

3rd 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)

February 5, 2020

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	: February 13, 2020
Scheduled date for dividend payment	: -
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 Nine Months Ended December 31, 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	%
Nine months ended Dec. 31, 2019	312,791	(12.4)	22,641	(49.5)	24,277	(49.4)	4,647	(86.0)
Nine months ended Dec. 31, 2018	356,936	3.2	44,795	(2.9)	47,937	(2.4)	33,075	16.1

(Note) Comprehensive income: 8,275 millions of yen [(73.5%)] for the nine months ended December 31, 2019 and 31,191 millions of yen [(29.6%)] for the nine months ended December 31, 2018

	Profit per share	Diluted profit per share
	Yen	Yen
Nine months ended Dec. 31, 2019	14.36	-
Nine months ended Dec. 31, 2018	98.29	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Dec. 31, 2019	616,134	404,895	61.0	1,182.96
As of Mar. 31, 2019	654,791	423,243	60.1	1,198.77

(Reference) Shareholders' equity: 375,715 millions of yen as of December 31, 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: Not 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	420,000	(9.7)	31,000	(39.4)	32,500	(39.2)	7,000	(80.2)	22.04

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

*Notes

- (1) Changes in significant subsidiaries during the nine months ended Dec. 31, 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 Dec. 31, 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 Dec. 31, 2019	14,336,777 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)	Nine months ended Dec. 31, 2019	323,574,146 shares	Nine months ended Dec. 31, 2018	336,507,943 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 third 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 ¥312,791 million (down 12.4% year-on-year). Operating income amounted to ¥22,641 million (down 49.5% year-on-year), and ordinary income was ¥24,277 million (down 49.4% year-on-year). Net income attributable to owners of the parent came to ¥4,647 million (down 86.0% year-on-year).

In the third quarter, the Group recorded an impairment loss of 13,679 million yen. The group is reorganizing the production site of the automotive safety parts business, such as inflators for automobile airbags. In the third quarter, the group decided to transfer some of the production from Japan and the United States to more competitive Thailand and China. This reorganization of production sites will lead to a recovery in profits in the global automotive safety parts business. In this business in Japan and the United States, it was difficult to recover the investment due to reduced production, so the valuation of fixed assets was reviewed and an impairment loss was recorded. In the defense-related business, it was also difficult to recover the investment amount. Therefore, the valuation of fixed assets was reviewed and an impairment loss was recorded. Regarding the defense-related business, we are continuing discussions with related parties to withdraw from the business.

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, sales revenue decreased due to unfavorable foreign exchange rates and changes in the sales product mix despite an increase in sales volume due to our efforts in increasing share of main customers and finding new customers.

Consequently, overall segment sales revenue amounted to ¥56,161 million (down 12.9% year-on-year). Operating income was ¥8,317 million (down 35.7% 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 a decline in sales volume of some products due primarily to reduced demand for automotive, electronic, and cosmetic materials affected mainly by the decelerating Chinese economy, despite an increase in sales volume of alicyclic diepoxids which continues to face tight supply and demand conditions.

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

Consequently, overall segment sales fell to ¥60,660 million (down 11.3 % year-on-year). Operating income also dropped to ¥7,511 million (down 34.4% 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 ¥126,645 million (down 6.4% year-on-year). Operating income was ¥15,482 million (down 8.7% 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 and Chinese market 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 ¥61,947 million (down 25.5% year-on-year). Operating income plunged to ¥2,931 million (down 80.1% year-on-year) due primarily to a decrease in the supply of replacement products for recalls by other companies.

[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 ¥7,376 million (up 30.7% year-on-year). Operating income amounted to ¥291 million (up 20.9% year-on-year) due mainly to an increased expense of goodwill amortization.

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

Total assets as of December 31, 2019 were ¥616,134 million, a decrease of ¥38,657 million from March 31, 2019, due primarily to decreases in cash, deposits, and inventories despite an increase in property, plant and equipment.

Total liabilities were ¥211,239 million, a decrease of ¥20,308 million March 31, 2019 due primarily to decreases in bonds payable, and notes, and accounts payable.

Total net assets were ¥ 404,895 million. Total shareholders' equity, which is calculated as the net assets minus non-controlling interests, was ¥375,715 million. Shareholders' equity ratio was 61.0%.

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

The Group sales revenue and operating income for the consolidated nine months under review decreased compared to the forecast as a result of the sluggish demand in the organic chemicals business and plastics business from the deterioration of the Chinese economy, and the recording of impairment loss in the pyrotechnics business, despite efforts towards cost reduction. As demand for the fourth quarter is expected to remain the same and an additional impairment loss is expected to be recorded in the third quarter, we have revised down our full-year consolidated earnings forecast for the FY ending March 2020 from that announced on December 10, 2019 as follows.

<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)	431,000	36,000	38,000	21,500	66.65
This announcement (B)	420,000	31,000	32,500	7,000	22.04
Change (B-A)	-11,000	-5,000	-5,500	-14,500	
% of change	-2.6	-13.9	-14.5	-67.4	
(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. Incidentally, the impact of coronavirus has not been taken into account, because we cannot currently estimate the impact on our business.

* 2. For forecasts of this announcement, we assume an exchange rate (US\$/¥) of ¥105, (Asian spot) methanol price of US\$260/ton, Dubai crude oil price of US\$60/bbl. and domestic naphtha price of ¥42,000/kl from the fourth quarter 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 Dec. 31, 2019
Assets		
Current assets		
Cash and deposits	114,044	81,688
Notes and accounts receivable – trade	90,173	85,179
Securities	6,230	1,028
Inventories	126,153	117,939
Other	17,504	22,507
Allowance for doubtful accounts	(67)	(101)
Total current assets	354,038	308,242
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	60,387	60,612
Machinery, equipment and vehicles, net	72,920	69,084
Land	26,931	29,364
Construction in progress	31,630	43,578
Other, net	5,561	5,116
Total property, plant and equipment	197,432	207,756
Intangible assets		
Goodwill	3,832	3,229
Other	8,835	8,269
Total intangible assets	12,668	11,499
Investments and other assets		
Investment securities	68,018	69,099
Other	22,802	19,591
Allowance for doubtful accounts	(167)	(54)
Total investments and other assets	90,652	88,636
Total non-current assets	300,753	307,891
Total assets	654,791	616,134

(Unit: Millions of Yen)

	As of Mar. 31, 2019	As of Dec. 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable – trade	53,933	49,333
Short-term borrowings	9,965	5,678
Current portion of bonds	10,000	–
Current portion of long-term borrowings	8,285	9,447
Income taxes payable	4,008	1,436
Provision for repairs	2,828	27
Other	36,487	39,431
Total current liabilities	125,509	105,355
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term borrowings	36,043	34,917
Deferred tax liabilities	7,673	8,068
Provision for retirement benefits for directors	55	58
Provision for repairs	13	656
Provision for environmental measures	5,265	4,791
Net defined benefit liability	12,430	10,940
Asset retirement obligations	1,256	1,234
Other	3,298	5,215
Total non-current liabilities	106,038	105,883
Total liabilities	231,547	211,239
Net assets		
Shareholders' equity		
Share capital	36,275	36,275
Capital surplus	31,692	31,692
Retained earnings	294,149	288,358
Treasury shares	(4,344)	(15,650)
Total shareholders' equity	357,772	340,675
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	29,024	30,171
Deferred gains or losses on hedges	13	(25)
Foreign currency translation adjustment	4,968	2,800
Remeasurements of defined benefit plans	1,817	2,093
Total accumulated other comprehensive income	35,825	35,040
Non-controlling interests	29,645	29,179
Total net assets	423,243	404,895
Total liabilities and net assets	654,791	616,134

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2019
Net sales	356,936	312,791
Cost of sales	251,505	229,113
Gross profit	105,430	83,678
Selling, general and administrative expenses	60,634	61,036
Operating profit	44,795	22,641
Non-operating income		
Interest income	256	334
Dividend income	1,737	1,351
Share of profit of entities accounted for using equity method	1,274	1,309
Foreign exchange gains	231	-
Other	1,484	981
Total non-operating income	4,984	3,976
Non-operating expenses		
Interest expenses	907	908
Foreign exchange losses	-	865
Other	935	566
Total non-operating expenses	1,842	2,340
Ordinary profit	47,937	24,277
Extraordinary income		
Gain on disposal of non-current assets	10	42
Gain on sales of investment securities	2,991	2,520
Gain on sales of investments in capital of subsidiaries and associates	290	-
Insurance claim income	1,028	-
Total extraordinary income	4,321	2,563
Extraordinary losses		
Loss on retirement of non-current assets	1,096	979
Impairment loss	-	13,679
Loss on disaster	692	-
Total extraordinary losses	1,789	14,658
Profit before income taxes	50,469	12,182
Income taxes		
Income taxes – current	10,858	3,130
Income taxes – deferred	920	(467)
Total income taxes	11,779	2,663
Profit	38,689	9,519
Profit attributable to non-controlling interests	5,614	4,871
Profit attributable to owners of parent	33,075	4,647

(3) Consolidated Statements of Comprehensive Income

(Unit: Millions of Yen)

	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2019
Profit	38,689	9,519
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,467)	1,172
Deferred gains or losses on hedges	(19)	(68)
Foreign currency translation adjustment	(870)	(2,315)
Remeasurements of defined benefit plans, net of tax	160	301
Share of other comprehensive income of entities accounted for using equity method	(300)	(333)
Total other comprehensive income	(7,498)	(1,243)
Comprehensive income	31,191	8,275
Comprehensive income attributable to		
owners of parent	25,687	3,862
non-controlling interests	5,504	4,413

(4) Additional Information

(Changes in Presentation)

(Consolidated Statements of Income)

"Provision for environmental measure," which was separately presented under non-operating expenses in the nine months ended December 31, 2018, is included in "Other" under non-operating expenses from the nine months ended December 31, 2019 because its quantitative materiality diminished. To reflect this change in presentation, the financial statements for the nine months ended December 31, 2018 have been restated.

As a result, ¥298 million of the "Provision for environmental measure" has been reclassified as "Other" under non-operating expenses in the statement of income for the nine months ended December 31, 2018.

(5) Notes to Quarterly Consolidated Statements of Income

Daicel group has recognized impairment loss on the following asset groups.

Nine months ended Dec. 31, 2019

(Unit: Millions of Yen)

Location	Use	Classification	Amount	
Japan (Tatsuno-shi, Hyogo)	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	1,447	
		Machinery, equipment and vehicles	1,599	
		Tools, furniture and fixtures	368	
		Construction in progress	1,098	
		Intangible assets and others	512	
	Manufacturing facilities for defense-related products	Buildings and structures	307	
		Machinery, equipment and vehicles	70	
		Tools, furniture and fixtures	13	
		Construction in progress	33	
		Intangible assets and others	66	
	Shared assets	Land	409	
		Buildings and structures	431	
		Machinery, equipment and vehicles	157	
		Tools, furniture and fixtures	30	
		Construction in progress	111	
Japan (Himeji-shi, Hyogo)	Manufacturing facilities for defense-related products	Buildings and structures	58	
		Machinery, equipment and vehicles	32	
		Tools, furniture and fixtures	2	
	United States of America	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	1,462
			Machinery, equipment and vehicles	1,743
Tools, furniture and fixtures			158	
Construction in progress			3,543	
Total			13,679	

(Asset grouping method)

Assets are grouped by the in-house company or the division as a minimum unit.

(Circumstances causing impairment loss)

1. It was considered difficult to recover the investment amounts due to the decline in the profitability of the inflator business in Japan and the U.S.A. Accordingly, we have written down the book value of the assets stated above at Harima Plant or in the U.S.A. to their recoverable value, and recorded the decreased amounts as "Impairment loss" under extraordinary losses.
2. It was considered difficult to recover the investment amounts due to the decline in the profitability of the defense-related products business. Accordingly, we have written down the book value of the assets stated above at Harima Plant or Aboshi Plant to their recoverable value, and recorded the decreased amounts as "Impairment loss" under extraordinary losses.

(Calculation method of recoverable value)

The recoverable values were measured at the net selling price which was based on the appraisal value of real estate.

6. Segment Information

Nine months ended Dec. 31, 2018

1. Sales and Profit (Loss) by Reportable Segment

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	64,470	68,380	135,257	83,183	5,644	356,936	-	356,936
Intersegment sales	2,050	16,077	14	-	8,299	26,442	(26,442)	-
Total	66,520	84,458	135,272	83,183	13,943	383,378	(26,442)	356,936
Operating profit	12,933	11,455	16,960	14,697	368	56,416	(11,620)	44,795

2. Information on Impairment Loss of Non-current Assets by Reportable Segment

Not applicable.

Nine months ended Dec. 31, 2019

1. Sales and Profit (Loss) by Reportable Segment

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	56,161	60,660	126,645	61,947	7,376	312,791	-	312,791
Intersegment sales	1,995	11,299	4	-	8,100	21,400	(21,400)	-
Total	58,157	71,959	126,650	61,947	15,477	334,192	(21,400)	312,791
Operating profit	8,317	7,511	15,482	2,931	291	34,534	(11,892)	22,641

2. Information on Impairment Loss of Non-current Assets by Reportable Segment

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Corporate and eliminations	Total
Impairment loss	-	-	-	13,679	-	-	13,679