

Summary of Consolidated Financial Statements for the First Quarter Fiscal 2020 (JPGAAP)

July 28, 2020

Tokuyama Corporation

Stock exchange listings:

Tokyo

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

Local Code :

4043

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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 first quarter ended June 30, 2020 (April 1, 2020 - June 30, 2020)

(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 [%]
First Quarter Fiscal 2020	70,624	(7.6)	6,653	(5.3)	6,674	6.0
First Quarter Fiscal 2019	76,465	0.8	7,026	(20.9)	6,298	(27.4)

(Note) Comprehensive income: 1st Q FY20: 6,390 million yen [61.8%] 1st Q FY19: 3,951 million yen [(34.8) %]

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(millions of yen)	Year-on-year change [%]	(yen)	(yen)
First Quarter Fiscal 2020	5,205	7.1	74.94	-
First Quarter Fiscal 2019	4,859	(27.0)	69.97	-

(2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' Equity ratio (%)	Net assets per share (yen)
Jun 30, 2020	376,444	185,090	45.8	2,484.60
Mar 31, 2020	383,447	180,429	44.0	2,431.21

(Reference) Shareholders' equity: Jun 30, 2020: 172,570 million yen Mar 31, 2020: 168,861 million yen

2. Dividends

(Period)	Annual dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Total
	(yen)	(yen)	(yen)	(yen)	(yen)
Fiscal 2019, ended Mar 31, 2020	-	35.00	-	35.00	70.00
Fiscal 2020, ending Mar 31, 2021	-				
Fiscal 2020 (Forecast)		35.00	-	-	

(Note) Revision of the latest dividends forecast: No

3. Consolidated performance forecast for fiscal 2020 (April 1, 2020 - March 31, 2021)

(% 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 2020	310,000	(1.9)	28,000	(18.3)	28,000	(14.7)	22,000	10.3	316.75

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

***Notes**

(1) Changes in significant subsidiaries during this period

: 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 in 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):	First Quarter Fiscal 2020:	69,934,375	Fiscal 2019:	69,934,375
ii. Number of treasury stock at end of period:	First Quarter Fiscal 2020:	478,389	Fiscal 2019:	478,862
iii. Average number of shares over period:	First Quarter Fiscal 2020:	69,455,591	First Quarter Fiscal 2019:	69,452,147

(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. At the point of disclosure of this summary of quarterly consolidated financial statements, the quarterly consolidated financial statements review procedures in line with the Financial Instruments and Exchange Act are underway.

(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.

(Access to supplementary explanations on business results)

The Company also supplementary materials “Presentation for IR Meeting” through TD net at the same date.

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 first quarter fiscal 2020 (April 1, 2020 - June 30, 2020) are summarized as follows:

(Unit: Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
First Quarter Fiscal 2020	70,624	6,653	6,674	5,205
First Quarter Fiscal 2019	76,465	7,026	6,298	4,859
Rate of change (%)	(7.6)	(5.3)	6.0	7.1

Net sales

Consolidated net sales decreased 7.6%, or ¥5,840 million compared with the corresponding period of the previous year, to ¥ 70,624 million. Despite firm sales of semiconductor-related products, this decrease was largely attributable to the impact of the novel coronavirus (COVID-19) pandemic, which triggered a downturn in overseas caustic soda market conditions, weak petrochemical product sales prices, and lower export volumes of dental materials to Europe and the United States.

Cost of sales

Cost of sales decreased 9.4%, or ¥ 4,993 million compared with the corresponding period of the previous year, to ¥ 48,349 million. This was due mainly to a downturn in raw material and fuel costs.

SG&A expenses

SG&A expenses decreased 2.9%, or ¥473 million compared with the corresponding period of the previous year, to ¥ 15,621 million. While R&D and other expenses increased, this decrease largely reflected the drop in advertising expenses and such operating costs as travel expenses due to the COVID-19 pandemic.

Operating profit

Operating profit decreased 5.3%, or ¥373 million compared with the corresponding period of the previous fiscal year, to ¥ 6,653 million. Despite lower raw material and fuel costs, Despite a downturn in raw material and fuel costs, this decrease in operating profit was mainly due to the impact of COVID-19, which triggered a downturn in overseas caustic soda market conditions, and weak petrochemical product sales prices.

Non-operating income/expenses, Ordinary profit

Non-operating income/expenses improved by ¥748 million compared with the corresponding period of the previous fiscal year.

As a result of the above, ordinary profit increased 6.0 %, or ¥375 million compared with the corresponding period of the previous fiscal year, to ¥ 6,674 million.

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

Extraordinary income/losses deteriorated by ¥182 million compared with the corresponding period of the previous fiscal year.

As a result of the above, profit before income taxes increased 3.1 %, or ¥193 million compared with the corresponding period of the previous fiscal year, to ¥ 6,351 million.

Profit after deducting income taxes calculated in an appropriate way increased 11.8%, or ¥582 million compared with the corresponding period of the previous fiscal year, to ¥ 5,512 million.

Profit attributable to owners of parent increased 7.1%, or ¥345 million compared with the corresponding period of the previous fiscal year, to ¥ 5,205 million.

(Operating results by segment)

Sales

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated profit statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
First Quarter Fiscal 2020	19,817	12,572	20,069	12,839	14,782	80,080	(9,456)	70,624
First Quarter Fiscal 2019	24,292	12,118	21,480	13,513	15,811	87,216	(10,751)	76,465
Rate of change (%)	(18.4)	3.7	(6.6)	(5.0)	(6.5)	(8.2)	-	(7.6)

Operating profit

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated profit statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
First Quarter Fiscal 2020	2,586	1,321	1,444	704	1,351	7,407	(754)	6,653
First Quarter Fiscal 2019	3,868	1,598	666	665	942	7,741	(715)	7,026
Rate of change (%)	(33.1)	(17.4)	116.7	5.8	43.4	(4.3)	-	(5.3)

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

Chemicals

Caustic soda earnings declined. This downturn in earnings was largely due to the drop in sales volumes in Japan owing to the spread of COVID-19 and a deterioration in overseas market conditions.

Vinyl chloride monomer (VCM) earnings decreased. Despite a downturn in manufacturing costs as a result of the drop in domestic naphtha prices, this decrease in earnings was mainly attributable to COVID-19, which placed downward pressure on overseas market conditions.

Results in vinyl chloride resin were essentially in line with the corresponding period of the previous fiscal year. While sales volumes were weak, this largely reflected the Company's ability to maintain the spread between raw material costs and selling prices.

As a result of the above, segment net sales decreased 18.4% compared with the corresponding period of the previous fiscal year, to ¥19,817 million and operating profit decreased 33.1% to ¥ 2,586 million. The segment reported lower earnings on lower sales.

Specialty Products

Semiconductor-grade polycrystalline silicon results were also in line with the corresponding period of the previous fiscal year owing to firm sales on the back of the introduction of 5G and an increase in remote work.

Earnings from high-purity chemicals for electronic manufacturing increased. This was due to an increase in the volume mainly overseas.

Both sales volumes and earnings of fumed silica at Tokuyama Chemicals (Zhejiang) Co., Ltd. decreased owing largely to trade friction between China and the United States.

As a result of the above, segment net sales increased 3.7% compared with the corresponding period of the previous fiscal year, to ¥12,572 million and operating profit decreased 17.4% to ¥1,321 million. The segment reported lower earnings on higher sales.

Cement

Cement earnings increased. Despite a downturn in export volumes as a result of COVID-19, this upswing in earnings reflected the limited impact on domestic shipments and successful steps to reduce manufacturing costs on the back of a decline in raw material prices.

As a result of the above, segment net sales decreased 6.6% compared with the corresponding period of the previous fiscal year, to ¥ 20,069 million and operating profit increased 116.7% to ¥1,444 million. The segment reported higher earnings on lower sales.

Life & Amenity

Pharmaceutical ingredients and intermediates earnings increased, owing mainly to a robust sales volume of generic pharmaceuticals.

Earnings from plastic lens-related materials decreased as a result of COVID-19, which pushed down export volumes of photochromic materials for eyeglass lenses to Europe and the United States.

Impacted by the spread of COVID-19, export volumes of dental materials to Europe and the United States also declined resulting in a drop in earnings

Sales of medical diagnosis systems increased. This largely reflected an increase in sales volumes of laboratory information systems and laboratory automation systems.

As a result of the above, segment net sales decreased 5.0% compared with the corresponding period of the previous fiscal year, to ¥12,839 million and operating profit increased 5.8% to ¥704 million. The segment reported higher earnings on lower sales.

(2) Explanation concerning financial position

(Status of assets, liabilities and net assets)

As of June 30, 2020, total assets amounted to ¥ 376,444 million, an decrease of ¥ 7,002 million compared with those as of March 31, 2020.

This decrease primarily reflects the decrease of notes and accounts receivable - trade and cash and deposits of ¥6,701 million, and ¥4,269 million respectively, despite the increase of investment securities due to valuation of investment securities and merchandise and finished goods, of ¥1,302 million and ¥1,064 million, respectively.

Total liabilities amounted to ¥ 191,354 million, down ¥ 11,663 million compared with those as of March 31, 2020.

The principal factors are a decrease in notes and accounts payable - trade, long-term loans payable and current portion of long-term loans payable, other current liabilities mainly due to accounts payable – facilities paid, and income taxes payable of ¥4,218 million, ¥2,761 million, ¥2,669 million, and ¥1,779 million, respectively.

Net assets totaled ¥185,090 million, an increase of ¥4,660 million compared with those as of March 31, 2020.

This mainly reflected the increase of retained earnings primarily due to posting profit attributable and valuation difference on available-for-sale securities of ¥2,770 million and ¥929 million respectively.

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

Notwithstanding anxieties toward the business environment going forward due to uncertainty surrounding the spread of COVID-19, fluctuations in foreign exchange rates as well as raw material and fuel prices, and other factors, Tokuyama's business performance is currently trending within anticipated parameters. Therefore, the Company has not revised the performance forecasts, announced on May 15, 2020. Details will be disclosed in a timely manner should the need to revise performance forecasts.

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)

	3/31/2020	6/30/2020
Assets		
Current assets		
Cash and deposits	81,524	77,255
Notes and accounts receivable - trade	72,929	66,227
Lease receivables	34	34
Merchandise and finished goods	18,506	19,570
Work in process	10,051	9,971
Raw materials and supplies	16,088	16,152
Other	4,823	5,168
Allowance for doubtful accounts	(108)	(104)
Total current assets	203,849	194,276
Non-current assets		
Property, plant and equipment		
Buildings and structures	108,636	109,245
Accumulated depreciation	(78,109)	(78,481)
Buildings and structures, net	30,526	30,763
Machinery, equipment and vehicles	465,761	464,949
Accumulated depreciation	(420,631)	(420,685)
Machinery, equipment and vehicles, net	45,129	44,263
Tools, furniture and fixtures	22,488	22,721
Accumulated depreciation	(20,024)	(20,187)
Tools, furniture and fixtures, net	2,463	2,534
Land	33,363	33,519
Leased assets	5,011	5,789
Accumulated depreciation	(2,370)	(2,640)
Leased assets, net	2,641	3,149
Construction in progress	9,067	9,530
Total property, plant and equipment	123,192	123,761
Intangible assets		
Goodwill	3	1
Leased assets	59	54
Other	1,594	1,571
Total intangible assets	1,657	1,627
Investments and other assets		
Investment securities	19,385	20,687
Long-term loans receivable	2,302	2,325
Deferred tax assets	19,164	18,922
Retirement benefit asset	9,569	10,013
Other	4,382	4,890
Allowance for doubtful accounts	(56)	(59)
Total investments and other assets	54,747	56,780
Total non-current assets	179,597	182,168
Total assets	383,447	376,444

(Millions of yen)

	3/31/2020	6/30/2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	42,795	38,576
Short-term borrowings	3,082	3,057
Current portion of long-term borrowings	16,106	15,987
Lease obligations	870	977
Income taxes payable	2,896	1,117
Provision for bonuses	3,175	1,765
Provision for repairs	5,159	4,942
Provision for decommissioning and removal	439	378
Provision for product warranties	84	103
Provision for loss on compensation for damage	84	144
Other	20,545	17,875
Total current liabilities	95,241	84,927
Non-current liabilities		
Long-term borrowings	94,255	91,613
Lease obligations	2,028	2,479
Deferred tax liabilities	204	233
Provision for retirement benefits for directors (and other officers)	239	246
Provision for share-based remuneration	86	100
Provision for repairs	944	1,514
Provision for decommissioning and removal	529	592
Allowance for loss on compensation for building materials	158	152
Provision for environmental measures	196	159
Retirement benefit liability	2,277	2,273
Asset retirement obligations	6	6
Other	6,848	7,054
Total non-current liabilities	107,775	106,426
Total liabilities	203,017	191,354
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	20,018	20,072
Retained earnings	137,665	140,436
Treasury shares	(1,809)	(1,809)
Total shareholders' equity	165,874	168,700
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	332	1,261
Deferred gains or losses on hedges	(35)	(28)
Foreign currency translation adjustment	703	647
Remeasurements of defined benefit plans	1,986	1,990
Total accumulated other comprehensive income	2,986	3,870
Non-controlling interests	11,568	12,520
Total net assets	180,429	185,090
Total liabilities and net assets	383,447	376,444

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	Q1 FY2019 YTD	Q1 FY2020 YTD
Net sales	76,465	70,624
Cost of sales	53,343	48,349
Gross profit	23,121	22,274
Selling, general and administrative expenses		
Selling expenses	10,633	9,933
General and administrative expenses	5,461	5,688
Total selling, general and administrative expenses	16,095	15,621
Operating profit	7,026	6,653
Non-operating income		
Interest income	89	19
Dividend income	191	246
Share of profit of entities accounted for using equity method	247	226
Outsourcing service income	421	430
Other	775	552
Total non-operating income	1,725	1,476
Non-operating expenses		
Interest expenses	443	402
Fiduciary obligation expenses	434	414
Comprehensive welfare group term insurance expenses	180	186
Other	1,395	452
Total non-operating expenses	2,453	1,455
Ordinary profit	6,298	6,674
Extraordinary income		
Gain on sales of non-current assets	4	26
Subsidy income	12	—
Total extraordinary income	16	26
Extraordinary losses		
Loss on sales of non-current assets	15	—
Impairment loss	—	84
Loss on disaster	13	99
Loss on disposal of non-current assets	127	105
Provision for loss on compensation for damage	—	59
Total extraordinary losses	156	348
Profit before income taxes	6,158	6,351
Income taxes	1,228	839
Profit	4,929	5,512
Profit attributable to non-controlling interests	69	306
Profit attributable to owners of parent	4,859	5,205

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Q1 FY2019 YTD	Q1 FY2020 YTD
Profit	4,929	5,512
Other comprehensive income		
Valuation difference on available-for-sale securities	(232)	917
Deferred gains or losses on hedges	6	7
Foreign currency translation adjustment	(646)	66
Remeasurements of defined benefit plans, net of tax	(78)	3
Share of other comprehensive income of entities accounted for using equity method	(27)	(116)
Total other comprehensive income	(978)	878
Comprehensive income	3,951	6,390
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,884	6,089
Comprehensive income attributable to non-controlling interests	67	301

(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 first 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.

(Additional Information)

(Application of tax effect accounting associated with the transition from the consolidated taxation system to the group tax sharing system)

With regard to the transition to the group tax sharing system established under the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and the items for which the nonconsolidated taxation system was revised in line with the transition to the group tax sharing system, pursuant to Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, issued on March 31, 2020), the Company and certain domestic consolidated subsidiaries did not apply the provision of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, issued on February 16, 2018), and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax laws before the revision.

(5) Segment information

First Quarter Fiscal 2019 (April 1, 2019 – June 30, 2019)

1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated profit statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	24,114	9,065	21,256	13,053	8,975	76,465	-	76,465
Inter-segment sales/transfer	178	3,053	224	459	6,835	10,751	(10,751)	-
Total	24,292	12,118	21,480	13,513	15,811	87,216	(10,751)	76,465
Segment profit	3,868	1,598	666	665	942	7,741	(715)	7,026

*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 profit has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.

First Quarter Fiscal 2020 (April 1, 2020– June 30, 2020)

1. Information on sales and profit by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated profit statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	19,627	9,858	20,023	12,592	8,521	70,624	-	70,624
Inter-segment sales/transfer	189	2,713	45	246	6,260	9,456	(9,456)	-
Total	19,817	12,572	20,069	12,839	14,782	80,080	(9,456)	70,624
Segment profit	2,586	1,321	1,444	704	1,351	7,407	(754)	6,653

*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 profit has been calculated by making an adjustment to the sum total of the reportable segments’ profit and the “Others” segment’s profit.