

2nd Quarter Consolidated Financial Results for the Year Ending March 31, 2020

(All financial information has been prepared in accordance with Generally Accepted Accounting Principles in Japan)

November 1, 2019

Company name : DAICEL CORPORATION
 Stock Exchange on which the shares are listed : Tokyo Stock Exchange in Japan
 Code number : 4202
 URL : https://www.daicel.com
 Representative : Yoshimi Ogawa, President and CEO
 Contact person : Masahiko Hirokawa, General Manager–Investor Relations & Corporate Communications
 Phone +81-3-6711-8121
 Scheduled date for submitting financial statements : November 12, 2019
 Scheduled date for dividend payment : December 3, 2019
 The additional materials of the Financial Results : Yes
 The briefing session of the Financial Results : Yes (for institutional investors and analysts)

1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (Amounts are rounded down to the nearest million)

(1) Consolidated Operating Results (% of change from previous year)

	Net Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Six months ended Sep. 30, 2019	210,681	(10.4)	17,858	(39.5)	18,658	(42.1)	11,683	(47.8)
Six months ended Sep. 30, 2018	235,242	2.7	29,515	(6.3)	32,244	(2.7)	22,394	14.4

(Note) Comprehensive income: 6,758 millions of yen [(77.0%)] for the six months ended September 30, 2019 and 29,431 millions of yen [0.2%] for the six months ended September 30, 2018

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended Sep. 30, 2019	35.96	-
Six months ended Sep. 30, 2018	66.23	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Sep. 30, 2019	630,953	415,562	61.3	1,198.71
As of Mar. 31, 2019	654,791	423,243	60.1	1,198.77

(Reference) Shareholders' equity: 386,652 millions of yen as of September 30, 2019 and 393,597 millions of yen as of March 31, 2019

2. Dividends

(Reference data)	Cash dividends per share				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended Mar. 31, 2019	-	16.00	-	16.00	32.00
Year ending Mar. 31, 2020	-	16.00	-	-	-
Year ending Mar. 31, 2020 (Forecast)	-	-	-	18.00	34.00

(Note) Revisions to the latest announced dividend forecast: Applicable

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2020

(% of change from same period of previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Year ending Mar. 31, 2020	431,000	(7.3)	36,000	(29.6)	38,000	(28.9)	21,500	(39.1)	66.65

(Note) Revisions to the latest announced forecast of consolidated financial results: Applicable

*Notes

- (1) Changes in significant subsidiaries during the six months ended Sep. 30, 2019: Not applicable
(Note) Changes in specified subsidiaries that caused a change in the scope of consolidation
- (2) Adoption of specific accounting methods for presenting quarterly financial statements: Not applicable
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 - i Changes in accounting policies due to revisions of accounting standards: Not applicable
 - ii Changes in accounting policies other than (3)-i: Not applicable
 - iii Changes in accounting estimates: Not applicable
 - iv Retrospective restatements: Not applicable

(4) Number of shares issued (common share)

i Number of shares issued at the end of each period (including treasury shares)	As of Sep. 30, 2019	331,942,682 shares	As of Mar. 31, 2019	331,942,682 shares
ii Number of treasury shares at the end of each period	As of Sep. 30, 2019	9,385,378 shares	As of Mar. 31, 2019	3,609,174 shares
iii Average number of shares during the each period (Cumulative from the beginning of the fiscal year)	Six months ended Sep. 30, 2019	324,950,291 shares	Six months ended Sep. 30, 2018	338,138,873 shares

*This Quarter Consolidated Financial Results report is not subject to quarterly review.

*Explanations or other special matters to appropriate use of the forecast of consolidated financial results

The forecast of consolidated financial results and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections.

4. Overview of the operating results

(1) Overview of the operating results for the quarter under review

Looking at the world trends during the consolidated first half of the fiscal year ending March 2020 (six months ended September 30, 2019), The global economy remained uncertain due to the intensifying US-China trade conflict, the slowdown in the Chinese economy, and the deterioration of Japan-Korea relations.

Amid such circumstances, the Group sales revenue for the consolidated three months under review totaled ¥210,681 million (down 10.4% year-on-year). Operating income amounted to ¥17,858 million (down 39.5% year-on-year), and ordinary income was ¥18,658 million (down 42.1% year-on-year). Net income attributable to owners of the parent came to ¥11,683 million (down 47.8% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Sales revenue of cellulose acetate declined due to a decrease in sales volume for cigarette filter applications.

As for acetate tow for cigarette filters, amid the worldwide glut, both sales volume and sales revenue posted growth due to our efforts in increasing share of main customers and finding new customers.

Consequently, overall segment sales revenue amounted to ¥37,824 million (down 10.0% year-on-year). Operating income was ¥6,323 million (down 26.3% year-on-year), due mainly to a decrease in sales volume of cellulose acetate.

[Organic Chemicals]

Acetic acid, our key product, and organic chemicals posted a decrease in sales revenue due to a downward trend in the market and a decline of domestic and overseas sales volume owing to impact of the slowdown in the Chinese economy.

Performance chemicals posted flat in sales revenue due to strong demand for epoxy compounds, despite a decline in sales volume of some products due primarily to the decelerating Chinese economy.

The chiral separation business, such as optical resolution columns, posted a decline in sales revenue due to a decrease in chiral stationary phases (CSPs) sales despite steady growth of the new business.

Consequently, overall segment sales fell to ¥41,070 million (down 9.0 % year-on-year). Operating income also dropped to ¥5,393 million (down 23.9% year-on-year), due to the slowdown in the product market and other factors.

[Plastics]

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) resin and liquid crystal polymers (LCP), registered a decline in sales revenue, adversely affected by sluggish demand for automobiles, smartphones, etc., due to the decelerating Chinese economy.

Decline in sales revenue was also recorded by the plastic compound business, centering on ABS resin and engineering plastic alloy resin, due to a decrease in sales volume resulting from the slowdown in the Chinese market and other factors.

As for the plastic processing business, including molded containers and films, sales revenue decreased due to a decrease of sheet sales despite an increase in high-performance film sales.

Consequently, overall segment sales amounted to ¥84,506 million (down 5.7% year-on-year). Operating income was ¥11,699 million (down 1.6% year-on-year) due mainly to a decrease of sales volume.

[Pyrotechnic Devices]

Sales revenue of the automobile airbag inflator (gas-generating device) and other automobile safety parts business posted a decrease in sales revenue due to a decrease in sales volume mainly in the supply of replacement products for recalls by other companies, despite an increase in domestic sales volume of inflators for new vehicles.

Aerospace & defense businesses, which cover defense-related products, enjoyed an increase in sales revenue due mainly to an increase in sales volume.

Consequently, overall segment sales came to ¥42,265 million (down 23.9% year-on-year). Operating income plunged to ¥2,320 million (down 76.4% year-on-year) due primarily to a decrease in sales volume of inflators for automobile airbags.

[Other Businesses]

Sales revenue of other businesses increased due mainly to the acquisition of an overseas pharmaceutical manufacturing company.

Consequently, overall segment sales increased to ¥5,014 million (up 68.9% year-on-year). Operating income amounted to ¥266 million (up 21.5% year-on-year).

(2) Overview of financial position for the fiscal year under review

Total assets as of September 30, 2019 were ¥630,953 million, a decrease of ¥23,838 million from March 31, 2019, due mainly to decreases in cash and deposits, and notes and accounts receivable, despite an increase in property, plant and equipment.

Total liabilities were ¥215,390 million, a decrease of ¥16,157 million from March 31, 2019 due primarily to a decrease in notes and accounts payable.

Total net assets were ¥ 415,562 million. Total shareholders' equity, which is calculated as the net assets minus non-controlling interests, was ¥386,652 million. Shareholders' equity ratio was 61.3%.

(3) Overview of cash flow for the period under review

Cash flow from operating activities

Cash flow from operating activities during the period under review was ¥35,299 million (vs. ¥26,941 million in the same period last year). The increase in funds was mainly attributable to ¥20,434 million of net profit before income taxes and ¥14,517 million of depreciation. Meanwhile, the main factors for the decrease in funds were an increase of ¥8,091 million in notes and accounts payable – trade, and a payment of ¥7,222 million for income taxes.

Cash flow from investment activities

Cash flow from investment activities during the period under review was -¥29,173 million (vs. -¥24,118 million in the same period last year). The main factor for the decrease in funds was expenditures of ¥28,425 million for the purchase of property, plant, and equipment.

Cash flow from financing activities

Cash flow from financing activities during the period under review was -¥18,202 million (vs. -¥24,973 million in the same period last year). The main factors for the decrease in funds were expenditures for ¥6,100 million in the purchase of treasury shares, ¥5,250 million in cash dividend payments and ¥2,833 million in dividends paid to non-controlling interests.

As a result of the above, cash and cash equivalents on September 30, 2019 totaled ¥105,683 million.

(4) Explanation Regarding Future Forecast Information of Consolidated Financial Results

The Group sales revenue and operating income for the consolidated six months under review, compared to the forecast, decreased because the economic environment including China's economy worsened more than expected and the Japanese yen strengthened against the U.S. dollar, despite efforts towards cost reduction. In view of our performance and trends up to the 2nd quarter, as well as concerns about the economic environment, the Daicel Group has revised its forecast of consolidated business results for the full-year of the FY ending March 2020 from those announced on May 9, 2019, as shown in the following table.

<Forecast of the FY ending March 2020 consolidated performance>

(Unit: Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent company	Net income per share (Yen)
Last announcement (A)	461,000	43,000	45,000	26,500	80.71
This announcement (B)	431,000	36,000	38,000	21,500	66.65
Change (B-A)	-30,000	-7,000	-7,000	-5,000	
% of change	-6.5	-16.3	-15.6	-18.9	
(Reference data) Year ended Mar. 31, 2019	464,859	51,171	53,433	35,301	105.38

- * 1. The above business forecast is based on the information that is available at the time of writing. There are many uncertain factors inherent in projections, and there might be cases in which actual results materially differ from projections of this material.
- * 2. For forecasts of this announcement, we assume an exchange rate (US\$/¥) of ¥105, (Asian spot) methanol price of US\$300/ton, Dubai crude oil price of US\$60/bbl. and domestic naphtha price of ¥40,000/kl from the second half of the FY ending March 2020.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2019	As of Sep. 30, 2019
Assets		
Current assets		
Cash and deposits	114,044	100,767
Notes and accounts receivable – trade	90,173	77,318
Securities	6,230	6,037
Inventories	126,153	118,189
Other	17,504	17,036
Allowance for doubtful accounts	(67)	(109)
Total current assets	354,038	319,241
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	60,387	61,650
Machinery, equipment and vehicles, net	72,920	72,392
Land	26,931	28,990
Construction in progress	31,630	47,178
Other, net	5,561	5,346
Total property, plant and equipment	197,432	215,559
Intangible assets		
Goodwill	3,832	3,322
Other	8,835	8,821
Total intangible assets	12,668	12,144
Investments and other assets		
Investment securities	68,018	64,283
Other	22,802	19,778
Allowance for doubtful accounts	(167)	(54)
Total investments and other assets	90,652	84,007
Total non-current assets	300,753	311,711
Total assets	654,791	630,953

(Unit: Millions of Yen)

	As of Mar. 31, 2019	As of Sep. 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable – trade	53,933	44,383
Short-term borrowings	9,965	5,452
Current portion of bonds	10,000	10,000
Current portion of long-term borrowings	8,285	9,286
Income taxes payable	4,008	2,988
Provision for repairs	2,828	1,303
Other	36,487	36,363
Total current liabilities	125,509	109,778
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term borrowings	36,043	34,843
Deferred tax liabilities	7,673	8,292
Provision for retirement benefits for directors	55	54
Provision for repairs	13	283
Provision for environmental measures	5,265	4,761
Net defined benefit liability	12,430	10,899
Asset retirement obligations	1,256	1,213
Other	3,298	5,264
Total non-current liabilities	106,038	105,612
Total liabilities	231,547	215,390
Net assets		
Shareholders' equity		
Share capital	36,275	36,275
Capital surplus	31,692	31,692
Retained earnings	294,149	300,555
Treasury shares	(4,344)	(10,263)
Total shareholders' equity	357,772	358,260
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	29,024	26,887
Deferred gains or losses on hedges	13	(32)
Foreign currency translation adjustment	4,968	(659)
Remeasurements of defined benefit plans	1,817	2,196
Total accumulated other comprehensive income	35,825	28,391
Non-controlling interests	29,645	28,910
Total net assets	423,243	415,562
Total liabilities and net assets	654,791	630,953

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2018	Six months ended Sep. 30, 2019
Net sales	235,242	210,681
Cost of sales	165,580	152,037
Gross income	69,662	58,644
Selling, general and administrative expenses	40,146	40,785
Operating profit	29,515	17,858
Non-operating income		
Interest income	172	239
Dividend income	830	802
Share of profit of entities accounted for using equity method	924	965
Foreign exchange gains	965	-
Other	1,171	655
Total non-operating income	4,063	2,662
Non-operating expenses		
Interest expenses	606	627
Foreign exchange losses	-	884
Provision for environmental measures	298	-
Other	429	350
Total non-operating expenses	1,334	1,862
Ordinary profit	32,244	18,658
Extraordinary income		
Gain on disposal of non-current assets	7	39
Gain on sales of investment securities	2,985	2,380
Insurance claim income	1,006	-
Total extraordinary income	3,999	2,420
Extraordinary losses		
Loss on retirement of non-current assets	570	643
Loss on disaster	577	-
Total extraordinary losses	1,147	643
Profit before income taxes	35,096	20,434
Income taxes		
Income taxes – current	9,402	3,193
Income taxes – deferred	(722)	1,775
Total income taxes	8,679	4,969
Profit	26,417	15,465
Profit attributable to non-controlling interests	4,022	3,781
Profit attributable to owners of parent	22,394	11,683

(3) Consolidated Statements of Comprehensive Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2018	Six months ended Sep. 30, 2019
Profit	26,417	15,465
Other comprehensive income		
Valuation difference on available-for-sale securities	826	(2,160)
Deferred gains or losses on hedges	52	(79)
Foreign currency translation adjustment	2,199	(6,282)
Remeasurements of defined benefit plans, net of tax	102	400
Share of other comprehensive income of entities accounted for using equity method	(167)	(584)
Total other comprehensive income	3,014	(8,707)
Comprehensive income	29,431	6,758
Comprehensive income attributable to		
owners of parent	24,826	4,250
non-controlling interests	4,605	2,507

(4) Consolidated Statements of Cash Flows

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2018	Six months ended Sep. 30, 2019
Cash flows from operating activities		
Profit before income taxes	35,096	20,434
Depreciation	14,659	14,517
Amortization of goodwill	245	362
Interest and dividend income	(1,002)	(1,041)
Interest expenses	606	627
Share of (profit) loss of entities accounted for using equity method	(924)	(965)
Loss (gain) on sales and retirement of non-current assets	563	603
Loss (gain) on sales of investment securities	(2,985)	(2,380)
Decrease (increase) in trade receivables	903	11,171
Decrease (increase) in inventories	(10,023)	5,761
Increase (decrease) in trade payables	(3,201)	(8,091)
Other, net	(514)	830
Subtotal	33,422	41,831
Interest and dividends received	1,533	1,344
Interest paid	(620)	(653)
Income taxes paid	(7,394)	(7,222)
Net cash provided by (used in) operating activities	26,941	35,299
Cash flows from investing activities		
Purchase of property, plant and equipment	(23,525)	(28,425)
Proceeds from sales of property, plant and equipment	9	79
Purchase of intangible assets	(1,191)	(1,230)
Purchase of investment securities	(97)	(258)
Proceeds from sales and redemption of investment securities	4,207	3,248
Purchase of investments in capital of subsidiaries and associates	(2,229)	-
Loan advances	-	(435)
Collection of loans receivable	242	43
Other, net	(1,534)	(2,195)
Net cash provided by (used in) investing activities	(24,118)	(29,173)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	695	(4,108)
Proceeds from long-term borrowings	218	2,161
Repayments of long-term borrowings	(1,891)	(1,762)
Redemption of bonds	(10,000)	-
Purchase of treasury shares	(4,679)	(6,100)
Proceeds from sales of treasury shares	0	-
Dividends paid	(5,419)	(5,250)
Dividends paid to non-controlling interests	(3,897)	(2,833)
Repayments of lease liabilities	-	(308)
Net cash provided by (used in) financing activities	(24,973)	(18,202)
Effect of exchange rate change on cash and cash equivalents	570	(2,256)
Net increase (decrease) in cash and cash equivalents	(21,581)	(14,333)
Cash and cash equivalents at beginning of period	128,290	120,016
Cash and cash equivalents at the end of period	106,708	105,683

6. Segment Information

Six months ended Sep. 30, 2018

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	42,043	45,133	89,570	55,526	2,969	235,242	-	235,242
Intersegment sales	1,508	10,633	9	-	5,564	17,716	(17,716)	-
Total	43,551	55,766	89,579	55,526	8,534	252,959	(17,716)	235,242
Operating profit	8,575	7,088	11,895	9,821	219	37,599	(8,083)	29,515

Six months ended Sep. 30, 2019

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	37,824	41,070	84,506	42,265	5,014	210,681	-	210,681
Intersegment sales	1,453	8,192	3	-	5,515	15,166	(15,166)	-
Total	39,278	49,263	84,509	42,265	10,530	225,848	(15,166)	210,681
Operating profit	6,323	5,393	11,699	2,320	266	26,003	(8,145)	17,858