tax expense, the Company applies the effective statutory tax rate.

(5) Segment information

Third Quarter Fiscal 2018 (accumulated figures, Apr. 1, 2018– Dec. 31, 2018)

1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	73,592	32,654	68,412	38,475	25,154	238,289	-	238,289
Inter-segment sales/transfer	640	9,399	659	1,544	19,154	31,398	(31,398)	-
Total	74,232	42,053	69,071	40,020	44,308	269,687	(31,398)	238,289
Segment profit	12,694	6,862	2,222	2,390	2,777	26,947	(1,492)	25,454

*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

*2 The segment profit adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment and the amount of inter-segment eliminations.

*3 With regard to segment profit, operating profit in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.

2. Information on impairment loss of non-current assets or goodwill by reportable segment

The Company posted ¥125 million of Impairment loss in the “Life & Amenity” segment in the third quarter consolidated accounting period for the fiscal year ending March 31, 2019.

Third Quarter Fiscal 2019 (accumulated figures, Apr. 1, 2019– Dec. 31, 2019)

1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	70,399	30,044	65,958	40,984	29,156	236,543	-	236,543
Inter-segment sales/transfer	766	8,408	459	1,357	20,010	31,001	(31,001)	-
Total	71,165	38,452	66,418	42,341	49,167	267,545	(31,001)	236,543
Segment profit	11,785	4,474	2,629	2,324	4,867	26,081	(1,326)	24,754

*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

*2 The segment profit adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment and the amount of inter-segment eliminations.

*3 With regard to segment profit, operating profit in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.

2. Changes in reportable segments

In accordance with the change in management categorizations of a certain subsidiary implemented from the first quarter of the fiscal year under review, a certain subsidiary previously included in the Others segment have now been included in the Life & Amenity segment.

Segment information for the corresponding period of the previous fiscal year has been prepared in accordance with this change.

3. Information on impairment loss of non-current assets or goodwill by reportable segment

There are no important matters to mention.