

Consolidated Financial Results for the Six Months Ended September 30, 2018 (JPGAAP)



November 5, 2018

Name of listed company: NISSAN CHEMICAL CORPORATION

Stock Exchange: Tokyo

Code Number: 4021

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

Representative: Kojiro Kinoshita, President

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Scheduled submission date of quarterly report: November 9, 2018

Scheduled dividend payment date: December 3, 2018

Supplemental information: Yes

Financial results meeting : Yes

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(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, 2018	98,038	7.7	19,399	12.4	20,613	15.6	15,409	16.9
Six months ended September 30, 2017	90,997	7.7	17,263	17.2	17,831	25.5	13,181	24.4

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

Six months ended September 30, 2017 : 16,707 million yen , 124.3%

	Basic earnings per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	103.53	—
Six months ended September 30, 2017	87.40	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	230,566	182,482	78.4
As of March 31, 2018	246,040	176,364	71.0

(Reference) Shareholders' equity: As of September 30, 2018 : 180,768 million yen

As of March 31, 2018 : 174,586 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, 2018	—	32.00	—	36.00	68.00
Year ending March 31, 2019	—	40.00	—	—	—
Year ending March 31, 2019 (Forecast)	—	—	—	42.00	82.00

(Note) Revision of the latest released dividend forecast: Yes

Please refer to " Revision of Financial Results Forecast, Interim Dividend Payment and Dividend Forecast" for details.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019 (From April 1, 2018 to March 31, 2019)

(% 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, 2019	205,500	6.3	38,100	8.9	40,100	10.7	30,000	10.5	201.79

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

Please refer to " Revision of Financial Results Forecast, Interim Dividend Payment and Dividend Forecast" 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, 2018 : 149,000,000 shares

As of March 31, 2018 : 151,000,000 shares

2. Number of treasury shares

As of September 30, 2018 : 511,222 shares

As of March 31, 2018 : 1,534,562 shares

3. Average number of shares outstanding

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

As of September 30, 2017 : 150,826,554 shares

* 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 year ended September 30 (April 1, 2018 to September 30, 2018), the domestic economy continued to recover moderately such as increase in capital investment and improvement in employment and income conditions due to steady corporate earnings. In the Chemicals Segment, sales of Basic Chemicals increased, while sales of Fine Chemicals decreased from the same period of the previous year. In the Performance Materials Segment, Display Materials and Semiconductor Materials performed well. In the Agricultural Chemicals Segment, shipments of Fluralaner (active ingredients for veterinary pharmaceuticals) increased. In the Pharmaceuticals Segment, sales increased due to shipping time shift and other factors.

As a result, business performance for this period was as follows.

	(Million yen)		
	Consolidated cumulative period for the second quarter of FY2017	Consolidated cumulative period for the second quarter of FY2018	Change
Net sales	90,997	98,038	+7,041
Operating income	17,263	19,399	+2,135
Ordinary income	17,831	20,613	+2,781
Net income attributable to owners of parent	13,181	15,409	+2,228

Explanations by segments are as below.

The Chemicals Segment

In the Basic Chemicals, sales of melamine (adhesives agent for particle board) increased, while sales of high purity sulfuric acid (agent used for cleaning semiconductor) decreased. In the Fine Chemicals, shipment of "TEPIC" (epoxy compound for LED sealants) declined, while sales of "HI-LITE" (chlorinated isocyanuric acid for sterilizing) increased. Despite raw material and freight price increase, the profit rate of department overall was maintained due to price revisions.

As a result, sales of this segment was 16,981 million yen (an increase of 275 million yen) and operating income was 1,145 million yen (a decrease of 119 million yen).

The Performance Materials Segment

In the Display Materials, "SUNEVER" (LCD alignment coating) for smartphone had healthy sales. In the Semiconductor Materials, sales of bottom anti-reflective coatings for semiconductors (ARC®*) and multi-layer process materials (OptiStack®*) increased in response to expanding demand. In the Inorganic Materials, sales for "SNOWTEX" (semiconductor polishing, hard coating, etc.) increased, while sales for Organo / Monomer sol (various kinds of coating materials, resin additive) decreased. Sales of Oilfield materials (for enhancing oil recovery) increased.

As a result, sales of this segment was 31,967 million yen (an increase of 2,844 million yen) and operating income was 8,120 million yen (an increase of 454 million yen).

*ARC® and OptiStack® are registered trade mark of Brewer Science, Inc.

The Agricultural Chemicals Segment

Shipments of Fluralaner remained steady. Sales of "Round-up" (non-selective herbicide) decreased due to the impact of earlier shipments in the previous fiscal year, intense heat and natural disasters in Japan. Sales of "ALTAIR" (paddy rice herbicide) decreased due to the overseas shipment time shift after October, however sales of other overseas agrochemicals was steady.

As a result, sales of this segment was 28,680 million yen (an increase of 2,532 million yen) and operating income was 9,846 million yen (an increase of 1,708 million yen).

The Pharmaceuticals Segment

Sales of "LIVALO" (anti-cholesterol drug) increased due to early shipment to overseas. Sales of "Custom Chemicals" (custom manufacturing and process researching services for pharmaceutical companies) increased due to shipment time shift.

As a result, sales of this segment was 3,716 million yen (an increase of 198 million yen) and operating income was 605 million yen (an increase of 94 million yen).

Trading

Sales of this segment was 33,443 million yen (an increase of 4,379 million yen) and operating income was 1,100 million yen (an increase of 244 million yen).

Others

Sales of this segment was 10,502 million yen (an increase of 838 million yen) and operating income was 235 million yen (an increase of 76 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of September 30, 2018 was 230,566 million yen (a decrease of 15,474 million yen from March 31, 2018). It is mainly due to the decrease of notes and accounts receivable - trade.

Also, total liabilities as of September 30, 2018 was 48,083 million yen (a decrease of 21,592 million yen). It is mainly due to the decrease of loans payable.

Net assets as of September 30, 2018 was 182,482 million yen (an increase of 6,117 million yen).

As a result of these factors, equity ratio was 78.4% (an increase of 7.4% from March 31, 2018).

(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, 2018 was 29,145 million yen (30,035 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, 2018 was 5,966 million yen (6,265 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, 2018 was 31,478 million yen (26,787 million yen).

As a result of these factors, cash and cash equivalents at the end of this period was 29,493 million yen (32,733 million yen), reflecting exchange of 90 million yen. It decreased by 8,209 million yen from March 31, 2018.

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

Forecast for the year ending March 31, 2019 was revised as follows based on the cumulative second quarter and demand forecasts.

Revision of consolidated financial results' forecast for the year ending March 31, 2019
(April 1, 2018 to March 31, 2019)

(Billion yen)					
	Previous forecast (A)	Revised forecast (B)	Increase or decrease (B-A)	Rate of change (%)	(Reference) Results for the previous fiscal year
Net sales	204.0	205.5	+1.5	+0.7%	193.4
Operating income	36.8	38.1	+1.3	+3.5%	35.0
Ordinary income	38.0	40.1	+2.1	+5.5%	36.2
Net income attributable to owners of parent	28.5	30.0	+1.5	+5.3%	27.1
Basic earnings per share	191.76 yen	201.79 yen	—	—	180.30 yen

Revision of consolidated net sales and operating income forecast for the year ending March 31, 2019
(Billion yen)

	Net sales		Operating income	
	Previous	Revised	Previous	Revised
Chemicals	38.0	37.8	3.9	3.9
Performance Materials	62.5	63.8	14.1	15.3
Agricultural Chemicals	63.0	62.6	17.7	18.4
Pharmaceuticals	7.2	7.0	1.5	1.2
Trading	64.7	66.3	2.0	2.1
Others	23.6	22.5	0.2	0.6
Adjustment	(55.0)	(54.5)	(2.6)	(3.4)
Total	204.0	2,055	36.8	38.1

(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.

We aim to realize dividend payout ratio to be 40% in FY2018 and maintain total payout ratio to be 70% in medium-term business plan "Vista2021" launched from April 2016.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	37,702	29,493
Notes and accounts receivable - trade	65,422	53,451
Merchandise and finished goods	29,855	31,768
Work in process	115	839
Raw materials and supplies	7,797	9,002
Other	4,748	3,649
Allowance for doubtful accounts	(34)	(38)
Total current assets	145,606	128,166
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	24,411	24,755
Other, net	30,062	29,903
Total property, plant and equipment	54,473	54,658
Intangible assets		
Software	775	794
Other	993	869
Total intangible assets	1,768	1,663
Investments and other assets		
Investment securities	38,517	40,600
Other	5,766	5,569
Allowance for doubtful accounts	(92)	(92)
Total investments and other assets	44,191	46,077
Total non-current assets	100,433	102,400
Total assets	246,040	230,566

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,579	16,595
Short-term loans payable	26,145	6,172
Income taxes payable	5,156	5,318
Provision for bonuses	2,011	2,026
Provision for directors' bonuses	27	12
Other	10,950	12,168
Total current liabilities	62,871	42,294
Non-current liabilities		
Long-term loans payable	2,446	1,569
Provision for business structure improvement	516	409
Provision for loss on business of subsidiaries and affiliates	309	309
Net defined benefit liability	126	149
Other	3,406	3,352
Total non-current liabilities	6,804	5,789
Total liabilities	69,675	48,083
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,613	13,613
Retained earnings	133,822	135,177
Treasury shares	(5,962)	(2,290)
Total shareholders' equity	160,416	165,442
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,653	14,504
Foreign currency translation adjustment	125	455
Remeasurements of defined benefit plans	390	364
Total accumulated other comprehensive income	14,170	15,325
Non-controlling interests	1,778	1,714
Total net assets	176,364	182,482
Total liabilities and net assets	246,040	230,566

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

- Consolidated Statements of Income

(Million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018
Net sales	90,997	98,038
Cost of sales	51,702	54,961
Gross profit	39,294	43,077
Selling, general and administrative expenses	22,030	23,677
Operating income	17,263	19,399
Non-operating income		
Interest income	12	12
Dividend income	311	332
Equity in earnings of affiliates	445	408
Other	491	1,023
Total non-operating income	1,261	1,777
Non-operating expenses		
Interest expenses	73	59
Loss on disposal of non-current assets	223	315
Plant stop losses	218	134
Other	177	52
Total non-operating expenses	692	563
Ordinary income	17,831	20,613
Extraordinary income	-	-
Extraordinary losses	-	-
Income before income taxes and non-controlling interests	17,831	20,613
Income taxes - current	4,778	5,397
Income taxes - deferred	(245)	(276)
Total income taxes	4,533	5,121
Net income	13,298	15,492
Net income attributable to non-controlling interests	117	82
Net income attributable to owners of parent	13,181	15,409

- Consolidated Statements of Comprehensive Income

(Million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018
Net income	13,298	15,492
Other comprehensive income		
Valuation difference on available-for-sale securities	3,562	850
Foreign currency translation adjustment	(127)	352
Remeasurements of defined benefit plans, net of tax	(25)	(26)
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	3,408	1,176
Comprehensive income	16,707	16,669
(Comprehensive income attributable to)		
Owners of parent	16,608	16,564
Non-controlling interests	99	104

(3) Consolidated Statements of Cash Flows

(Million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2018
Cash flows from operating activities		
Income before income taxes and non-controlling interests	17,831	20,613
Depreciation and amortization	4,735	5,049
Interest and dividend income	(324)	(345)
Interest expenses	73	59
Loss (gain) on disposal of non-current assets	223	315
Decrease (increase) in notes and accounts receivable - trade	9,676	12,093
Decrease (increase) in inventories	(2,221)	(3,739)
Increase (decrease) in notes and accounts payable - trade	1,109	(2,054)
Other	1,887	1,607
Subtotal	32,990	33,600
Interest and dividend income received	770	789
Interest expenses paid	(73)	(60)
Income taxes paid	(3,651)	(5,183)
Net cash provided by (used in) operating activities	30,035	29,145
Cash flows from investing activities		
Purchase of investment securities	(5)	(905)
Proceeds from sales of investment securities	65	398
Purchase of property, plant and equipment	(6,436)	(5,168)
Payments for retirement of property, plant and equipment	(190)	(268)
Purchase of intangible assets	(293)	(116)
Net decrease (increase) in short-term loans receivable	601	91
Purchase of long-term prepaid expenses	(54)	(13)
Other	48	17
Net cash provided by (used in) investing activities	(6,265)	(5,966)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(15,954)	(19,650)
Repayments of long-term loans payable	(1,535)	(1,277)
Cash dividends paid	(4,249)	(5,380)
Dividends paid to non-controlling interests	(39)	(167)
Share repurchase	(5,001)	(5,002)
Other	(8)	(0)
Net cash provided by (used in) financing activities	(26,787)	(31,478)
Effect of exchange rate change on cash and cash equivalents	48	90
Net increase (decrease) in cash and cash equivalents	(2,968)	(8,209)
Cash and cash equivalents at beginning of period	35,701	37,702
Cash and cash equivalents at end of period	32,733	29,493

(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 8, 2018 based on the resolution of Board of Directors' meeting held on April 24, 2018. In addition, the Company canceled 1,000,000 treasury shares on August 31, 2018 based on the resolution of Board of Directors' meeting held on August 21, 2018. As a result, retained earnings and treasury shares decreased by 8,674 million yen during the second quarter of current consolidated fiscal year.

Also, the Company repurchased its own shares based on the resolution of Board of Directors' meeting held on May 11, 2018. As a result, treasury shares increased by 4,999 million yen during the second quarter of current consolidated fiscal year.

(Additional Information)

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) was adopted from the beginning of the first quarter of this fiscal year. As a result, deferred tax assets are classified as "Investment and other assets" and deferred tax liabilities are classified as "Non-current liabilities" respectively.

Segment Information

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

1) For the Six Months Ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

(Million yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	12,138	25,812	24,254	3,491	21,654	3,645	90,997	—	90,997
Intersegment Sales	4,566	3,310	1,893	26	7,410	6,018	23,225	(23,225)	—
Total Sales	16,705	29,123	26,147	3,518	29,064	9,663	114,223	(23,225)	90,997
Segment Income or Loss (Operating Income or Loss)	1,264	7,666	8,138	510	856	158	18,595	(1,331)	17,263

Notes: (1) The (1,331) million yen adjustment in segment income includes (131) million yen in intersegment eliminations and (1,199) 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, 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.