

Consolidated Financial Results for the Three Months Ended June 30, 2021 [Japanese GAAP]



July 30, 2021

Company name: SHIKOKU CHEMICALS CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4099
 URL: <https://www.shikoku.co.jp/>
 Representative: Naoto Tanaka, President and C.E.O.
 Contact: Yoshinori Manabe, Director, Executive Officer, Head of Business Promotion Division
 Phone: +81-877-22-4111
 Scheduled date of filing quarterly securities report: August 6, 2021
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Three Months Ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2021	12,869	11.0	1,770	40.3	1,975	37.1	1,351	42.8
June 30, 2020	11,592	(9.6)	1,262	(27.0)	1,441	(19.2)	946	(21.8)

(Note) Comprehensive income: Three months ended June 30, 2021: ¥1,000 million [(46.5)%]
 Three months ended June 30, 2020: ¥1,868 million [552.8%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2021	24.40		-	
June 30, 2020	16.82		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2021	104,235	75,603	71.7
As of March 31, 2021	107,344	76,566	70.5

(Reference) Equity: As of June 30, 2021: ¥74,757 million
 As of March 31, 2021: ¥75,718 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen				
Year ended March 31, 2021	–	12.00	–	12.00	24.00
Year ending March 31, 2022	–	–	–	–	–
Year ending March 31, 2022 (Forecast)	–	12.00	–	12.00	24.00

(Note) Revisions to the cash dividends forecasts most recently announced: None

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	51,500	3.9	8,000	8.1	8,300	3.8	6,000	4.2	107.79

(Note) Revisions to the financial results forecast most recently announced: None

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

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

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (ordinary shares)

1) Total number of issued shares at the end of the period (including treasury shares):

June 30, 2021: 54,832,263 shares

March 31, 2021: 55,877,263 shares

2) Total number of treasury shares at the end of the period:

June 30, 2021: 212,603 shares

March 31, 2021: 212,603 shares

3) Average number of shares during the period:

Three months ended June 30, 2021: 55,403,410 shares

Three months ended June 30, 2020: 56,293,678 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms

* Explanation regarding the appropriate use of financial results forecasts and other special items

Forward-looking statements such as operating results forecasts and other projections contained in this report are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the operating results forecasts and cautionary notes concerning their use, please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” under “1. Qualitative Information on Quarterly Financial Results for the Period under Review” on page 3 of the attached documents to the quarterly financial statements.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in the case of significant changes in shareholders' equity)	8
(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)	8
(Changes in accounting policies)	8
(Additional information)	9
(Segment information, etc.)	10

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Japanese economy during the three months ended June 30, 2021 continued to be uncertain affected by the spread of the novel coronavirus disease (COVID-19), with individual consumption weakening in response to the state of emergency declaration for the third time in some areas. As for overseas economies, the U.S. and China showed clear signs of accelerated recovery, thanks to the gradual resumption of economic activities and various economic stimulus measures. The Eurozone also showed signs of recovery due to vaccination rollout, but the situation remained unpredictable as signs of a resurgence of infection by mutant strains have emerged.

Under these circumstances, for the three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021), the Group posted net sales of ¥12,869 million (up 11.0% year-on-year), operating profit of ¥1,770 million (up 40.3% year-on-year), ordinary profit of ¥1,975 million (up 37.1% year-on-year) and profit attributable to owners of parent of ¥1,351 million (up 42.8% year-on-year), all of which increased from the previous year's results. In addition, both net sales and profits at each stage exceeded those at the corresponding period of the year before the COVID-19 pandemic.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, have largely surpassed those of the previous fiscal year, which was affected by the spread of COVID-19, backed by a rapid recovery in demand for automobiles and tires since the second half of the previous fiscal year. Sales of carbon disulfide for rayon and cellophane remained sluggish, while sales of sodium sulfate for bath agents and detergents increased year on year due to a rebound from the COVID-19 pandemic.

(Organic chemicals)

Regarding Chlorinated isocyanuric acid for disinfectants, sales of agents for swimming pools recovered in domestic market, thanks to the resumption of swimming lessons at schools. Sales of agents for plumbing systems (sanitary devices) remained strong with increased demand for sterilization and cleaning as a result of rising awareness of hygiene at homes. Sales remained strong in the U.S. market, backed by the growing home swimming pool market due to a recovery in economic conditions and stay-at-home demand.

(Fine chemicals)

Regarding Gliccoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, sales remained solid, on the back of booming semiconductor and electronics markets worldwide. Sales of advanced & specialty chemicals such as epoxy resin curing agent (imidazoles) greatly surpassed those of the previous fiscal year, which was affected by the spread of COVID-19, backed by a recovery in demand for use in electronic components and automobiles.

As a result, net sales for the chemicals operations segment were ¥8,391 million (up 19.0% year-on-year), and segment profit was ¥1,753 million (up 60.4% year-on-year), both surpassing the previous year's results.

2) Housing Materials operations

Although the number of new housing starts showed signs of a slight recovery, sales of interior, exterior finishes and paving materials and exterior products remained sluggish, against a backdrop of weak domestic demand and uncertainty about the future due to a reemergence of COVID-19. Profitability also declined due to soaring prices of raw materials including aluminum ingots.

As a result, net sales for the housing materials operations segment were ¥4,077 million (down 6.5% year-on-year), and segment profit was ¥474 million (down 21.1% year-on-year), both falling below the previous year's results.

Reference information

[Overseas net sales]

	Three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)		Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	1,476	12.7	1,844	14.3
North America	1,601	13.8	2,047	15.9
Other regions	481	4.1	476	3.7
Total	3,559	30.7	4,367	33.9
Consolidated net sales	11,592		12,869	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets decreased by ¥3,108 million from the end of the previous fiscal year to ¥104,235 million. A major increase was ¥878 million in construction in progress, and major decreases were ¥1,887 million in cash and deposits, ¥999 million in notes and accounts receivable - trade, and ¥699 million in securities.

Liabilities decreased by ¥2,145 million from the end of the previous fiscal year to ¥28,632 million. Major decreases were ¥1,539 million in retirement benefit liability and ¥688 million in income taxes payable.

Net assets decreased by ¥962 million from the end of the previous fiscal year to ¥75,603 million. Major decreases were ¥600 million in retained earnings and ¥364 million in valuation difference on available-for-sale securities.

As a result, equity ratio rose to 71.7%, from 70.5% at the end of the previous fiscal year.

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

The full-year financial results forecast has not been changed from the initial plan (announced on April 27, 2021). Assumptions for the exchange rates of major currencies are ¥105 to U.S. dollar and ¥128 to Euro.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	25,907	24,020
Notes and accounts receivable – trade	12,637	11,637
Electronically recorded monetary claims - operating	2,678	2,503
Securities	13,999	13,300
Merchandise and finished goods	6,259	6,115
Work in process	46	43
Raw materials and supplies	3,024	3,138
Other	471	465
Allowance for doubtful accounts	(1)	(0)
Total current assets	65,024	61,223
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,040	4,967
Machinery, equipment and vehicles, net	3,176	2,946
Land	8,857	8,857
Construction in progress	3,771	4,649
Other, net	646	601
Total property, plant and equipment	21,492	22,023
Intangible assets	165	266
Investments and other assets		
Investment securities	19,705	19,599
Deferred tax assets	324	504
Retirement benefit asset	309	311
Other	325	311
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	20,662	20,722
Total non-current assets	42,319	43,011
Total assets	107,344	104,235

(Million yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	6,602	6,147
Electronically recorded obligations - operating	338	357
Short-term borrowings	2,530	2,530
Current portion of long-term borrowings	74	100
Accrued expenses	1,418	1,211
Income taxes payable	1,389	701
Accrued consumption taxes	201	115
Notes payable - facilities	17	15
Electronically recorded obligations - facilities	75	676
Other	3,055	3,225
Total current liabilities	15,702	15,080
Non-current liabilities		
Long-term borrowings	10,957	11,008
Deferred tax liabilities	16	9
Deferred tax liabilities for land revaluation	1,111	1,111
Provision for retirement benefits for directors (and other officers)	77	77
Retirement benefit liability	2,134	595
Asset retirement obligations	379	379
Provision for share awards	32	30
Other	365	339
Total non-current liabilities	15,075	13,551
Total liabilities	30,778	28,632
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,740	5,740
Retained earnings	57,140	56,539
Treasury shares	(236)	(243)
Total shareholders' equity	69,512	68,903
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,789	3,424
Deferred gains or losses on hedges	(27)	(17)
Revaluation reserve for land	2,533	2,533
Foreign currency translation adjustment	(90)	(91)
Remeasurements of defined benefit plans	0	4
Total accumulated other comprehensive income	6,205	5,853
Non-controlling interests	847	845
Total net assets	76,566	75,603
Total liabilities and net assets	107,344	104,235

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30

(Million yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	11,592	12,869
Cost of sales	7,179	7,717
Gross profit	4,413	5,151
Selling, general and administrative expenses		
Transportation and storage costs	1,142	1,353
Advertising expenses	101	121
Salaries	558	578
Retirement benefit expenses	44	41
Provision for retirement benefits for directors (and other officers)	5	4
Research and development expenses	280	261
Other	1,019	1,020
Total selling, general and administrative expenses	3,151	3,380
Operating profit	1,262	1,770
Non-operating income		
Interest income	8	15
Dividend income	198	164
Foreign exchange gains	—	19
Miscellaneous income	19	16
Total non-operating income	226	214
Non-operating expenses		
Interest expenses	7	7
Sales discounts	32	—
Foreign exchange losses	6	—
Miscellaneous losses	0	1
Total non-operating expenses	47	9
Ordinary profit	1,441	1,975
Extraordinary income		
Gain on sale of investment securities	4	—
Subsidy income	35	28
Total extraordinary income	39	28
Extraordinary losses		
Loss on retirement of non-current assets	14	1
Total extraordinary losses	14	1
Profit before income taxes	1,466	2,002
Income taxes	529	654
Profit	936	1,347
Loss attributable to non-controlling interests	(10)	(4)
Profit attributable to owners of parent	946	1,351

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Million yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit	936	1,347
Other comprehensive income		
Valuation difference on available-for-sale securities	932	(359)
Deferred gains or losses on hedges	2	10
Foreign currency translation adjustment	(8)	(0)
Remeasurements of defined benefit plans, net of tax	6	3
Total other comprehensive income	932	(347)
Comprehensive income	1,868	1,000
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,877	1,000
Comprehensive income attributable to non-controlling interests	(8)	0

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

(Purchase of treasury shares)

The Company resolved on June 10, 2021 to purchase its treasury shares pursuant to the provisions of the articles of incorporation, as set forth in Article 459, Paragraph 1 of the Companies Act, and purchased 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the three months ended June 30, 2021, treasury shares increased by ¥1,290 million.

(Cancellation of treasury shares)

The Company resolved on June 10, 2021 to cancel its treasury shares pursuant to the provisions in Article 178 of the Companies Act, and cancelled 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the three months ended June 30, 2021, retained earnings and treasury shares decreased by ¥1,283 million and ¥1,283 million, respectively.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company makes a reasonable estimate of the effective tax rate after the application of tax effect accounting to profit before income taxes for the current fiscal year, including the first quarter under review, and multiply profit before income taxes for the quarter by the estimated effective tax rate.

Income taxes – deferred is included in income taxes.

(Changes in accounting policies)

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as “Revenue Recognition Accounting Standard”) from the beginning of the first quarter under review to recognize revenue when control of promised goods or services is transferred to a customer in the estimated amount to be received in exchange for those goods or services.

The application of the Revenue Recognition Accounting Standard follows the transitional measures set forth in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, but has no impact on the beginning balance of retained earnings.

In addition, the adoption of the Revenue Recognition Accounting Standard has no impact on profit and loss.

In accordance with the transitional measures set forth in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company made no reclassification of the previous fiscal year's results to conform to the new presentation method. Moreover, in accordance with the transitional measures set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), the Company did not provide information on composition of revenue from contracts with customers for the three months ended June 30, 2020.

(Adoption of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as “Fair Value Measurement Accounting Standard”) from the beginning of the

first quarter under review. In accordance with the transitional measures set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company applies the new accounting policies set forth in the Fair Value Measurement Accounting Standard into the future. This application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Establishment of Retirement Benefit Trust)

During the first quarter under review, the Company established a Retirement Benefit Trust for further improving the soundness of the retirement benefit system and contributed ¥1,500 million in cash and deposits. As a result, retirement benefit liability decreased by the same amount.

(Segment information, etc.)

I. For the three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)

Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statements of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Net sales to outside customers	7,051	4,362	11,414	178	11,592	—	11,592
Inter-segment net sales or transfers	0	0	0	87	87	(87)	—
Total	7,052	4,362	11,414	265	11,679	(87)	11,592
Segment profit	1,093	601	1,694	26	1,721	(459)	1,262

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(459) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(459) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statements of income.

II. For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

Information on net sales and profit (loss) by reportable segment and information on composition of revenue

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statements of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Inorganic chemicals	2,928	—	2,928	—	2,928	—	2,928
Organic chemicals	3,220	—	3,220	—	3,220	—	3,220
Fine chemicals	2,243	—	2,243	—	2,243	—	2,243
Interior, exterior finishes and paving materials	—	348	348	—	348	—	348
Exterior products	—	3,729	3,729	—	3,729	—	3,729
Other	—	—	—	399	399	—	399
Revenue from contracts with customers	8,391	4,077	12,469	399	12,869	—	12,869
Net sales to outside customers	8,391	4,077	12,469	399	12,869	—	12,869
Inter-segment net sales or transfers	0	0	0	79	80	(80)	—
Total	8,391	4,078	12,470	479	12,949	(80)	12,869
Segment profit	1,753	474	2,228	41	2,269	(499)	1,770

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(499) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(499) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statements of income.