

Summary of Consolidated Financial Results for First Quarter of FY2020

Aug 13, 2020
Mitsui Chemicals, Inc.

1. Summary of Operating Results

(Unit : Billions of Yen)

	1st Q of FY2019	1st Q of FY2020	Incr. (Decr.)	FY2019	Forecast for FY2020 (announced Aug. 13)	
					First Half	Full Year
Sales revenue	345.0	254.5	(90.5)	1,349.5	540.0	1,170.0
Operating income before special items ※	24.5	0.6	(23.9)	72.3	5.0	40.0
Operating income	22.1	(0.0)	(22.1)	64.6	6.0	42.0
Net income attributable to owners of the parent	12.5	(2.3)	(14.8)	34.0	1.0	27.0
Exchange rate	Yen / US\$	110	108	(2)	109	108
Domestic standard naphtha price	Yen / KL	45,400	25,000	(20,400)	42,900	27,500
					108	108
					28,750	28,750

Note: The Group has voluntarily adopted IFRS from the first quarter, in place of the Japanese GAAP applied until fiscal 2019. Financial results of the previous fiscal year have been reclassified to conform to the current year's presentation.

※The Group 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)

	1st Q of FY2019	1st Q of FY2020	Incr. (Decr.)	Breakdown		FY2019	Forecast for FY2020 (announced Aug. 13)	
				Volume	Price		First Half	Full Year
Mobility	94.4	58.3	(36.1)	(32.5)	(3.6)	367.9	130.0	300.0
Health Care	35.2	28.9	(6.3)	(5.4)	(0.9)	143.2	63.0	140.0
Food & Packaging	47.3	45.4	(1.9)	0.0	(1.9)	201.3	90.0	195.0
Basic Materials	163.7	118.6	(45.1)	(18.8)	(26.3)	619.5	250.0	520.0
Others	4.4	3.3	(1.1)	-	(1.1)	17.6	7.0	15.0
Total	345.0	254.5	(90.5)	(56.7)	(33.8)	1,349.5	540.0	1,170.0

• Operating income before special items

(Unit : Billions of Yen)

	1st Q of FY2019	1st Q of FY2020	Incr. (Decr.)	Breakdown			FY2019	Forecast for FY2020 (announced Aug. 13)	
				Volume	Price※	Fixed Costs etc.		First Half	Full Year
Mobility	11.7	2.3	(9.4)	(8.2)	(0.3)	(0.9)	43.2	6.0	27.5
Health Care	3.7	1.4	(2.3)	(4.1)	0.0	1.8	13.0	4.0	13.0
Food & Packaging	3.1	4.4	1.3	0.6	0.2	0.5	16.7	7.5	16.0
Basic Materials	7.6	(6.3)	(13.9)	(3.9)	(7.1)	(2.9)	9.1	(9.0)	(9.5)
Others	0.0	(0.2)	(0.2)	-	-	(0.2)	(3.5)	(0.5)	(1.0)
Adjustment	(1.6)	(1.0)	0.6	-	-	0.6	(6.2)	(3.0)	(6.0)
Total	24.5	0.6	(23.9)	(15.6)	(7.2)	(1.1)	72.3	5.0	40.0

※ 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 Jun. 30, 2020	Incr. (Decr.)		As of Mar. 31, 2020	As of Jun. 30, 2020	Incr. (Decr.)
Current assets	781.8	763.3	(18.5)	Interest-bearing liabilities	599.4	652.4	53.0
Property, plant and equipment & right-of-use assets	499.7	496.2	(3.5)	Other liabilities	321.4	259.7	(61.7)
Goodwill and intangible assets	26.2	25.6	(0.6)	Equity attributable to owners of the parent	529.2	523.6	(5.6)
Other non-current assets	222.8	228.2	5.4	Non-controlling interests	80.5	77.6	(2.9)
Total assets	1,530.5	1,513.3	(17.2)	Total liabilities and equity	1,530.5	1,513.3	(17.2)
[Inventories]	284.3	260.1	(24.2)	[Net D/E Ratio]	0.81	0.79	(0.02)

4. Summary of Statement of Cash Flows

(Unit : Billions of Yen)

	1st Q of FY2019	1st Q of FY2020	Incr. (Decr.)	FY2019 [※]	Forecast for FY2020 (announced Aug. 13)	
					First Half	Full Year
Cash flows from operating activities	17.8	50.3	32.5	142.2	65.0	135.0
Cash flows from investing activities	(20.7)	(24.9)	(4.2)	(109.1)	(60.0)	(120.0)
<i>Free cash flows</i>	(2.9)	25.4	28.3	33.1	5.0	15.0
Cash flows from financing activities	(4.6)	41.2	45.8	(6.4)	61.0	30.0
Others	(0.8)	(0.4)	0.4	(1.6)	-	-
Net incr.(decr.) in cash and cash equivalents	(8.3)	66.2	74.5	25.1	66.0	45.0
Cash and cash equivalents at the end of period	131.2	230.8	99.6	164.6		

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

5. 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 [※]

※The Company plans to pay annual dividends of 100 yen per share, the same amount as previous year to achieve stable dividends, based on the upward revision of the financial forecasts.

6. Number of Shares Outstanding (common stock)

	FY2019	1st Q of FY2020
Number of shares outstanding at term-end (including treasury stock)	204,580,115	204,580,115
Number of shares of treasury stock at term-end	13,577,163	13,883,410
Average number of shares	195,056,129 *	190,696,955

*1st Q of FY2019

1. Operating Results

(1) Overview

In the fiscal period under review (the three-month period from Apr 1, 2020 to June 30, 2020, hereinafter the “first quarter”), although the business environment remained extremely harsh as economic activities were halted due to the spread of coronavirus, economic activities have incrementally restarted. In Japan as well, the situation has remained extremely difficult due to its spread. After the government’s state of emergency was lifted, economic activities were also incrementally restarted, but the outlook is still unclear due in part to the another rising trend in infections.

Moreover, the spread of the coronavirus has been putting a damper on sales in each segment since the previous quarter. 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, securement 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.

In addition, to support health care providers, the Company utilized the production line of SUNREX INDUSTRY CO., LTD., a wholly owned subsidiary, to establish a production system with monthly capacity for over 10 million pieces of medical isolation gowns. The Company has already begun supplying the nonwovens as a raw material for the gowns, which have become difficult to obtain.

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 quarter, which have been prepared in accordance with International Financial Reporting Standards (IFRS), in place of the Japanese Generally Accepted Accounting Principles (Japanese GAAP) applied until fiscal 2019. Financial results of the previous fiscal year have been reclassified to conform to the current year’s presentation.

Furthermore, 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 quarter	254.5	0.6	(0.0)	(2.3)
Same period of previous year	345.0	24.5	22.1	12.5
Change	(90.5)	(23.9)	(22.1)	(14.8)
Change (%)	(26.2)	(97.6)	-	-

Sales revenue decreased 90.5 billion yen, or 26.2%, compared with the corresponding period of the previous fiscal year to 254.5 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 0.6 billion yen, a decrease of 23.9 billion yen or 97.6% year on year. This result was due to unfavorable terms of trade and declining share of profit (loss) of investments accounted for using equity method, in addition to decrease in sales resulting from the spread of coronavirus.

Operating income was 0.0 billion yen loss, decreased 22.1 billion yen year on year. This result was due to decrease of operating income before special items.

Financial income improved 0.5 billion yen year on year to 0.5 billion yen loss. This result was due to the reversal of allowance for doubtful accounts, although the amount of dividend income received has declined.

As a result of the aforementioned factors, **income before income taxes** amounted to 0.5 billion yen loss, a decrease of 21.6 billion yen year on year.

Net income attributable to owners of the parent after accounting for income taxes and non-controlling interests was 2.3 billion yen loss, a decrease of 14.8 billion yen compared with the corresponding period of the previous fiscal year. Basic earnings per share for the period were 12.16 yen.

(2) Results by Business Segment

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

Mobility

Sales revenue decreased 36.1 billion yen compared with the same period of the previous fiscal year to 58.3 billion yen and comprised 23% of total sales. Operating income before special items decreased 9.4 billion yen to 2.3 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, while the demand for information communication technology (ICT) - related products were stagnating in general.

Health Care

Sales revenue decreased 6.3 billion yen year on year to 28.9 billion yen and comprised 11% of total sales. Operating income before special items decreased 2.3 billion yen to 1.4 billion yen, mainly due to lower sales, despite of decreased fixed costs.

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 firm.

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

Food & Packaging

Sales revenue decreased 1.9 billion yen compared with the same period of the previous fiscal year to 45.4 billion yen and comprised 18% of total sales. On the other hand, operating income before special items increased 1.3 billion yen to 4.4 billion yen year on year, due to healthy sales.

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

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

In **agrochemicals**, sales were firm.

Basic Materials

Sales revenue decreased 45.1 billion yen compared with the same period of the previous fiscal year to 118.6 billion yen and accounted for 47% of total sales. Operating income before special items decreased 13.9 billion yen to 6.3 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, oversea 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 1.1 billion yen to 3.3 billion yen, comprised 1% of total sales. Operating income before special items was 0.2 billion yen loss, decrease of 0.2 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 quarter stood at 1,513.3 billion yen, a decrease of 17.2 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first quarter decreased 8.7 billion yen compared with the previous fiscal year-end to 912.1 billion yen. **Interest-bearing debt** amounted to 652.4 billion yen, an increase of 53.0 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 43.1%, an increase of 3.9 percentage point.

Total equity was 601.2 billion yen, a decrease of 8.5 billion yen compared with the previous fiscal year-end. The **ratio of equity attributable to owners of the parent** was 34.6%, same level as the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.79 at the end of the fiscal year, 0.02 point decrease from the previous fiscal year-end.

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

(1) Overview

Revised financial forecasts are based on the following assumptions:

- a) Exchange rate for the full year is 108 yen/US\$ (Apr – Sept: 108 yen/US\$)
- b) Average price of domestic naphtha is 28,750 yen /kl (Apr – Sept: 27,500 yen/kl)

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 second quarter onward.

(Billions of Yen)

	Sales Revenue	Operating Income before Special Items	Operating Income	Net Income Attributable to Owners of the Parent
First half	540.0	5.0	6.0	1.0
Full year	1,170.0	40.0	42.0	27.0

(2) Revision by Business Segment

Forecast by FY2020 business segment is as follows.

(Billions of Yen)

	Sales Revenue						Total
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	
First half	130.0	63.0	90.0	250.0	7.0	-	540.0
Full year	300.0	140.0	195.0	520.0	15.0	-	1,170.0

(Billions of Yen)

	Operating Income before Special Items						Total
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	
First half	6.0	4.0	7.5	(9.0)	(0.5)	(3.0)	5.0
Full year	27.5	13.0	16.0	(9.5)	(1.0)	(6.0)	40.0

4. Subsequent events

(Conversion of a Subsidiary into Wholly-owned Subsidiary via Share Exchange)

The Company decided at the meeting of the Board of Directors held on May 14, 2020 to conduct a share exchange (the “Share Exchange”) in which its consolidated subsidiary, ARRK CORPORATION (“ARRK”) become a wholly- owned subsidiary of the Company and the Company has concluded the share exchange agreement (the “Share Exchange Agreement”) with ARRK.

The Share Exchange was conducted with an effective date of August 1, 2020, with the Company not obtaining approval by a resolution of its shareholders meeting pursuant to simplified share exchange procedures under Article 796, Paragraph (2) of the Companies Act, and ARRK obtaining approval by a resolution of its annual shareholders meeting held on June 26, 2020. In addition, although the Company owned ARRK shares indirectly through its wholly-owned subsidiary, MC Investment 01 Corporation (“MC Investment 01”), which is a wholly owned subsidiary established by the Company, an absorption-type merger was conducted in which the Company became the surviving company and MC Investment 01 became the disappearing company with an effective date of July 31, 2020, in advance of the effective date of the Share Exchange. Therefore, at the time the Share Exchange took effect, the Company owned ARRK shares directly.

Furthermore, this merger for the Company qualified as a simple merger defined in Paragraph 2, Article 796 of Japan’s Companies Act, and for the absorbed company the merger qualified as an abbreviated merger as defined in Paragraph 1, Article 784 of the same act. Therefore, the merger was conducted without gaining approval for an absorption-type merger agreement at a shareholders’ meeting.

In advance of the effective date of the Share Exchange on August 1, 2020, the common shares of ARRK (“ARRK Shares”) were delisted from the first section of Tokyo Stock Exchange, Inc. on July 30, 2020 (final trading date: July 29, 2020).

(1) Purpose of Share Exchange

The Company and ARRK have collaborated in the belief that combining the companies’ areas of expertise, namely the Company’s knowledge of materials and ARRK’s understanding of automotive development support, and utilizing the channels and technologies of both companies will enable them to provide solutions that make use of their combined strength and to further expand the customer bases of both companies and create new related businesses, thereby enabling them to achieve sustainable growth together. However, in order to quickly respond to ever-changing customer needs amid the rapid market environment changes that are shaking the entire automobile manufacturing industry, both companies reached to an agreement, believing that stronger ties are necessary and that it is desirable to transition to a structure that enables the prompt and smooth provision of solutions utilizing the strength of the entire group.

(2) Schedule of Share Exchange

Record date for annual shareholders meeting to determine approval of Share Exchange Agreement (ARRK)	March 31, 2020
Date of board of directors resolutions concerning execution of Share Exchange Agreement (both companies)	May 14, 2020
Share Exchange Agreement execution date (both companies)	May 14, 2020
Date of annual shareholders meeting to determine approval of Share Exchange Agreement (ARRK)	June 26, 2020
Final trading date (ARRK)	July 29, 2020
Delisting date (ARRK)	July 30, 2020
Effective date of Share Exchange	August 1, 2020