

1st Quarter Consolidated Financial Results for the Year Ending March 31, 2021

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

July 31, 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 : August 12, 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 Three Months Ended June 30, 2020 (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	%
Three months ended Jun. 30, 2020	82,913	(20.2)	3,094	(66.3)	3,874	(59.2)	635	(88.1)
Three months ended Jun. 30, 2019	103,884	(10.1)	9,168	(37.7)	9,490	(43.0)	5,322	(48.9)

(Note) Comprehensive income: 572 millions of yen [(87.4%)] for the three months ended June 30, 2020 and 4,533 millions of yen [(60.4%)] for the three months ended June 30, 2019

	Profit per share	Diluted profit per share
	Yen	Yen
Three months ended Jun. 30, 2020	2.08	-
Three months ended Jun. 30, 2019	16.29	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Jun. 30, 2020	589,535	374,929	59.0	1,155.26
As of Mar. 31, 2020	597,992	392,583	60.6	1,166.56

(Reference) Shareholders' equity: 348,035 millions of yen as of June 30, 2020 and 362,545 millions of yen as of March 31, 2020

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, 2020	-	16.00	-	18.00	34.00
Year ending Mar. 31, 2021	-				
Year ending Mar. 31, 2021 (Forecast)		16.00	-	16.00	32.00

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

Breakdown of the year-end dividend for the year ended March 31, 2020: ordinary dividend 16.00 yen and commemorative dividend 2.00 yen (100th-anniversary commemoration)

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2021

(% 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
Six months ending Sep. 30, 2020	172,000	(18.4)	5,000	(72.0)	6,000	(67.8)	1,500	(87.2)	4.83
Year ending Mar. 31, 2021	386,000	(6.5)	17,500	(41.0)	19,500	(38.6)	10,000	100.9	32.18

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

There is no change in forecast of the full year ending March 31, 2021, from the announcement on May 27, 2020.

*Notes

- (1) Changes in significant subsidiaries during the three months ended Jun. 30, 2020: 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 issued shares (common share)

i Number of issued shares at the end of each period (including treasury shares)	As of Jun. 30, 2020	315,942,682 shares	As of Mar. 31, 2020	315,942,682 shares
ii Number of treasury shares at the end of each period	As of Jun. 30, 2020	14,681,037 shares	As of Mar. 31, 2020	5,160,966 shares
iii Average number of shares during each period (Cumulative from the beginning of the fiscal year)	Three months ended Jun. 30, 2020	305,958,162 shares	Three months ended Jun. 30, 2019	326,697,103 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 quarter of the fiscal year ending March 2021 (three months ended June 30, 2020), the global economy was in a very difficult situation with economic activity stagnating and remained uncertain due to the spread of COVID-19.

Amid such circumstances, the Group has been working hard to improve business performance by reforming the management base while continuously reducing costs. However, demand declined in various industries, including a decrease in automobile production.

As a result, sales revenue for the first quarter of the consolidated fiscal year under review totaled ¥82,913 million (down 20.2% year-on-year). On the income front, operating income amounted to ¥3,094 million (down 66.3% year-on-year), ordinary income was ¥3,874 million (down 59.2% year-on-year) and net income attributable to owners of the parent was ¥635 million (down 88.1% year-on-year).

Segment information is summarized as follows.

We have changed the business segmentation from

[Medical / Healthcare]

The healthcare business slightly increased in sales revenue due to an increase in sales volume from anticipation of overseas demand despite a decline in market prices for cosmetic ingredients.

In the chiral separation business, although sales of optical resolution columns decreased, sales remained flat due to increased sales of chiral stationary phases (CSPs) and other factors.

Consequently, overall segment sales fell to ¥3,925 million (down 0.7 % year-on-year).

Operating income also dropped to ¥410 million (down 37.2% year-on-year), due to falling selling prices and other factors.

[Smart]

The display business, such as cellulose acetate for optical films and high-performance films, posted a decline in sales revenue due to sluggish demand, resulting in lower sales.

The IC/Semiconductor business, such as solvents for printed electronics and resist materials, registered growth in sales revenue due to a recovery in domestic semiconductor market demand, resulting in higher sales.

Consequently, overall segment sales fell to ¥5,113 million (down 19.4% year-on-year). Operating income also dropped to ¥599 million (down 53.1% year-on-year), due to a decrease in the sales volume and other factors.

[Safety]

The automobile airbag inflator (gas-generating device) and other mobility business, posted a decrease in sales revenue due to a decrease in sales volume from a slump in the automobile production.

Consequently, overall segment sales came to ¥10,665 million (down 47.6% year-on-year).

On the income front, we posted an operating loss of ¥2,306 million (operating income of ¥1,358 million in the same period of the previous year), due to a utilization rate decline from a decrease in sales volume and other factors.

[Materials]

Acetic acid posted a decrease in sales revenue due mainly to a downward trend in the market.

Sales revenue of acetic acid derivatives decreased due to lower selling prices from the decline in the acetic acid market despite an increase in sales volume due to increased demand for some products.

Acetate tow for cigarette filters posted decreased sales revenue due to sales prices declines with the easing of worldwide supply and demand and differences in product mix despite an increase in sales volume due to factors such as securing raw materials at major overseas customers.

Caprolactone derivatives and alicyclic-epoxy-resin posted a decline due to a decrease in sales volume resulting from the slowdown in the automobile and display market.

Consequently, overall segment sales fell to ¥25,609 million (down 4.8 % year-on-year). Operating income also dropped to ¥3,875 million (down 14.2% year-on-year), due to the slowdown in the product market and other factors.

[Engineering 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.

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 automobile production.

As for the plastic processing business, including molded containers and films, sales revenue decreased despite an increase in sales of some products such as seats.

Consequently, overall segment sales amounted to ¥35,206 million (down 20.2% year-on-year). Operating income was ¥3,913 million (down 28.0% year-on-year) due mainly to a decrease in sales volume.

[Other Businesses]

Sales revenue of other businesses increased due mainly to sales volume of the aerospace and defense business.

Consequently, overall segment sales increased to ¥2,392 million (up 9.3% year-on-year). Operating income amounted to ¥427 million (up 7,016.7% year-on-year).

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

Total assets as of Jun 30, 2020 were ¥589,535 million, a decrease of ¥8,457 million from March 31, 2020, due primarily to a decrease in notes and accounts receivable despite increases in cash and deposits, and property, plant and equipment.

Total liabilities were ¥214,605 million, an increase of ¥9,197 million from March 31, 2020 due primarily to an increase in long-term loans payable despite a decrease in notes and accounts payable.

Total net assets were ¥ 374,929 million. Total shareholders' equity, which is calculated as the net assets minus non-controlling interests, was ¥348,035 million. Shareholders' equity ratio was 59.0%.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2020	As of Jun. 30, 2020
Assets		
Current assets		
Cash and deposits	80,751	83,291
Notes and accounts receivable – trade	79,499	66,934
Securities	629	1,128
Inventories	117,414	118,875
Other	19,812	19,877
Allowance for doubtful accounts	(66)	(65)
Total current assets	298,040	290,041
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	61,064	60,714
Machinery, equipment and vehicles, net	65,559	64,644
Land	30,132	30,131
Construction in progress	42,354	46,081
Other, net	5,235	5,095
Total property, plant and equipment	204,346	206,667
Intangible assets		
Goodwill	5,194	4,930
Other	8,183	7,950
Total intangible assets	13,378	12,881
Investments and other assets		
Investment securities	61,813	59,194
Other	20,468	20,804
Allowance for doubtful accounts	(54)	(54)
Total investments and other assets	82,227	79,944
Total non-current assets	299,952	299,493
Total assets	597,992	589,535

(Unit: Millions of Yen)

	As of Mar. 31, 2020	As of Jun. 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	45,007	37,072
Short-term borrowings	6,902	10,606
Current portion of long-term borrowings	10,336	10,204
Income taxes payable	2,240	1,967
Provision for environmental measures	1,725	1,664
Other	40,014	39,985
Total current liabilities	106,226	101,499
Non-current liabilities		
Bonds payable	40,003	40,003
Long-term borrowings	32,197	47,477
Deferred tax liabilities	7,861	7,232
Provision for retirement benefits for directors	62	66
Provision for repairs	1,167	1,592
Provision for environmental measures	547	481
Net defined benefit liability	10,992	10,775
Asset retirement obligations	1,229	1,235
Other	5,119	4,240
Total non-current liabilities	99,182	113,106
Total liabilities	205,408	214,605
Net assets		
Shareholders' equity		
Share capital	36,275	36,275
Capital surplus	31,692	31,692
Retained earnings	271,762	266,804
Treasury shares	(5,050)	(13,203)
Total shareholders' equity	334,679	321,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	26,582	24,898
Deferred gains or losses on hedges	(69)	(71)
Foreign currency translation adjustment	(656)	(356)
Remeasurements of defined benefit plans	2,009	1,995
Total accumulated other comprehensive income	27,865	26,466
Non-controlling interests	30,038	26,894
Total net assets	392,583	374,929
Total liabilities and net assets	597,992	589,535

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2020
Net sales	103,884	82,913
Cost of sales	74,565	60,904
Gross profit	29,319	22,009
Selling, general and administrative expenses	20,150	18,915
Operating profit	9,168	3,094
Non-operating income		
Interest income	116	67
Dividend income	582	545
Share of profit of entities accounted for using equity method	496	635
Other	411	403
Total non-operating income	1,607	1,652
Non-operating expenses		
Interest expenses	341	252
Foreign exchange losses	679	272
Other	264	347
Total non-operating expenses	1,285	872
Ordinary profit	9,490	3,874
Extraordinary income		
Gain on disposal of non-current assets	15	2
Total extraordinary income	15	2
Extraordinary losses		
Loss on retirement of non-current assets	271	225
Impairment loss	-	672
Total extraordinary losses	271	897
Profit before income taxes	9,234	2,978
Income taxes		
Income taxes - current	774	874
Income taxes - deferred	1,381	181
Total income taxes	2,155	1,055
Profit	7,078	1,923
Profit attributable to non-controlling interests	1,756	1,287
Profit attributable to owners of parent	5,322	635

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Three months ended Jun. 30, 2019	Three months ended Jun. 30, 2020
Profit	7,078	1,923
Other comprehensive income		
Valuation difference on available-for-sale securities	1,658	(1,649)
Deferred gains or losses on hedges	(69)	(4)
Foreign currency translation adjustment	(4,283)	339
Remeasurements of defined benefit plans, net of tax	492	(3)
Share of other comprehensive income of entities accounted for using equity method	(342)	(32)
Total other comprehensive income	(2,544)	(1,350)
Comprehensive income	4,533	572
Comprehensive income attributable to		
owners of parent	3,760	(763)
non-controlling interests	772	1,335

6. Notes to Consolidated Financial Statements

(Additional Information)

(Impact of COVID-19 on Accounting Estimates)

Daicel group is facing negative impacts mainly of demand decrease for automobile airbag inflators and engineering plastics and others due to COVID-19.

Under this circumstance, we assessed the recoverability of deferred tax assets and made accounting estimates for tangible and intangible assets under the assumption that domestic and overseas economy will be significantly constrained in the first half of the year ending March 31, 2021, but will gradually recover in the second half. While the prediction of infection spread and containment of COVID-19 is difficult, the assessment was carefully implemented based on information currently available. However, there may be an effect on the valuation of deferred tax assets and other assets, on the impairment of tangible and intangible assets, and on other aspects, in case the conditions changed, such as COVID-19 impacts are more prolonged than assumed.

(Notes to Consolidated Statements of Income)

(Impairment Loss)

Daicel group has recognized impairment loss for the three months ended June 30, 2020, on the manufacturing facilities for automobile airbag inflators and others at Daicel Corporation (Japan) and Daicel Safety Systems Americas, Inc. (USA), grouping the assets by in-house company, SBU, and BU as a minimum unit.

Since it was considered difficult to recover the investment amounts, we have written down the book value of the asset groups to their recoverable value, and recorded the decreased amounts as "Impairment loss" (Japan: ¥2 million of buildings and structures, ¥15 million of machinery and equipment, ¥20 million of tools, furniture and fixtures, ¥300 million of construction in progress, ¥27 million of others, USA: ¥305 million of construction in progress) under extraordinary losses. The recoverable values were measured at the net selling price which was based on the appraisal value of the real estate.

7. Segment Information

I Three months ended Jun. 30, 2019

1. Sales and Profit (Loss) by Reportable Segment

(Unit: Millions of Yen)

	Medical / Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total	Corporate and eliminations	Consolidated
Net sales									
Outside customers	3,953	6,346	20,371	26,904	44,119	2,188	103,884	-	103,884
Intersegment sales	30	53	-	3,248	217	4,019	7,569	(7,569)	-
Total	3,983	6,399	20,371	30,153	44,337	6,207	111,453	(7,569)	103,884
Operating profit	653	1,278	1,358	4,515	5,436	6	13,248	(4,080)	9,168

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

Not applicable.

II Three months ended Jun. 30, 2020

1. Sales and Profit (Loss) by Reportable Segment

(Unit: Millions of Yen)

	Medical / Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total	Corporate and eliminations	Consolidated
Net sales									
Outside customers	3,925	5,113	10,665	25,609	35,206	2,392	82,913	-	82,913
Intersegment sales	99	33	-	2,321	234	2,952	5,641	(5,641)	-
Total	4,025	5,147	10,665	27,930	35,440	5,345	88,554	(5,641)	82,913
Operating profit	410	599	(2,306)	3,875	3,913	427	6,921	(3,827)	3,094

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

(Unit: Millions of Yen)

	Medical / Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Corporate and eliminations	Total
Impairment loss	-	-	672	-	-	-	-	672

3. Changes in Reportable Segments

In accordance with the shift to the organization based on "Strategic Business Units (SBUs)" as of April 1, 2020, we have changed the business segmentation from the previous reportable segments composed of "Cellulosic derivatives," "Organic chemicals," "Plastics," and "Pyrotechnic devices," to new reportable segments composed of "Medical / Healthcare," "Smart," "Safety," "Materials," and "Engineering Plastics."

The segment information of three months ended Jun. 30, 2019 has been reclassified and presented above based on the reporting segments after the organizational change.

8. Significant Events After Reporting Period

(Additional Acquisition of Consolidated Subsidiaries' Stocks)

On July 3, 2020, Daicel Corporation's Board of Directors approved a resolution to purchase an additional 45% of the common stock of Polyplastics Co., Ltd., a consolidated subsidiary of Daicel Corporation, to make it a wholly-owned subsidiary, and Daicel Corporation signed a Transaction Agreement on July 20, 2020.

(1) Summary of the acquisition

- a. Name and business of the combined entity
Corporate name: Polyplastics Co., Ltd.
Scope of business: Manufacturing and selling of various types of engineering plastics and polymers
- b. Date of the business combination
The date of completion of the Acquisitions is undetermined since the acquisition is subject to approval from the authority related to competition laws which may be required in relevant countries.
- c. Legal form of the business combination
Acquisition of shares from non-controlling shareholders.
- d. Name of the entity after the business combination
There will be no change.
- e. Other information
The voting rights of the additional shares acquired are 45% of the total voting rights and the transaction will make Polyplastics Co., Ltd. a wholly-owned subsidiary of Daicel Corporation. This additional acquisition is intended to improve the efficiency of consolidated management and strengthen the group management system.

(2) Outline of accounting procedure to be applied

In accordance with ASBJ Statement No. 21 "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10 "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," it will be treated as a transaction with a non-controlling shareholder among the transactions under common control.

(3) Acquisition of additional common stock

Consideration for the acquisition: Cash and deposits \$1,575 million
Acquisition cost: \$1,575 million

(4) Changes in equity in transactions with non-controlling shareholders

- a. Major factor of changes in capital surplus and retained earnings
Acquisition of the share of subsidiary.
- b. Decrease in capital surplus and retained earnings due to transactions with non-controlling shareholders
Yet to be determined.

(Fundraising by borrowings)

On July 3, 2020, Daicel Corporation's Board of Directors approved a resolution to contract the uncommitted and revolving credit line agreement as follows for the acquisition of additional common stock of Polyplastics Co., Ltd.

- (1) Borrowing institution
Sumitomo Mitsui Banking Corporation
- (2) Contract Date
July 20, 2020
- (3) Borrowing limit
¥200,000 million
- (4) Contract term
Base rate + spread
- (5) End of contract
March 31, 2021
- (6) Collateral asset or content of guarantee
Not applicable