



日本化学工業株式会社

FY 2018 Financial Results Briefing

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日本化学工業株式会社 4092

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Outline of Consolidated Financial Results for FY 2018

Outline of Consolidated Financial Results

for FY 2018

(Millions of yen)

	FY 2017	FY 2018	Change	Change rate
Net sales	36,798	36,157	640	▲ 1.7%
Operating profit	4,084	3,084	▲ 1,000	▲ 24.5%
Ordinary profit	4,009	3,057	▲ 951	▲ 23.7%
Profit	2,774	2,154	▲ 620	▲ 22.4%
ROE	8.3%	6.2%		

Revenue by Business Segment for FY 2018

(Millions of yen)

		FY 2017	FY 2018	Change	Change rate
Inorganic Chemicals	Net sales	16,137	15,584	▲ 552	▲3%
	Operating profit	767	661	▲ 106	▲14%
Specialty Chemicals	Net sales	14,971	14,849	▲ 121	▲1%
	Operating profit	2,260	1,423	▲ 837	▲37%
Leasing Business	Net sales	874	893	19	2%
	Operating profit	540	548	8	1%
Air-conditioning Business	Net sales	3,834	3,869	35	1%
	Operating profit	455	350	▲ 105	▲23%
Others	Net sales	980	959	▲ 20	▲2%
	Operating profit	39	81	42	108%
TOTAL	Net sales	36,798	36,157	▲ 640	▲1.7%
	Operating profit	4,084	3,084	▲ 1,000	▲24.5%

Chromium Compounds	Products for refractories performed steadily
Silicates and Silica	Products for pulp and paper deteriorated
Inorganic Phosphorus Compounds	Products for LCDs deteriorated
Phosphine Derivatives	Products for lithium ion batteries were sluggish
Agrochemicals	Decreased due to customer inventory adjustments, etc.
Battery Materials	Products for main customers performed strongly
Electronic Ceramic Materials	Products for smartphones and automobiles performed steadily
Circuit Materials	Products for small- to medium-sized panels were sluggish
Leasing business	Completed the redevelopment of the former Nishi-yodogawa Plant site
Air-conditioning business	New designs and installations were sluggish, while maintenance was steady Consolidated Rockgate Corporation acquired by the Company
Book store operation	The book store business was sluggish

Consolidated Balance Sheet (Assets)

(Millions of yen)

【Assets】	As of March 31, 2018	As of March 31, 2019	Change
Current assets	29,593	30,794	1,201
Cash and deposits	8,937	9,051	113
Notes and accounts receivable - trade	11,849	10,861	▲ 988
Inventories	8,212	10,364	2,152
Other	595	518	▲ 77
Non-current assets	32,451	34,703	2,252
Property, plant and equipment	24,445	27,014	2,569
Intangible assets	265	319	53
Investment securities	6,723	6,597	▲ 126
Other	1,018	773	▲ 245
Total assets	62,044	65,497	3,452

Consolidated Balance Sheet (Liabilities and Net Assets)

(Millions of yen)

【Liabilities】	As of March 31, 2018	As of March 31, 2019	Change
Current liabilities	16,178	18,925	2,747
Notes and accounts payable - trade	4,107	4,617	510
Short-term loans payable	6,535	9,143	2,608
Other	5,536	5,165	▲ 371
Non-current liabilities	11,347	11,073	▲ 274
Long-term loans payable	5,960	5,422	▲ 537
Retirement benefit liability	931	1,299	368
Deferred tax liabilities	2,278	2,118	▲ 160
Other	2,177	2,233	56
Total liabilities	27,525	29,999	2,474
【Net assets】			
Shareholders' equity	30,976	32,514	1,538
Accumulated other comprehensive income	3,542	2,983	▲ 559
Total net assets	34,518	35,497	978
Total liabilities and net assets	62,044	65,497	3,452

Consolidated Statements of Cash Flows

(Millions of yen)

	FY ended March 31, 2018	FY ended March 31, 2019
I Cash flows from operating activities	3,858	2,632
Profit before income taxes	3,875	2,956
Depreciation	1,975	2,155
Decrease (increase) in inventories	▲ 673	▲ 2,148
Other	▲ 1,319	▲ 331
II Cash flows from investing activities	▲ 1,784	▲ 3,966
Capital expenditure	▲ 2,262	▲ 3,965
Other	478	▲ 1
III Cash flows from financing activities	▲ 1,683	1,445
Increase (decrease) in loans payable	▲ 1,150	2,068
Cash dividends paid	▲ 527	▲ 614
Other	▲ 6	▲ 9
Effect of exchange rate change on cash and cash equivalents	3	2
Net increase (decrease) in cash and cash equivalents	393	113
Cash and cash equivalents at beginning of period	8,534	8,927
Cash and cash equivalents at end of period	8,927	9,041

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Forecast of Consolidated Financial Results for FY 2019

Forecast of Consolidated Financial Results

for FY 2019

(Millions of yen)

	FY 2018 Actual	FY 2019 Forecast	Change	Change rate
Net sales	36,157	37,500	1,343	3.7%
Operating profit	3,084	3,100	16	0.5%
Ordinary profit	3,057	3,100	43	1.4%
Profit	2,154	2,200	46	2.1%

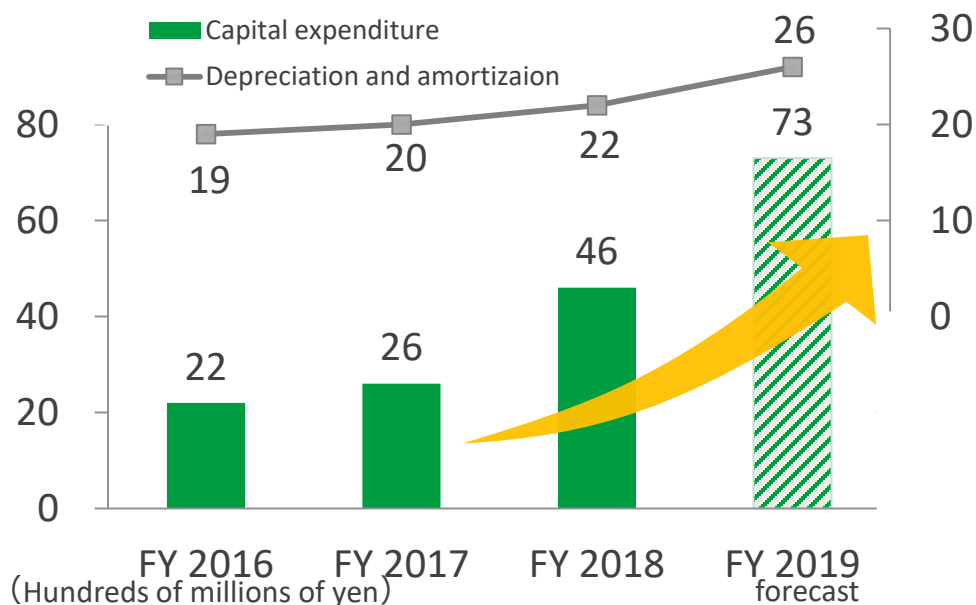
Revenue by Business Segment for FY 2019

(Millions of yen)

		FY 2018 Actual	FY 2019 Forecast	Change	Change Rate
Inorganic Chemicals	Net sales	15,584	15,955	371	2%
	Operating profit	661	566	▲ 95	▲14%
Specialty Chemicals	Net sales	14,849	15,840	991	7%
	Operating profit	1,423	1,631	208	15%
Leasing Business	Net sales	893	905	12	1%
	Operating profit	548	590	42	8%
Air-conditioning Business	Net sales	3,869	3,953	84	2%
	Operating profit	350	291	▲ 59	▲17%
Others	Net sales	959	847	▲ 112	▲12%
	Operating profit	81	22	▲ 59	▲73%
TOTAL	Net sales	36,157	37,500	1,343	3.7%
	Operating profit	3,084	3,100	16	0.5%

Chromium Compounds	Perform steadily
Silicates and Silica	Likely to ship radioactive substance absorbents
Inorganic Phosphorus Compounds	Grow due to price revisions and sales expansion
Phosphine Derivatives	Perform steadily
Agrochemicals	Perform steadily
Battery Materials	Prices of raw material cobalt spike
Electronic Ceramic Materials	Sales volume of products for MLCCs increases
Circuit Materials	Perform smoothly
Leasing business	Perform steadily
Air-conditioning business	Perform steadily
Book store operation	Sales decrease due to industry slump

Capital Expenditure and Depreciation and Amortization



Main capital expenditures

Forecast for FY 2019

The business performance of electronic ceramic materials will remain strong

Continue to invest in growth products in a concentrated manner

Invest aggressively without losing growth opportunities

Major recent investments	Product	Use	Plant	Background and description of investment	Value
	Organic electronic materials	Leading-edge organic electronic materials	Fukushima 2	Arrange for the construction of a new plant to meet the rising needs for leading-edge organic materials. Aim to double sales of organic electronic materials business.	2.0 billion yen
	Electronic ceramic materials	MLCC materials	Fukushima 1	Add a new production line. Expand production capacity by 10%.	1.0 billion yen
			Aichi or Tokuyama	Cater to soaring MLCC demand stemming from a shift to EV cars as well as the installation of 5G base stations. Considering arranging for a new plant building to be constructed in Aichi or Tokuyama as a BCP measure.	Under consideration

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Medium-Term Business Plan

Medium-Term Business Plan Policy

Toward earning sustained and steady profits

(i) Concentrated investment in priority areas	(ii) Aggressive development of overseas strategies	(iii) Reinforcement of business foundation
Expand Specialty Chemicals business	Sell to non-Japan Asian markets aggressively	Regain business in existing domestic markets
Arrange for the construction of a new plant incorporating next-generation products	Reinforce the liaison between our international business sites	Utilize asset holdings effectively
Push forward with mergers and acquisitions (M&As)	Verify the proposed establishment of a South East Asian production base and implement it	Promote developing human resources

Growth strategy

Structural reform and reinforcement

Medium-Term Business Plan Measures and Progress

(i) Concentrated investment in priority areas

Measure	Status of progress
Expand Specialty Chemicals business	<ul style="list-style-type: none"> Established the Advanced Materials R&D Department within the R&D Division Increased the capital expenditure and prototype development costs for electronic materials and organic products
Arrange for the construction of a new plant incorporating next-generation products	<ul style="list-style-type: none"> Made large investments in electronic materials and organic products Devising the Medium-Term Business Plan for the next period
Push forward with mergers and acquisitions (M&As)	<ul style="list-style-type: none"> Acquired Rockgate Corporation, the laboratory instrument company (by Nippon Puretec Co., Ltd.) Considering several potential cases



(Source : Rockgate Corporation Website)


Medium-Term Business Plan Measures and Progress

(ii) Aggressive development of overseas strategies



Medium-Term Business Plan Measures and Progress

(iii) Reinforcement of business foundation

Measure	Status of progress
Regain business in existing domestic markets	<ul style="list-style-type: none"> • Recommencing business with former customers as well as acquired new customers • Considered and took cost-saving measures
Utilize asset holdings effectively	<ul style="list-style-type: none"> • Completed the redevelopment of the former Nishi-yodogawa Plant site • Renewed the agreement on AEON TOWN KORIYAMA 
Promote developing human resources	<ul style="list-style-type: none"> • Secure human resources by mid-career recruitment • Conducted “right man in the right place” staff allocation • Resumed mid-level employee and youth training programs

Medium-term business plan

Key Numerical Targets

(Hundreds of millions of yen)

	FY 2017	FY 2018	FY 2019
Net sales	350	360	375
Operating profit	25	28	29
Rate (%)	7.1%	7.7%	7.7%
Capital expenditure	34	53	30
New products sales	22	28	20

Medium-Term Business Plan Measures and Progress

Progress in net sales and operating profit

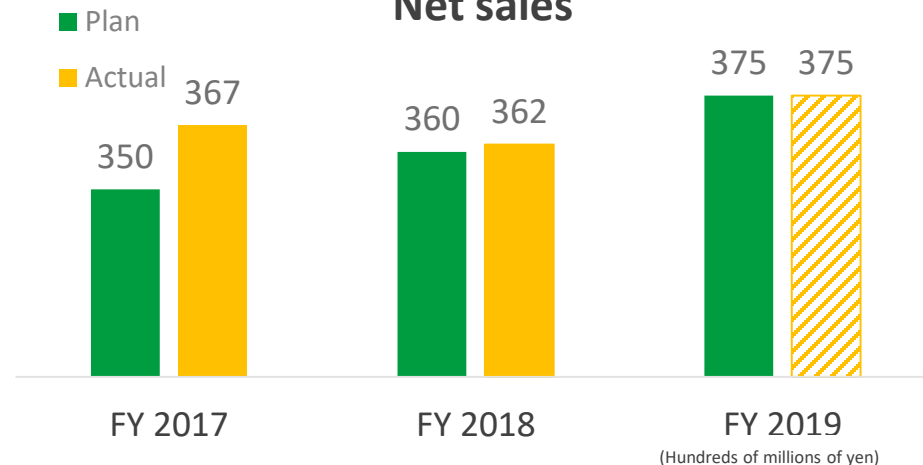
Status of progress

Both net sales and operating profit will likely reach plans for the third consecutive year

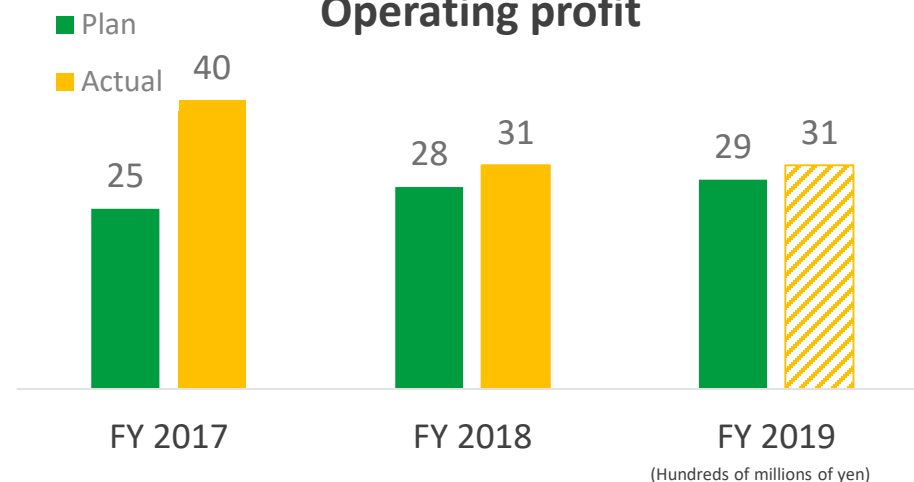
Shipments of products such as electronic materials are running out of steam, affected by U.S.-China trade tensions

Rising raw material costs as well as climbing depreciation and amortization caused by large investments are causes for concern

Net sales



Operating profit



Medium-Term Business Plan Measures and Progress

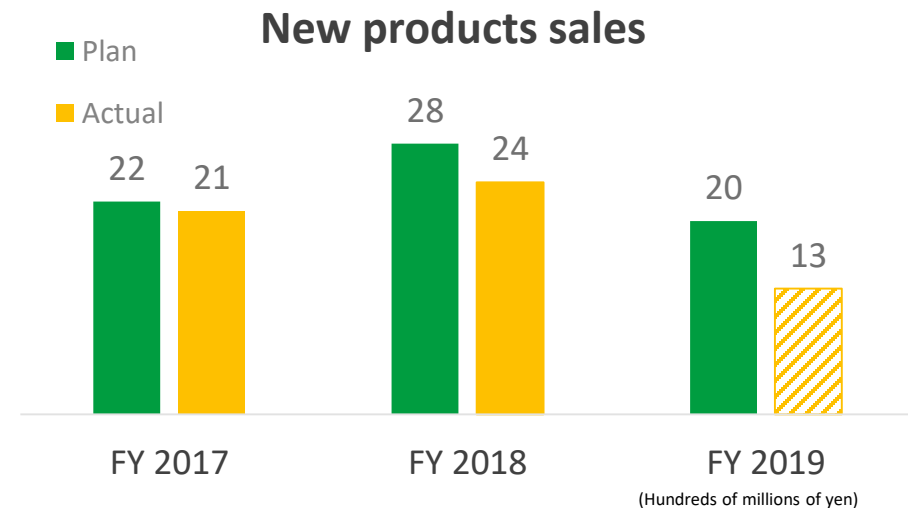
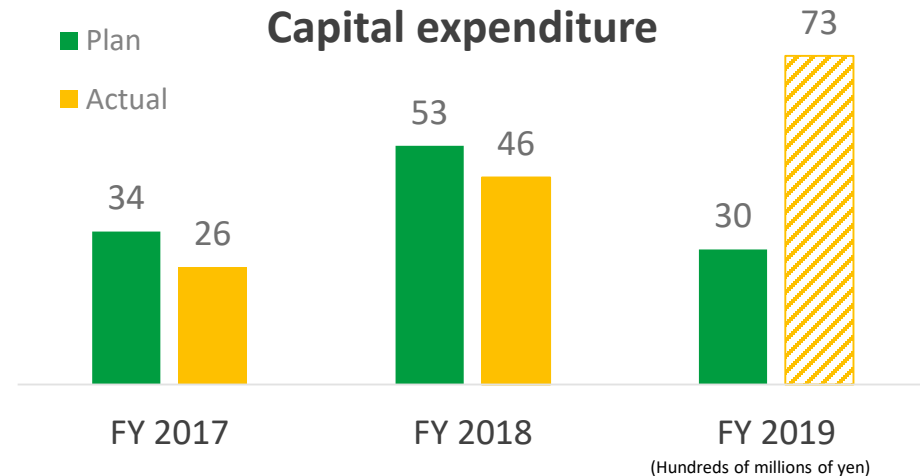
Capital expenditure and new products sales

Status of progress

Capital expenditure: Continue to invest in growth products aggressively and flexibly.

New products sales: Likely to fall short of plan due to a launch delay.

* A “new product” is defined as one that has been registered within the last three years, counting FY of registration as the first year.



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Products and Research & Development

BESPA BT

(Barium Titanate made by Oxalic method)

BESPA BT is Barium Titanate (BaTiO_3) products made by Oxalic method. Barium Titanate has been used in ceramic capacitor, especially MLCC (Multi Layer Ceramics Capacitor), by the high dielectric characteristics. Our products have contributed much to the high-performance electric circuit.

BaTiO_3 production methods consist of Oxalic method, Hydrothermal method and Solid state method. Nippon Chemical Industrial Co., Ltd. produces BaTiO_3 mainly by Oxalic method.

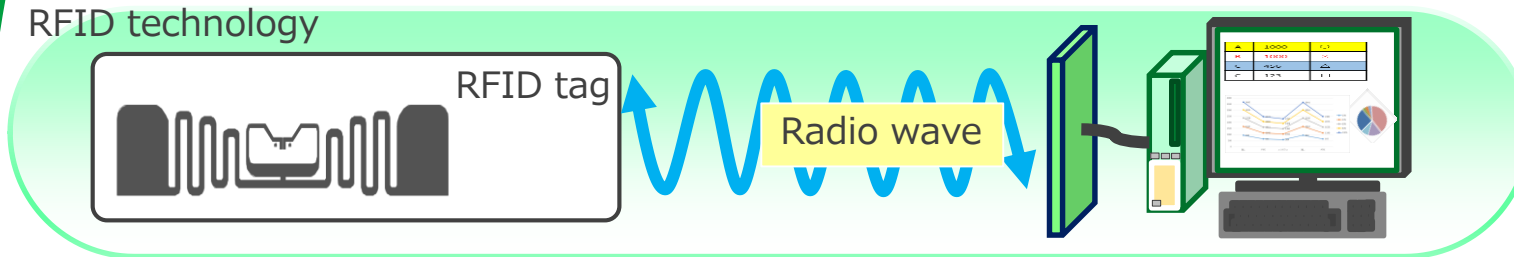
Production method	Characteristic	MLCC application
Oxalic method	<p>A method by which to produce BaTiO_3 by calcining Ba and Ti oxalate. Mole ratio (Ba and Ti) in BaTiO_3 is uniform because its intermediate has identical composition via oxalic acid.</p> <p>  </p>	Highly reliable parts and small-sized parts (Automotive and IoT)
Hydrothermal method	<p>A method by which to produce BaTiO_3 in a liquid phase under high pressure. Hydrothermal method has an advantage to produce fine particles.</p>	Ultra-small-sized parts and small-sized parts (IoT)
Solid state method	<p>A method by which to produce BaTiO_3 by mixing and calcining of Barium Carbonate and Titanium Oxide. Solid state method has wide range of raw material selection, and is able to produce BaTiO_3 relatively cheaply.</p>	General purpose parts (IoT)

SMERF®: Anisotropic Conductive Paste for IC card and tag products

The Ministry of Economy, Trade and Industry advocated 100 billion RFID tags for convenience stores in April 2017 and a smart drug store concept in March 2018

Packaging of SMERF®

RFID technology

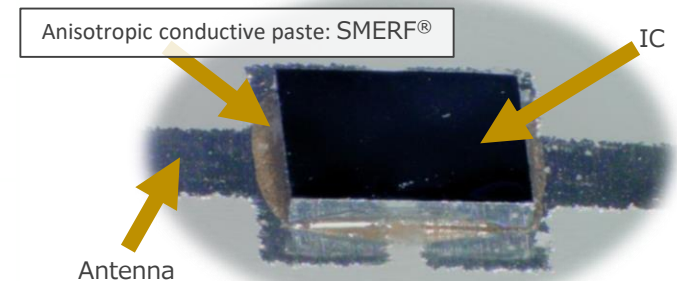


Demand of ICs, antennas and anisotropic conductive pastes used for IC card and tag production, is expected to grow.

Nippon Chemical Industrial used its proprietary materials and technologies to develop SMERF®, an anisotropic conductive paste for the suitable connection of ICs and antennas.

Photo of RFID tag connected by using SMERF®

Grade	Curing temperature	Curing time	Pot life @25°C
Standard grade RL/NL series	170°C–190°C	7 to 10 seconds	1 month or more
Fast curing grade RF/NF series	170°C–190°C	2 seconds	4 days



Joint research with the Ito Lab of Hokkaido University

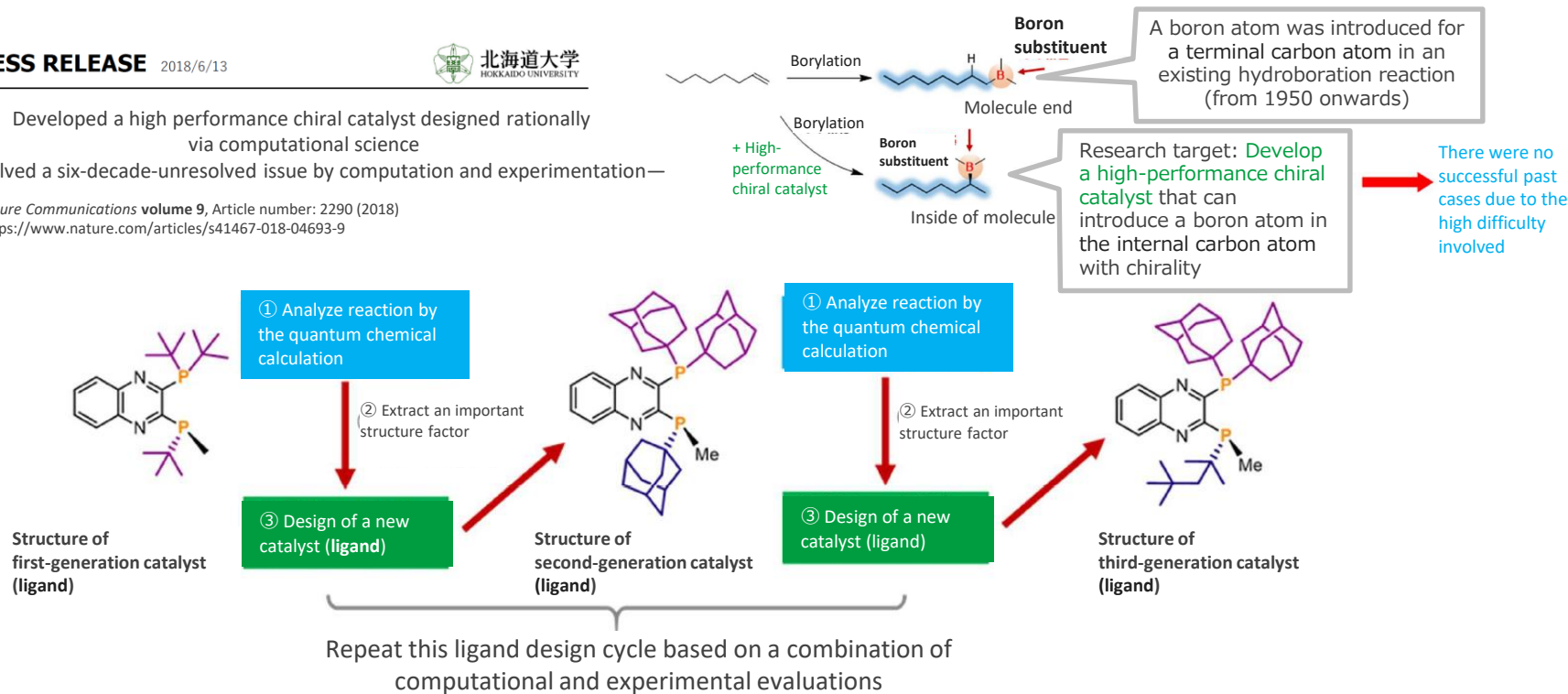
PRESS RELEASE 2018/6/13



Developed a high performance chiral catalyst designed rationally
via computational science

—Resolved a six-decade-unresolved issue by computation and experimentation—

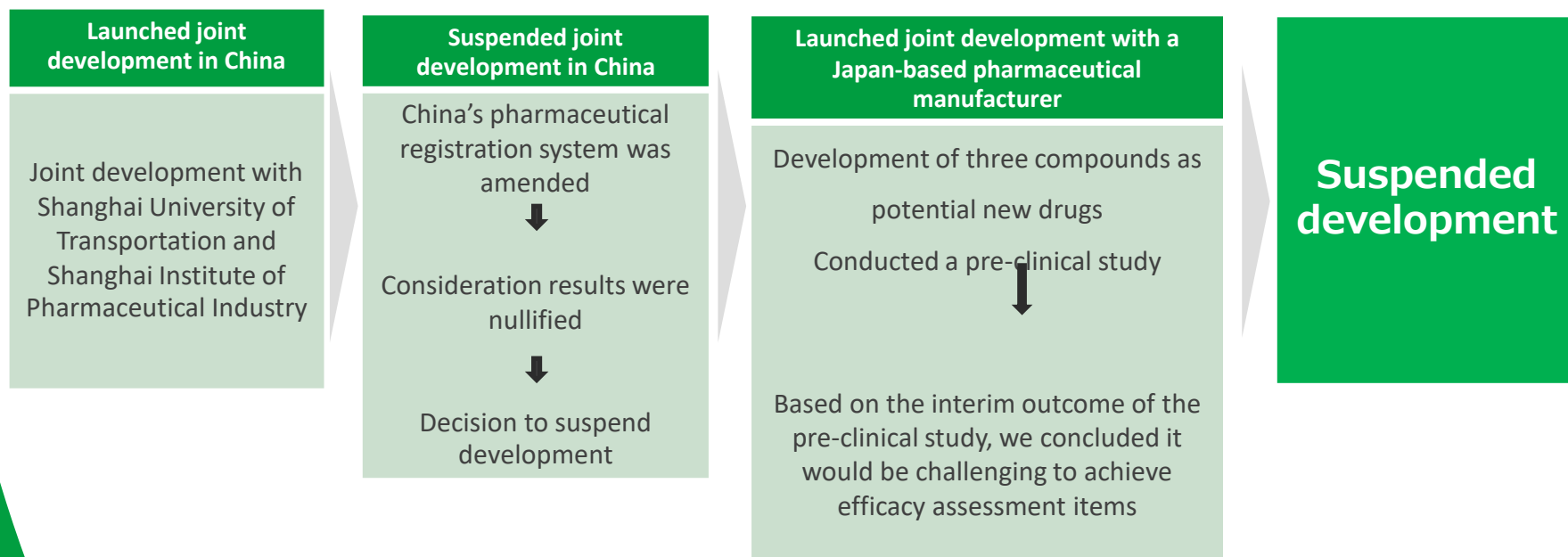
Nature Communications **volume 9**, Article number: 2290 (2018)
<https://www.nature.com/articles/s41467-018-04693-9>



- Academic value: Made a type of catalytic asymmetric reaction happen for the first time ever, something that had not been possible for the past 60 years
- Industrial value: Enables pharmaceutical materials to be produced efficiently from inexpensive industrial products, helping lower drug costs
- Benefit for the Company : Allows us to efficiently develop asymmetric ligands, which are new product candidates

Suspension of anti-cancer drug development (Organic phosphine gold complex)

Although the Company had been pursuing the development of an organic phosphine gold complex-based anti-cancer drug, we decided to suspend the development as we concluded that, based on an interim pre-clinical study outcome, it would be challenging to achieve the efficacy assessment items.



Disclaimer

- Earnings forecasts and business plans presented in this material are those prepared by the Company, based on various assumptions from information obtainable on the date of release of the document. It should be noted that these forecasts and plans are not intended to neither promise nor guarantee the achievement of the planned figures or measures presented herein.