

Summary of Consolidated Financial Results for Second Quarter of FY2020

Nov 11, 2020
Mitsui Chemicals, Inc.

1. Summary of Operating Results

(Unit : Billions of Yen)

	2nd Q of FY2019	2nd Q of FY2020	Incr. (Decr.)	FY2019※	Forecast for FY2020 (announced Nov. 11)	
					FY2020	Incr. (Decr.)
Sales revenue	678.7	537.0	(141.7)	1,349.5	1,175.0	(174.5)
Operating income before special items	39.7	18.6	(21.1)	72.3	50.0	(22.3)
Operating income	36.9	17.9	(19.0)	64.6	52.0	(12.6)
Net income	25.0	11.0	(14.0)	42.6	37.5	(5.1)
Net income attributable to owners of the parent	20.4	9.6	(10.8)	34.0	33.0	(1.0)

Note: The Group has voluntarily adopted International Financial Reporting Standards (IFRS) from the first quarter, and has applied operating income before special items as a management indicator, which is operating income excluding non-recurring items.

2. Sales Revenue and Operating Income before Special Items by Business Segment

· Sales revenue

(Unit : Billions of Yen)

	2nd Q of FY2019	2nd Q of FY2020	Incr. (Decr.)	Breakdown		FY2019※	Forecast for FY2020 (announced Nov. 11)	
				Volume	Price		FY2020	Incr. (Decr.)
Mobility	187.4	132.0	(55.4)	(44.6)	(10.8)	367.9	300.0	(67.9)
Health Care	69.8	66.0	(3.8)	(3.9)	0.1	143.2	140.0	(3.2)
Food & Packaging	96.6	89.6	(7.0)	(2.9)	(4.1)	201.3	195.0	(6.3)
Basic Materials	316.0	242.6	(73.4)	(20.9)	(52.5)	619.5	525.0	(94.5)
Others	8.9	6.8	(2.1)	-	(2.1)	17.6	15.0	(2.6)
Total	678.7	537.0	(141.7)	(72.3)	(69.4)	1,349.5	1,175.0	(174.5)

· Operating income before special items

(Unit : Billions of Yen)

	2nd Q of FY2019	2nd Q of FY2020	Incr. (Decr.)	Breakdown			FY2019※	Forecast for FY2020 (announced Nov. 11)	
				Volume	Price*	Fixed Costs etc.		FY2020	Incr. (Decr.)
Mobility	22.5	8.2	(14.3)	(12.3)	(1.7)	(0.3)	43.1	24.0	(19.1)
Health Care	5.9	7.2	1.3	(2.4)	0.4	3.3	13.2	16.0	2.8
Food & Packaging	7.8	9.5	1.7	(0.7)	1.4	1.0	17.0	18.5	1.5
Basic Materials	6.9	(4.6)	(11.5)	(5.3)	(2.1)	(4.1)	9.4	(3.0)	(12.4)
Others	0.4	(0.3)	(0.7)	-	-	(0.7)	(2.9)	(1.0)	1.9
Adjustment	(3.8)	(1.4)	2.4	-	-	2.4	(7.5)	(4.5)	3.0
Total	39.7	18.6	(21.1)	(20.7)	(2.0)	1.6	72.3	50.0	(22.3)

*Price includes both selling and purchasing price variances.

3. Summary of Statement of Financial Position

(Unit : Billions of Yen)

	Assets				Liabilities and Equity		
	As of Mar. 31, 2020	As of Sept. 30, 2020	Incr. (Decr.)		As of Mar. 31, 2020	As of Sept. 30, 2020	Incr. (Decr.)
Current assets	781.8	756.1	(25.7)	Interest-bearing liabilities	599.4	606.5	7.1
Property, plant and equipment & right-of-use assets	499.7	498.2	(1.5)	Other liabilities	321.4	287.3	(34.1)
Goodwill and intangible assets	26.2	25.6	(0.6)	Equity attributable to owners of the parent	529.2	548.3	19.1
Other non-current assets	222.8	230.6	7.8	Non-controlling interests	80.5	68.4	(12.1)
Total assets	1,530.5	1,510.5	(20.0)	Total liabilities and equity	1,530.5	1,510.5	(20.0)
[Inventories]	284.3	257.7	(26.6)	[Net D/E Ratio]	0.81	0.68	(0.13)

4. Summary of Statement of Cash Flows

(Unit : Billions of Yen)

	2nd Q of FY2019	2nd Q of FY2020	Incr. (Decr.)	Forecast for FY2020 (announced Nov. 11)		
				FY2019※	FY2020	Incr. (Decr.)
Cash flows from operating activities	90.4	111.1	20.7	142.2	150.0	7.8
Cash flows from investing activities	(53.1)	(39.4)	13.7	(109.1)	(110.0)	(0.9)
<i>Free cash flows</i>	37.3	71.7	34.4	33.1	40.0	6.9
Cash flows from financing activities	(17.4)	(5.7)	11.7	(6.4)	(43.0)	(36.6)
Others	(1.7)	(1.0)	0.7	(1.6)	-	(1.6)
Net incr.(decr.) in cash and cash equivalents	18.2	65.0	46.8	25.1	(3.0)	(28.1)
Cash and cash equivalents at the end of period	157.7	229.6	71.9	164.6		

5. Accounting Fundamentals

		2nd Q of FY2020	Forecast for FY2020 (announced Nov. 11)
R & D expenses	¥ Billions	16.3	35.0
Depreciation & amortization	¥ Billions	37.9	80.0
Capital expenditures	¥ Billions	41.5	101.0
Financing incomes & expenses	¥ Billions	(2.2)	(5.0)
Interest-bearing liabilities	¥ Billions	606.5	580.0
Net D/E Ratio	percentage	0.68	0.73
Number of employees	person	18,155	18,200
Exchange rate	Yen / US\$	107	106
Domestic standard naphtha price	Yen / KL	27,600	29,800
Number of group companies	company	152	154

6. Dividends

	Annual Dividends per Share (yen)				
	1st Q	Interim (2nd Q)	3rd Q	Year-end (4th Q)	Annual
FY2019 Result	-	50.00	-	50.00	100.00
FY2020 Forecast	-	50.00	-	50.00	100.00

7. Number of Shares Outstanding (common stock)

	FY2019	2nd Q of FY2020
Number of shares outstanding at term-end (including treasury stock)	204,580,115	204,608,615
Number of shares of treasury stock at term-end	13,557,163	8,653,003
Average number of shares	195,090,185 *	192,454,789

*2nd Q of FY2019

※ Actual FY2019 are shown as reference for IFRS results before audit.

1. Operating Results

(1) Overview

In the fiscal period under review (the six-month period from Apr 1, 2020 to Sept 30, 2020, hereinafter the “first half”), although the global economy remained extremely harsh due to the spread of coronavirus, economic activities have incrementally restarted and the market has shown recovery. In Japan as well, the situation has remained extremely difficult due to the spread, but economic activities have also incrementally restarted and the market has shown recovery while taking preventive measures to control the spread. However, the risk of further spread remains, and the outlook is still unclear.

Moreover, the spread of the coronavirus has been putting a damper on sales in each segment since the previous fiscal year. The Group continues to minimize negative impact on profit and loss by controlling inventories and reducing fixed costs. The status of other responses is as follows.

1. Measures taken to ensure the health and safety of customers and employees from the perspective of maintaining functions for preventing the spread of infection and continuing business

Mitsui Chemicals, Inc. (hereafter “the Company”) has been recommending teleworking even after the government lifted the state of emergency on May 25th. In addition, for operations that are necessary to maintain business functions and can only be done at the workplace, the Company is taking such measures as staggering work times, ensuring thorough handwashing, and requiring masks to be worn.

2. Operational status of main business locations (suspension of operations at plants, impact on sales and production activities, and outlook on reopenings at the time of disclosure)

The Company’s main manufacturing facilities located at each business location have partially reduced production due to a decrease in demand caused by the spread of the coronavirus.

3. Production and supply status of major products (inventory levels, procurement of raw materials, securing of alternative methods, and outlook)

Each segment has been impacted by a decrease in sales, but the Company is working collaboratively and sharing information with customers as well as thoroughly and properly managing inventory by flexibly adjusting production based on the latest demand forecasts. In addition, at present, there has been no major disruption in the procurement of raw materials for major products.

4. Customer trends (trends in orders, and outlook)

In the automotive field, some of the major customers for our main products appear to have scaled back production. The Company will continue to carefully monitor the situation to minimize the impact.

The Company will continue to respond to the coronavirus from the perspectives of business continuity and social contribution.

The Group reported the following operating results for the first half, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The Group has applied operating income before special items as a management indicator, which is operating income excluding non-recurring items.

(Billions of Yen)

	Sales Revenue	Operating Income before Special Items	Operating Income	Net Income Attributable to Owners of the Parent
First half	537.0	18.6	17.9	9.6
Same period of previous year	678.7	39.7	36.9	20.4
Change	(141.7)	(21.1)	(19.0)	(10.8)
Change (%)	(20.9)	(53.3)	(51.4)	(52.8)

Sales revenue decreased 141.7 billion yen, or 20.9%, compared with the corresponding period of the previous fiscal year to 537.0 billion yen. This was mainly attributable to decrease in sales prices due to the fall in naphtha and other raw materials and fuel prices, in addition to decrease in sales resulting from the spread of coronavirus.

Operating income before special items was 18.6 billion yen, a decrease of 21.1 billion yen or 53.3% year on year. This result was due to declining share of profit (loss) of investments accounted for using equity method and decrease in sales resulting from the spread of coronavirus, despite of reduction of fixed costs.

Operating income was 17.9 billion yen, decreased 19.0 billion yen or 51.4% year on year. This result was mainly due to decrease of operating income before special items.

Financial income/expenses worsened 0.9 billion yen year on year to 2.2 billion yen loss, because the amount of dividend income received has declined.

As a result of the aforementioned factors, **income before income taxes** amounted to 15.7 billion yen, a decrease of 19.9 billion yen or 55.8% year on year.

Net income attributable to owners of the parent after accounting for income taxes and non-controlling interests was 9.6 billion yen, a decrease of 10.8 billion yen or 52.8% compared with the corresponding period of the previous fiscal year. Basic earnings per share for the period were 49.89 yen.

(2) Results by Business Segment

The status of each segment during the first half is as follows.

Mobility

Sales revenue decreased 55.4 billion yen compared with the same period of the previous fiscal year to 132.0 billion yen and comprised 25% of total sales. Operating income before special items decreased 14.3 billion yen to 8.2 billion yen year on year. The decrease in income was due to slowing demand for automobile.

In **elastomers, performance compounds, overseas polypropylene compound, and solution business**, sales decreased due to the impact of coronavirus.

In **performance polymers**, the Group captured demand and sales remained healthy for information communication technology (ICT) - related products.

Health Care

Sales revenue decreased 3.8 billion yen year on year to 66.0 billion yen and comprised 12% of total sales. On the other hand, operating income before special items increased 1.3 billion yen to 7.2 billion yen, mainly due to healthy sales in nonwoven fabrics.

In **vision care materials**, sales of ophthalmic lens materials decreased due to the impact of

coronavirus.

In **nonwoven fabrics**, sales of masks, medical gowns and disposable diapers stayed healthy.

In **dental materials**, sales decreased due to the impact of coronavirus.

Food & Packaging

Sales revenue decreased 7.0 billion yen compared with the same period of the previous fiscal year to 89.6 billion yen and comprised 17% of total sales. On the other hand, operating income before special items increased 1.7 billion yen to 9.5 billion yen year on year, due to healthy sales in agrochemicals.

In **coatings & engineering materials**, sales decreased due to the impact of coronavirus.

In **performance films and sheets**, sales were firm mainly in industrial films and sheets.

In **agrochemicals**, overseas sales were healthy.

Basic Materials

Sales revenue decreased 73.4 billion yen compared with the same period of the previous fiscal year to 242.6 billion yen and accounted for 45% of total sales. Operating income before special items decreased 11.5 billion yen to 4.6 billion yen loss, due to inventory revaluation loss, resulting from the fall in raw material prices.

Naphtha cracker operating rates were lower than the same period of the previous fiscal year due to decreased demand of downstream products, which was impacted by coronavirus. Performances of **polypropylene** was affected by slowing demand for automotive products.

In Acetone, overseas market was at higher level than the same period of the previous fiscal year, due to increased demand of downstream products for sanitizers.

Others

Sales revenue decreased 2.1 billion yen to 6.8 billion yen, comprised 1% of total sales. Operating income before special items was 0.3 billion yen loss, decrease of 0.7 billion yen compared to the same period of the previous year.

2. Financial Position

(1) Status of Assets, Liabilities and Net Assets

Total assets at the end of the first half stood at 1,510.5 billion yen, a decrease of 20.0 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first half decreased 27.0 billion yen compared with the previous fiscal year-end to 893.8 billion yen. **Interest-bearing debt** amounted to 606.5 billion yen, an increase of 7.1 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 40.2%, an increase of 1.0 percentage point.

Total equity was 616.7 billion yen, an increase of 7.0 billion yen compared with the previous fiscal year-end. The **ratio of equity attributable to owners of the parent** was 36.3%, an increase of 1.7 percentage point.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.68 at the end of the fiscal year, 0.13 point decrease from the previous fiscal year-end.

(2) Cash Flow Status

Cash and cash equivalents (hereafter called “net cash”) at the end of the first half increased 65.0 billion yen to 229.6 billion yen compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities increased 20.7 billion yen to 111,1 billion yen due to improvement of working capital.

Cash Flows from Investing Activities

Net cash used in investing activities decreased 13.7 billion yen compared with the previous fiscal year to 39.4 billion yen, mainly due to decrease of cash outflows from capital expenditure.

Cash Flows from Financing Activities

Net cash used in financing activities decreased 11.7 billion yen compared with the previous fiscal year to 5.7 billion yen due primarily to increase of borrowings of interest-bearing debt.

3. Forecast for Fiscal 2020 (Year Ending March 31, 2021)

In the announcement under the title of “Notice for Revisions of Financial Forecasts” on November 5, 2020, the Group revised its financial forecasts for FY2020 as follows.

(1) Overview

Revised financial forecasts are based on the following assumptions:

- a) Exchange rate for the full year is 106 yen/US\$ (Oct – Mar: 106 yen/US\$)
- b) Average price of domestic naphtha is 29,800 yen /kl (Oct – Mar: 32,000 yen/kl)

Based on the Group’s performance in the first half, sales revenue and incomes are expected to be higher than previously announced. Due to the impact of the coronavirus, each business segment’s sales volume has been declining from the previous fiscal year.

In the previous fiscal year, the Group expected the impact of the coronavirus to reach its peak during the first half of current fiscal year and then gradually recover. Based on this assumption, the Group undertook a reversal of certain deferred tax assets in the previous fiscal year. There is no important revision to this assumption at this time.

However, it is still unclear as to when the pandemic will be contained, and the impact on the Group’s performance is difficult to fully predict. Depending on how the pandemic progresses, the Group may possibly incur further losses from the third quarter onward.

(Billions of Yen)

	Sales Revenue	Operating Income before Special Items	Operating Income	Net Income	Net Income Attributable to Owners of the Parent	Basic Earnings per Share (yen)
Previous forecast (A)	1,170.0	40.0	42.0	30.0	27.0	141.57
Revised forecast (B)	1,175.0	50.0	52.0	37.5	33.0	169.92
Difference (B-A)	5.0	10.0	10.0	7.5	6.0	
Ratio (%)	0.4	25.0	23.8	25.0	22.2	
(Reference) FY2019	1,349.5	72.3	64.6	42.6	34.0	174.52

(2) Revision by Business Segment

Forecast by FY2020 business segment is as follows.

(Billions of Yen)

	Sales Revenue						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	300.0	140.0	195.0	520.0	15.0	-	1,170.0
Revised forecast	300.0	140.0	195.0	525.0	15.0	-	1,175.0
Difference	0.0	0.0	0.0	5.0	0.0	-	5.0

(Billions of Yen)

	Operating Income before Special Items						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	27.5	13.0	16.0	(9.5)	(1.0)	(6.0)	40.0
Revised forecast	24.0	16.0	18.5	(3.0)	(1.0)	(4.5)	50.0
Difference	(3.5)	3.0	2.5	6.5	0.0	1.5	10.0