

Q2 FY2019 - Apr 1, 2019 to Sep 30, 2019 -

# Presentation for IR Meeting

**Tokuyama Corporation**

**Oct 31, 2019**



# Key points of the second quarter of fiscal 2019

## Progress Made with Management Issues

- Improve the Company's financial position
- Treating coal-fired power as posing the biggest risk to the Company, painstakingly working on the reduction as well as on the use and application of CO<sub>2</sub> emissions
- Creating a path for growth by time next Medium-Term Management Plan is formulated

# Key points of the second quarter of fiscal 2019

## Results in Fiscal Period under Review

- Based on close inspection of consolidated performance forecast for fiscal 2019, the previous forecast has been revised downwardly
- Semiconductor market moving away from a period of stagnation, but there are differences in the degree of recovery depending on the customer
- In terms of raw fuel costs, although coal prices remain low, cost benefits will appear in earnest from the second half

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- 2** Performance Forecasts for FY2019
- 3** Topics
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# **1** Financial Results for Q2 FY2019

- 1. Financial Highlights**
- 2. Net Sales / Operating Profit by Business Segment**
- 3. Changes in Operating Profit**
- 4. Changes in Net Sales / Operating Profit by Business Segment**



# 1. Financial Highlights

(Billions of yen)

	Q2 FY2018	Q2 FY2019	Difference		Main changing factors
			Amount	%	
Net sales	152.6	152.7	+0.0	+0	Weak sales volume in major products Inclusion of a subsidiary in the Company's scope of consolidation
Operating profit	17.0	14.6	(2.4)	(14)	Weak sales volume in major products
Ordinary profit	15.4	13.6	(1.8)	(12)	Decrease in operating profit
Profit attributable to owners of parent	12.8	10.4	(2.4)	(19)	Decrease in ordinary profit
Basic earnings per share (yen)	184.55	149.75	-		-
Exchange rate (yen/USD)	110	109	-		-
Domestic naphtha price (yen/kl)	51,100	42,700	-		-

# 1. Financial Highlights

(Billions of yen)

	As of Mar 31,2019	As of Sep 30,2019	Difference	Main changing factors
Total assets	379.6	373.1	(6.4)	Decrease in notes and accounts receivable
Shareholders' equity	152.7	160.1	+7.3	Posting profit attributable to owners of parent
Shareholders' equity ratio	40.2%	42.9%	+2.7pts	-
Interest-bearing debt	128.9	122.4	(6.5)	Decrease in long-term loans payable
D/E ratio	0.84	0.76	(0.08)	-
Net D/E ratio*	0.40	0.28	(0.12)	-
Net assets per share (yen)	2,199.83	2,305.30	-	-

\*Net D/E ratio: (Interest-bearing debt – Cash and deposits, Cash equivalents, Money in trust)/Shareholders' equity

## 2. Net Sales/Operating Profit by Business Segment

(Year-on-year change)

(Billions of yen)

	Q2 FY2018		Q2 FY2019		Difference			
	Net Sales	Operating Profit	Net Sales	Operating Profit	Net Sales	%	Operating Profit	%
Chemicals	48.1	8.7	46.3	7.5	(1.8)	(4)	(1.2)	(15)
Specialty Products	26.8	4.3	24.6	2.8	(2.2)	(8)	(1.4)	(35)
Cement	43.9	1.4	42.7	1.1	(1.2)	(3)	(0.2)	(16)
Life & Amenity	26.1	1.6	27.7	1.5	+1.6	+6	(0.1)	(8)
Others	28.1	1.7	32.2	2.4	+4.0	+14	+0.7	+41
<b>Total</b>	<b>173.2</b>	<b>17.9</b>	<b>173.6</b>	<b>15.5</b>	<b>+0.4</b>	<b>+0</b>	<b>(2.4)</b>	<b>(13)</b>
Inter-segment eliminations and corporate-wide expenses	(20.5)	(0.9)	(20.9)	(0.9)	(0.3)	-	+0.0	-
<b>Consolidated results</b>	<b>152.6</b>	<b>17.0</b>	<b>152.7</b>	<b>14.6</b>	<b>+0.0</b>	<b>+0</b>	<b>(2.4)</b>	<b>(14)</b>

(Note) Sales and operating profit shown above include inter-segment transactions.

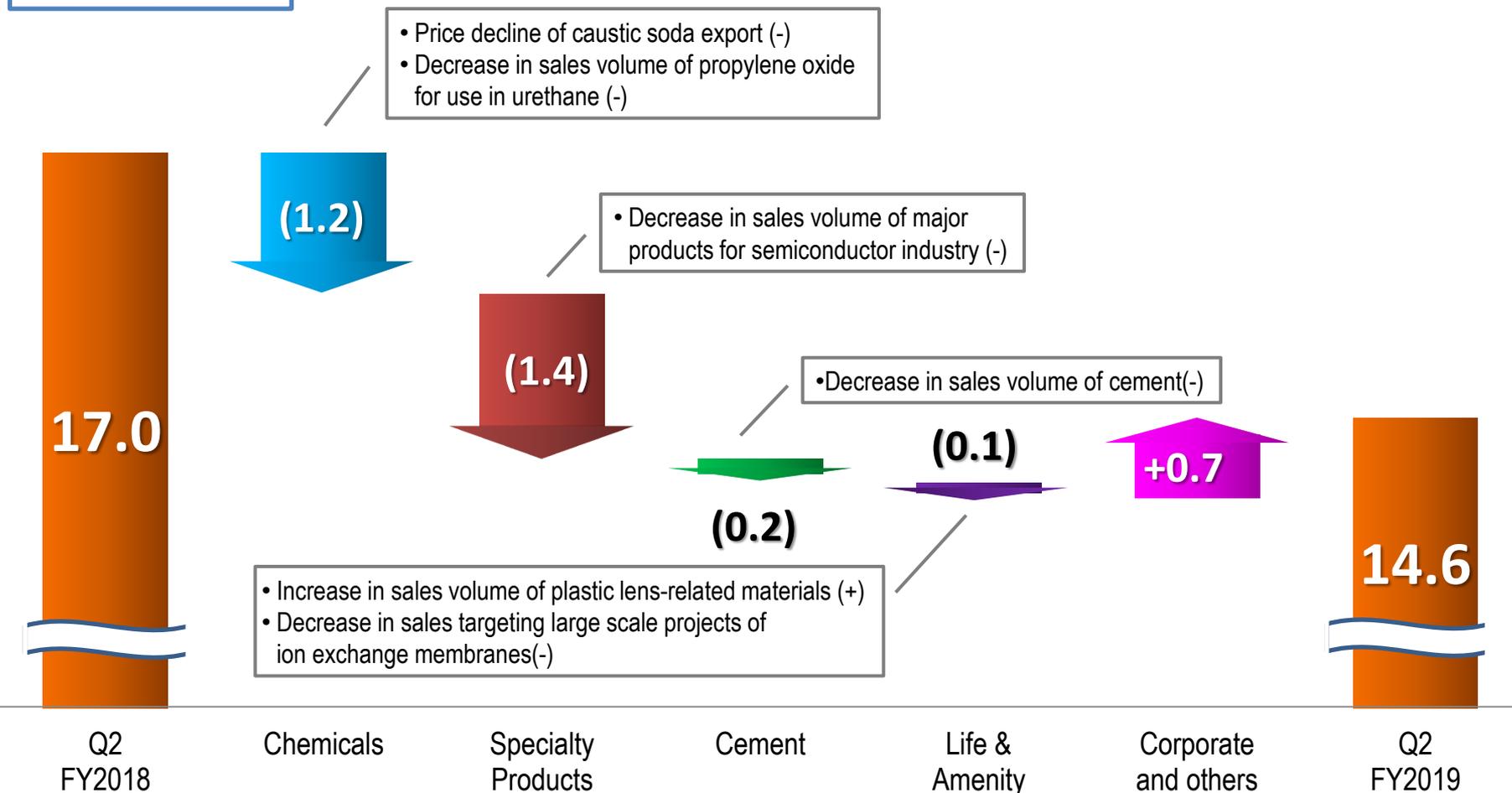
\*The figures of Q2 FY2019 and Q2 FY2018 stated above have been modified to reflect the operating results based on the business segment after this change.

# 3. Changes in Operating Profit

(Year-on-year change)

(Billions of yen)

By Segment

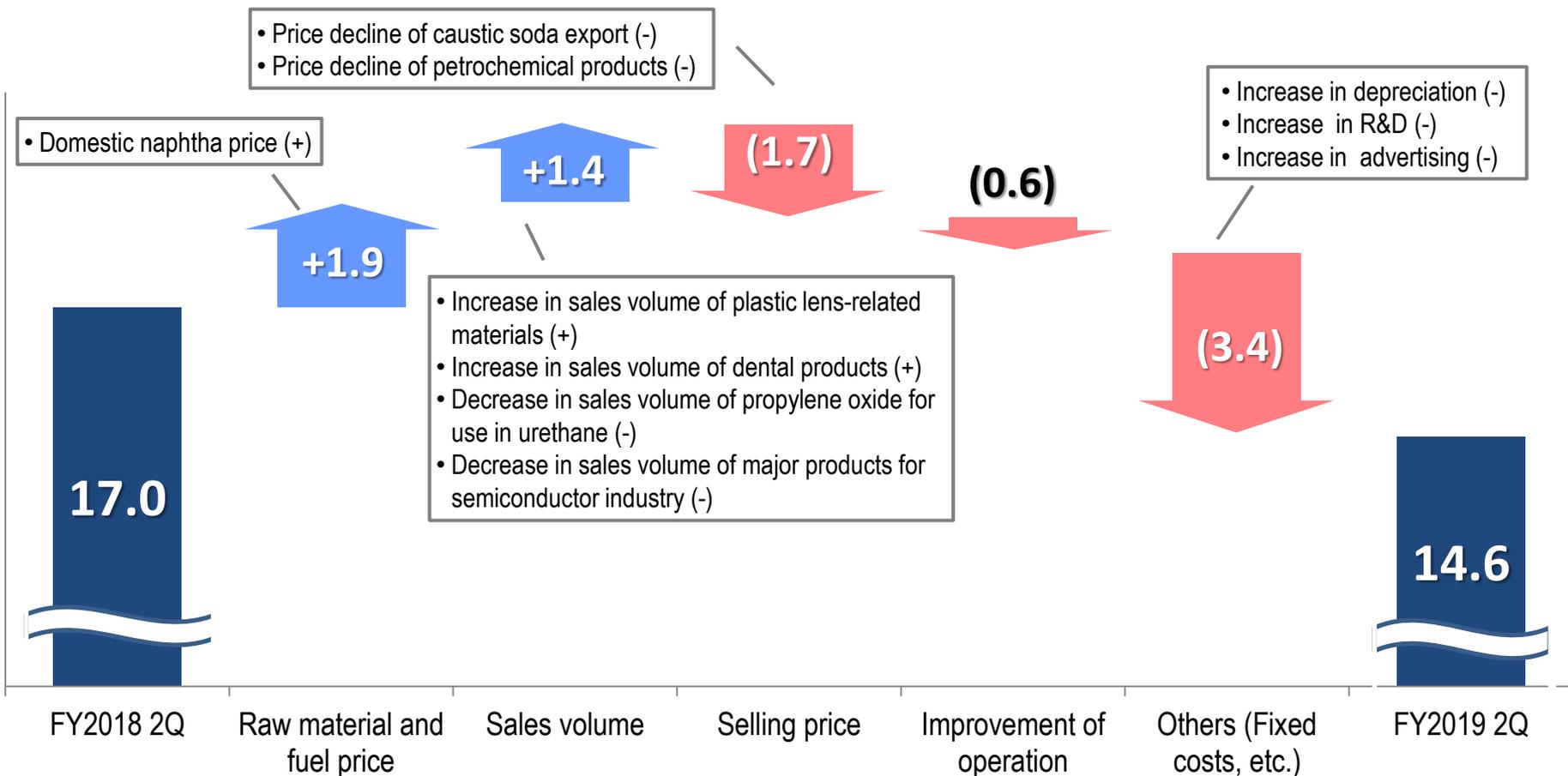


# 3. Changes in Operating Profit

(Year-on-year change)

By Factor

(Billions of yen)

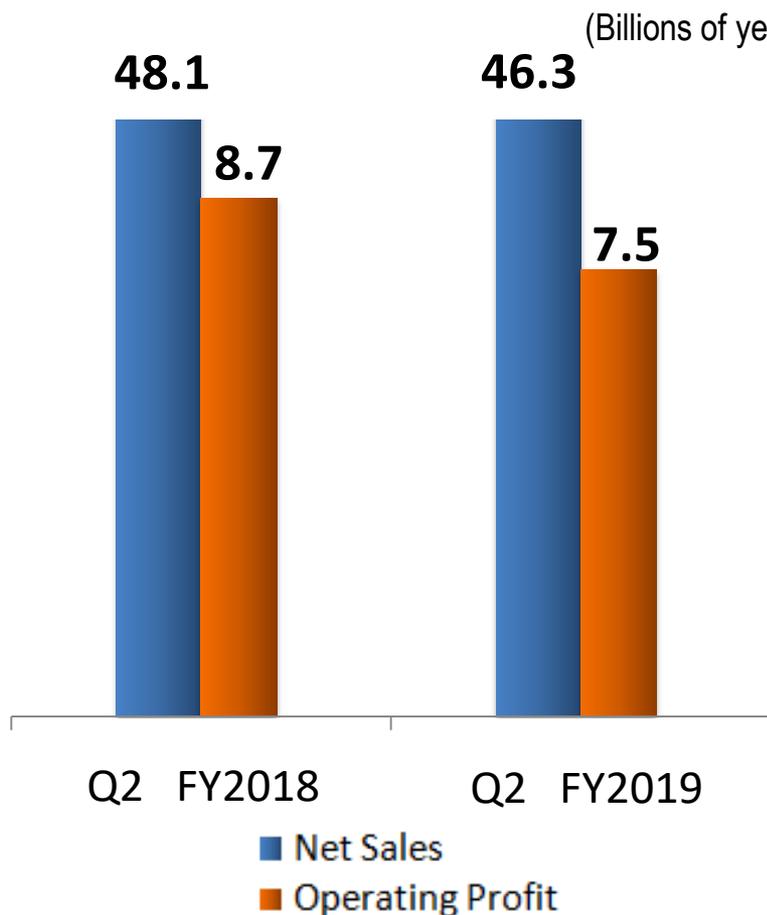


## 4. Changes in Net Sales / Operating Profit by Business Segment

(Year-on-year change)

### Chemicals

*Lower earnings on lower sales*



Qualitative information

(Caustic soda)

- Despite firm sales volume trends, its operating profit decreased due to the increase in raw material price coupled with a deterioration in overseas market conditions.

(Vinyl chloride resin)

- Operating profit increased on the back of efforts to maintain spread between selling prices and raw material price.

(Propylene oxide)

- Operating profit decreased owing to a drop in sales volume for use in urethane.

(Calcium chloride)

- Operating profit decreased. This largely reflected weak sales volume and an increase in logistics costs.

## 4. Changes in Net Sales / Operating Profit by Business Segment

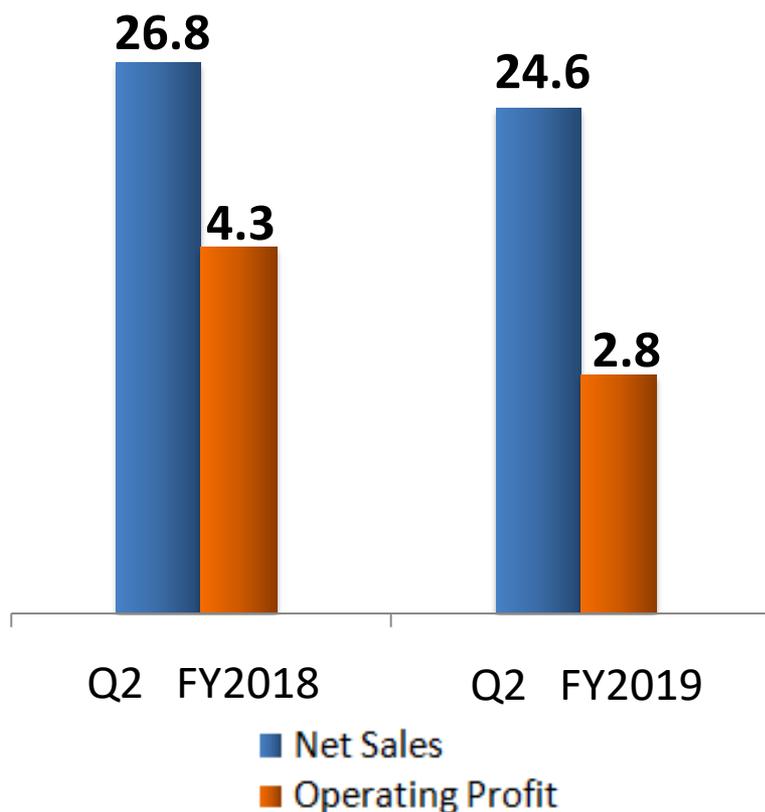
(Year-on-year change)

### Specialty Products

*Lower earnings on lower sales*

(Billions of yen)

Qualitative information



(Semiconductor-grade Polycrystalline silicon and Thermal management material)

- Operating profit decreased. This was due to decline in sales amount caused by the delayed recovery of semiconductor market.

(High-purity chemicals for electronics manufacturing)

- Its business result was almost same as the corresponding period of the previous year. This reflected the recovery of sales volume mainly for export.

## 4. Changes in Net Sales / Operating Profit by Business Segment

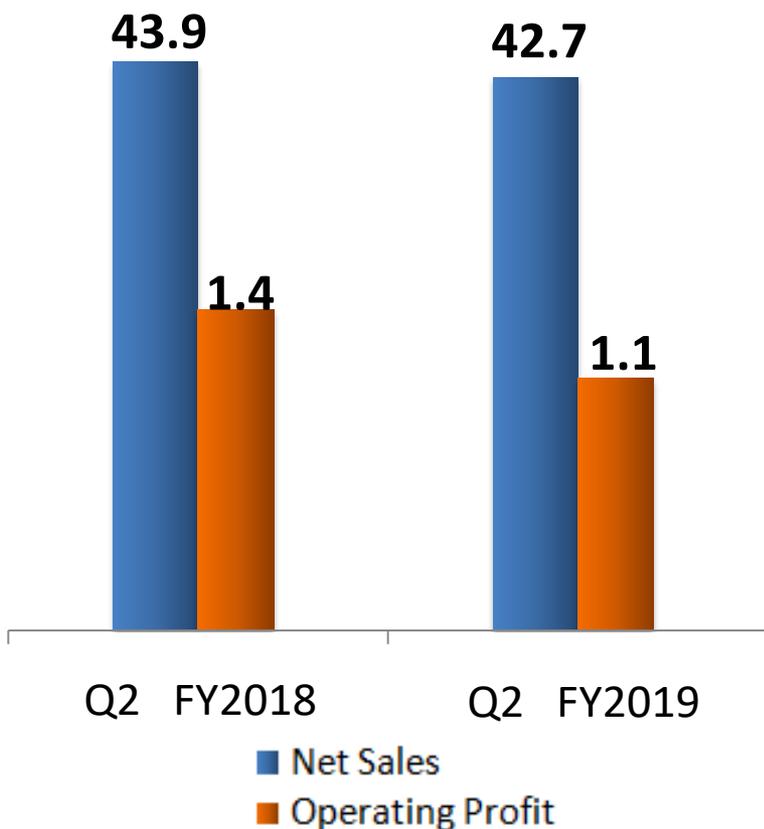
(Year-on-year change)

### Cement

*Lower earnings on lower sales*

(Billions of yen)

Qualitative information



(Cement)

- Despite the partial positive flow on effects of a revision to selling prices, this decrease was largely due to decline in sales amount. As a result, its operating profit decreased.

(Resource recycling business)

- Its business result was almost same as the corresponding period of the previous year.

(Consolidated subsidiaries)

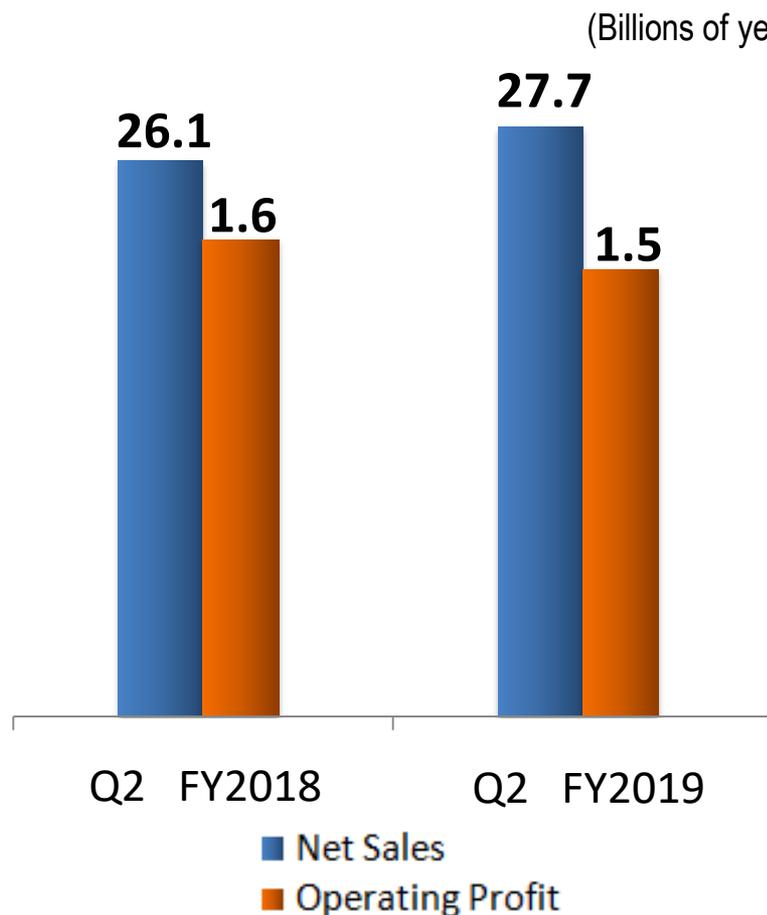
- Due to the firm shipping trends of ready-mixed concrete, its business result was almost same as the corresponding period of the previous year.

## 4. Changes in Net Sales / Operating Profit by Business Segment

(Year-on-year change)

### Life & Amenity

*Lower earnings on higher sales*



Qualitative information

(Plastic lens-related materials)

- Sales volume of photochromic dye materials for eyeglass lenses increased.

(Dental materials)

- Despite an increase in sales volume overseas, its operating profit decreased mainly due to the increase in advertising expenses associated with the release of new products to the market.

(Medical diagnosis systems)

- Its operating profit increased. This largely reflected successful efforts to capture large-scale laboratory automation system projects in Japan.

(Ion exchange membranes)

- Its operating profit decreased due to large-scale project recorded in the corresponding period of the previous year.

\*The figures of Q2 FY2019 and Q2 FY2018 stated above have been modified to reflect the operating results based on the business segment after this change.



## **2** Performance Forecasts for FY2019

- 1. Revised Performance Forecasts**
- 2. Revised Performance Forecasts by Business Segment**

# 1. Revised Performance Forecasts

(Billions of yen)

	FY2019 Forecasts (April 26, 2019)	FY2019 Forecasts (Oct 31, 2019)	Difference		Main changing factors
			Amount	%	
Net sales	343.0	322.0	(21)	(6)	Delayed recovery of semiconductor market. Deterioration in overseas market conditions of caustic soda
Operating profit	39.0	35.0	(4.0)	(10)	Decrease in net sales
Ordinary profit	39.0	34.0	(5.0)	(13)	Decrease in operating profit
Profit attributable to owners of parent	30.5	26.0	(4.5)	(15)	Decrease in ordinary profit
Basic earnings per share (yen)	438.88	374.35	-		-
Exchange rate (yen/USD)	110	1st half results: 109	-		-
		2nd half forecast: 105			
Domestic naphtha price (yen/kl)	44,000	1st half results: 42,700	-		-
		2nd half forecast: 40,000			

The performance forecast for the full fiscal year ending March 31, 2020 has been revised as above from the previous performance forecast released on April 26, 2019, due to close inspection of consolidated performance forecast for fiscal 2019.

## 2. Revised Performance Forecasts by Business Segment

(Year-on-year change based on FY2019 forecasts)

(Billions of yen)

	FY2019 Forecasts (April 26, 2019)		FY2019 Forecasts (Oct 31, 2019)		Difference			
	Net sales	Operating profit	Net sales	Operating profit	Net sales	%	Operating profit	%
Chemicals	103.0	18.5	96.0	16.5	(7.0)	(7)	(2.0)	(11)
Specialty Products	67.0	11.0	57.0	7.5	(10.0)	(15)	(3.5)	(32)
Cement	94.0	3.5	90.0	4.0	(4.0)	(4)	+0.5	+14
Life & Amenity	58.0	4.0	58.0	4.0	-	-	-	-
Others	64.0	4.5	63.0	5.0	(1.0)	(2)	+0.5	+11
<b>Total</b>	<b>386.0</b>	<b>41.5</b>	<b>364.0</b>	<b>37.0</b>	<b>(22.0)</b>	<b>(6)</b>	<b>(4.5)</b>	<b>(11)</b>
Inter-segment eliminations and corporate-wide expenses	(43.0)	(2.5)	(42.0)	(2.0)	+1.0	-	+0.5	-
<b>Consolidated Results</b>	<b>343.0</b>	<b>39.0</b>	<b>322.0</b>	<b>35.0</b>	<b>(21.0)</b>	<b>(6)</b>	<b>(4.0)</b>	<b>(10)</b>

(Note) Sales and operating profit in each segment shown above include inter-segment transactions.

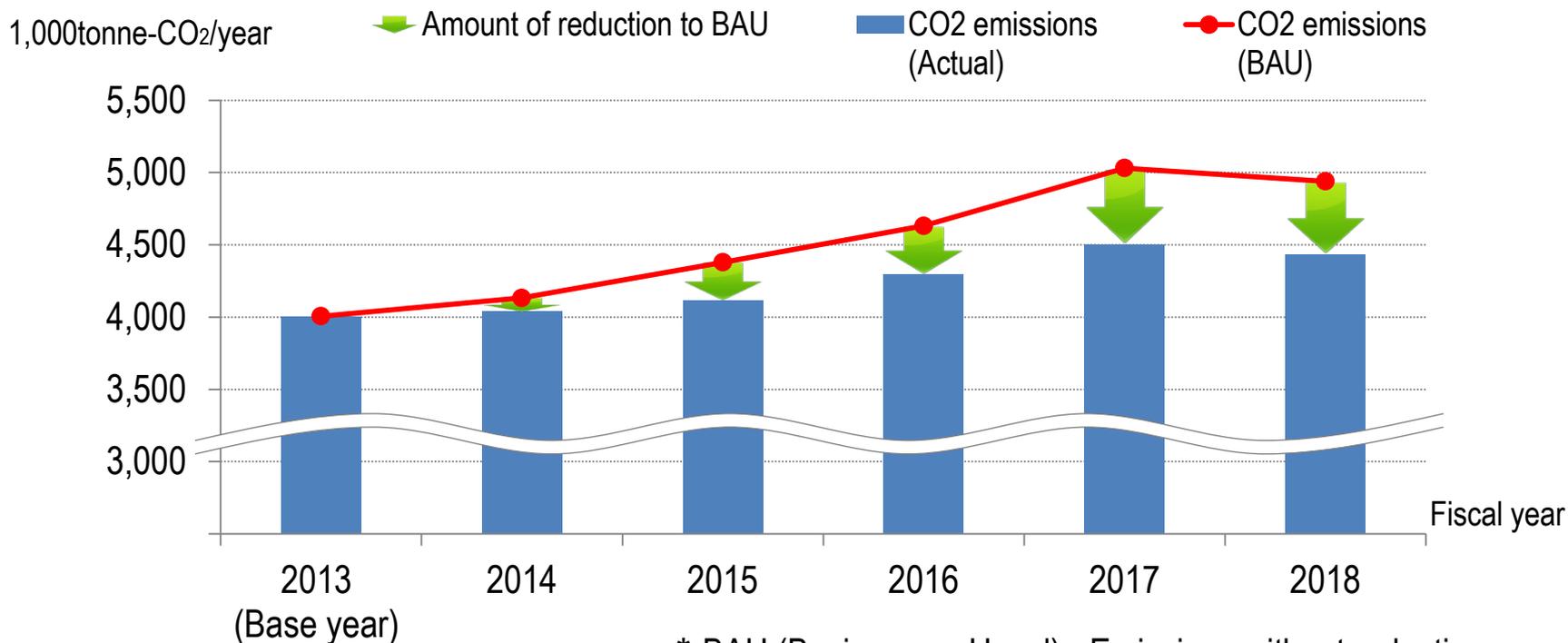


## **3** Topics

- 1. Efforts to reduce CO<sub>2</sub> Emission**
- 2. Progress of Medium-Term Management Plan**

# 1. Effort to reduce CO<sub>2</sub> Emission

- Aiming to reduce greenhouse gas emissions in order to prevent global warming, set a reduction target for energy-derived CO<sub>2</sub> emissions  
 ⇒ 15% reduction compared to BAU (FY 2013 basis) by 2030



\* BAU (Business as Usual): Emissions without reduction measures

## 1. Effort to reduce CO<sub>2</sub> Emission

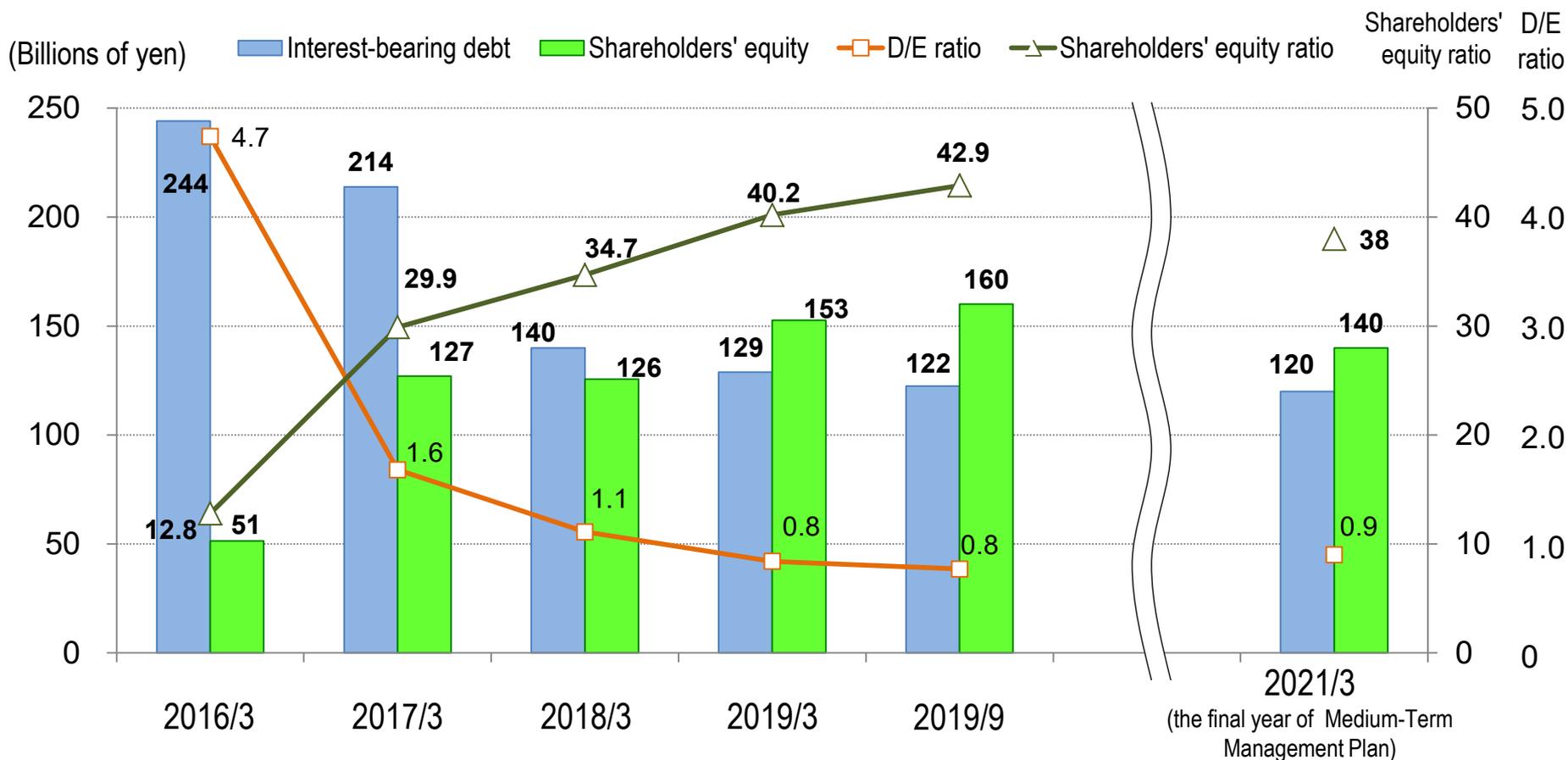
- Established an organization to promote CO<sub>2</sub> emission reduction
- Reviewing investment evaluation system, promoting investment to reduce CO<sub>2</sub> emissions
- Promoting reduction of CO<sub>2</sub> emissions centering on resolving following issues:
  - New technology development
    - CO<sub>2</sub> capture/use and application
  - Introduction of renewable energy
    - Biomass combustion
    - Energy mix
  - Optimization of Tokuyama Factory's energy efficiency

## 2. Progress of Medium-Term Management Plan (Growth strategy)

	Current measures	Measures for the future growth
<b>Polycrystalline silicon</b>	<ul style="list-style-type: none"> <li>Investment for the further improvement of product quality</li> </ul>	<p>Differentiate products from those of other companies by further increasing quality</p> <p>Expand business by acquiring a wide range of customers through production capacity enhancements and supply system development</p> <p>Improve market share and expand business in North America and Europe using new products to gain foothold</p> <p>Expand market share in global market</p>
<b>High-purity Chemicals for Semiconductor Manufacturing (TMAH, IPA)</b>	<ul style="list-style-type: none"> <li>Strengthen the supply structure of IPA by building a second plant in Taiwan (Started operation from Feb 2019)</li> <li>Increase production capacity of TMAH by 50% Commercial operation from April 2020</li> <li>Supply base in China</li> </ul>	
<b>Thermal Management Material</b>	<ul style="list-style-type: none"> <li>Increase the production capacity AIN powder April 2020: 600 ton/year =&gt; 840 ton/year</li> <li>Increase the production capacity of bare substrate by 20% from the middle of year 2020</li> </ul>	
<b>Dental Materials</b>	<ul style="list-style-type: none"> <li>Launching new large-scale products (composite resin) in Europe following North America</li> </ul>	
<b>Plastic lens-related Materials</b>	<ul style="list-style-type: none"> <li>Expanding sales through collaboration with customers</li> <li>Deploying the Group's unique technologies to other fields</li> </ul>	

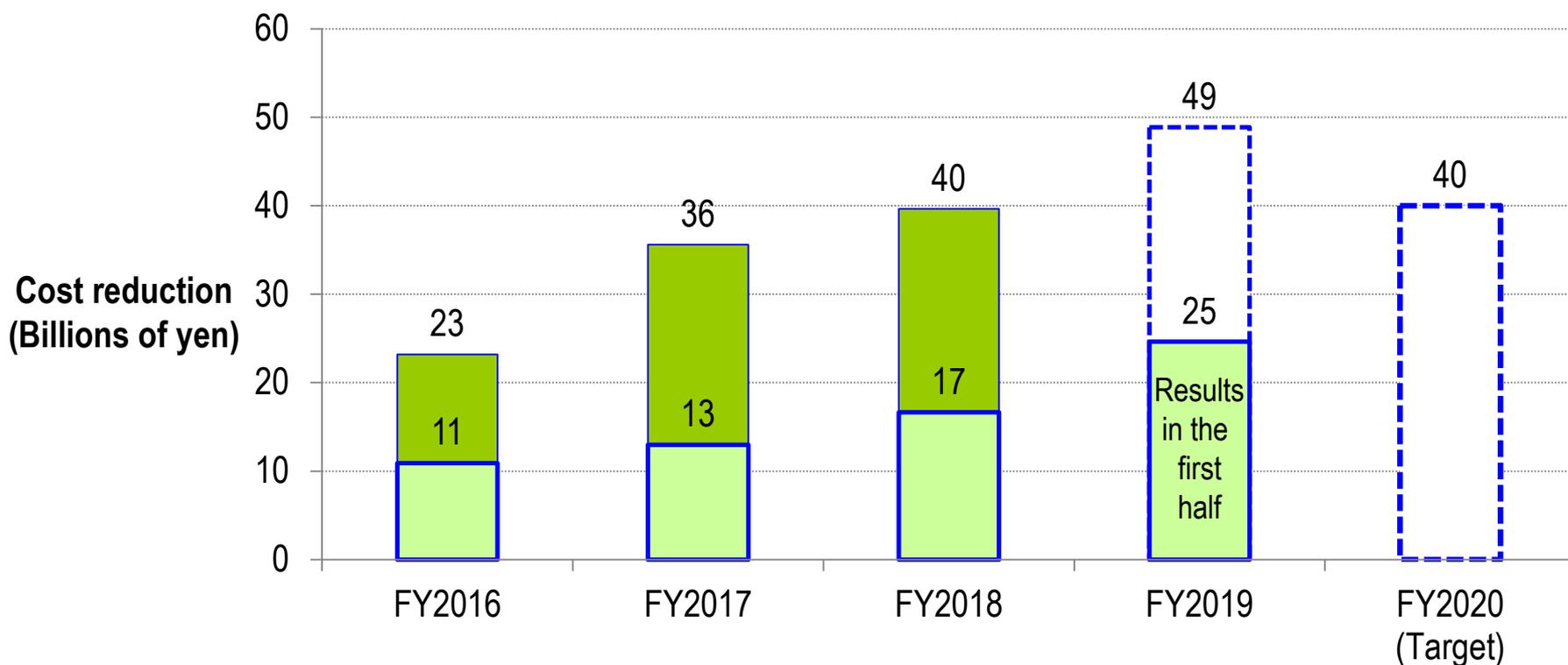
## 2. Progress of Medium-Term Management Plan (Reduce interest-bearing debt)

The target of financial index has been achieved before the final year of Medium-Term Management Plan



## 2. Progress of Medium-Term Management Plan (BRIGHT- II)

- Cost reduction in the first half of FY2019 exceeds results in the first half of FY2018.
- Target for the current medium-term management plan will be achieved in this year



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## **4** Supplementary Data

1. Consolidated Financial Statements
2. Non-Operating Income/Expenses, Extraordinary Gains/Losses and Financial Cost
3. Investment Results/Plan
4. Performance Trend
5. CAPEX and Depreciation Trend
6. Interest-Bearing Debts Trend
7. Cash Flow Plan

# 1. Consolidated Financial Statements

## Income Statements (Billions of yen)

	Q2 FY2018	Q2 FY2019	Changes	
			Amount	%
Net sales	152.6	152.7	+0.0	+0
Cost of sales	105.2	106.2	(1.0)	(1)
Selling, general and administrative expenses	30.4	31.8	(1.4)	(5)
Operating profit	17.0	14.6	(2.4)	(14)
Non-operating income/expenses	(1.5)	(0.9)	+0.5	-
Ordinary profit	15.4	13.6	(1.8)	(12)
Extraordinary income/losses	0.4	(0.2)	(0.6)	-
Profit/loss before income taxes	15.9	13.4	(2.4)	(16)
Income taxes	2.7	2.6	+0.0	+2
Non-controlling interests	0.3	0.3	+0.0	+2
Profit attributable to owners of parent	12.8	10.4	(2.4)	(19)

\*Regarding changes, income or profit is shown as positive and expenses or losses are shown as negative amount.

# 1. Consolidated Financial Statements

## Balance Sheets

(Billions of yen)

	3/31/2019	9/30/2019	Changes	
			Amount	%
Total assets	379.6	373.1	(6.4)	(2)
Current assets	202.9	193.4	(9.5)	(5)
Tangible fixed assets	116.1	118.1	+2.0	+2
Intangible fixed assets	1.9	1.6	(0.2)	(14)
Investments and other assets	58.6	59.9	+1.3	+2

	3/31/2019	9/30/2019	Changes	
			Amount	%
Total liabilities	216.1	202.1	(13.9)	(6)
Current liabilities	93.2	84.3	(8.9)	(10)
Long-term liabilities	122.8	117.8	(4.9)	(4)
Total net assets	163.5	171.0	+7.4	+5

## 2. Non-Operating Income/Expenses, Extraordinary

### Gains/Losses and Financial Cost

Consolidated (year-on-year change)

(Billions of yen)

		Q2 FY2018	Q2 FY2019	Changes
Non-operating income	Interest and dividend income	0.2	0.2	+0.0
	Other income	2.6	2.2	(0.3)
	<b>Total</b>	<b>2.9</b>	<b>2.5</b>	<b>(0.3)</b>
Non-operating expenses	Interest expenses	1.5	0.8	+0.7
	Other expenses	2.8	2.6	+0.2
	<b>Total</b>	<b>4.4</b>	<b>3.5</b>	<b>+0.9</b>
<b>Non-operating income/expenses</b>		<b>(1.5)</b>	<b>(0.9)</b>	<b>+0.5</b>

Extraordinary gains	1.0	0.1	(0.9)
Extraordinary losses	0.6	0.3	+0.2
<b>Extraordinary gains/losses</b>	<b>0.4</b>	<b>(0.2)</b>	<b>(0.6)</b>

<b>Financial income and expenses</b>	<b>(1.2)</b>	<b>(0.5)</b>	<b>+0.7</b>
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\*Regarding changes, income or profit is shown as positive and expenses or losses are shown as negative amount.

### 3. Investment Results/Plan

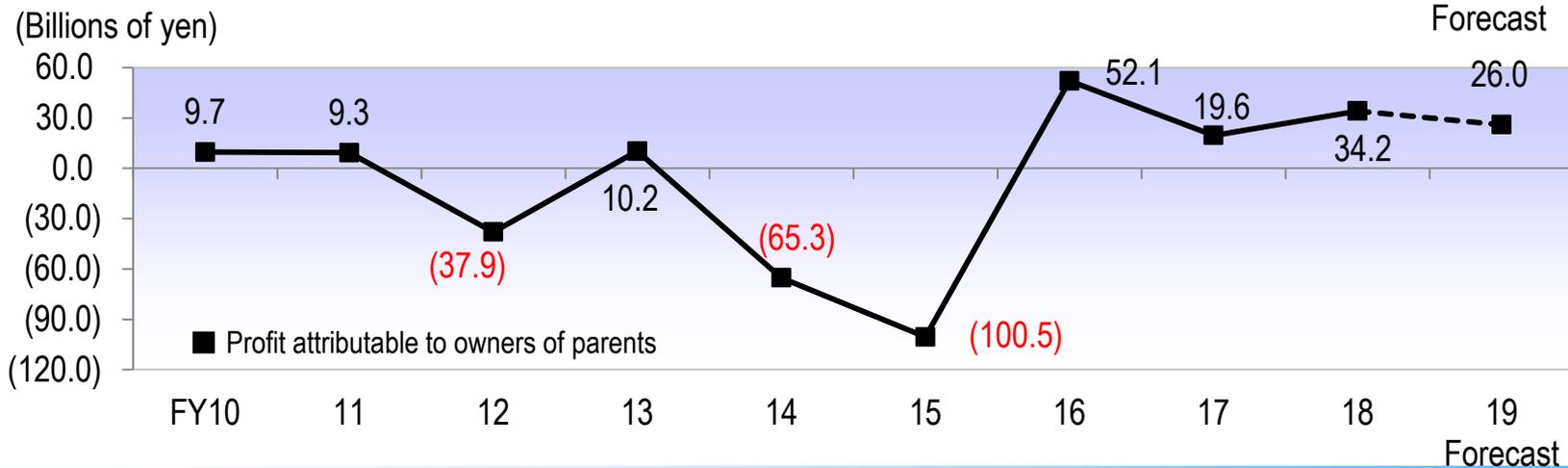
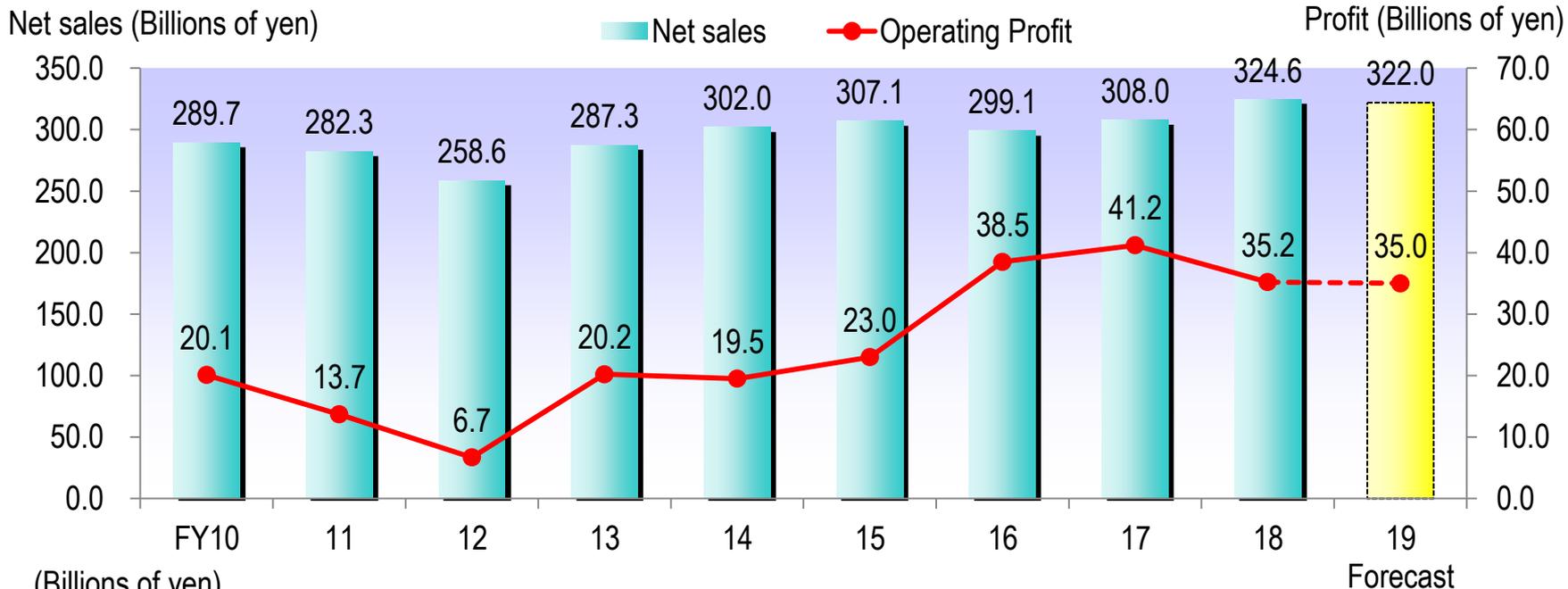
Consolidated

(Billions of yen)

	FY2018		FY2019		Changes	
	First half Results	Fiscal year Results	First half Results	Fiscal year Forecast	First half	Fiscal year
Capital expenditures	8.9	18.5	10.5	27.5	+1.5	+8.9
Depreciation and amortization	7.0	15.0	7.6	16.7	+0.5	+1.6
R&D expenses	3.8	8.0	4.2	9.0	+0.4	+1.0

# 4. Performance Trend

Annual

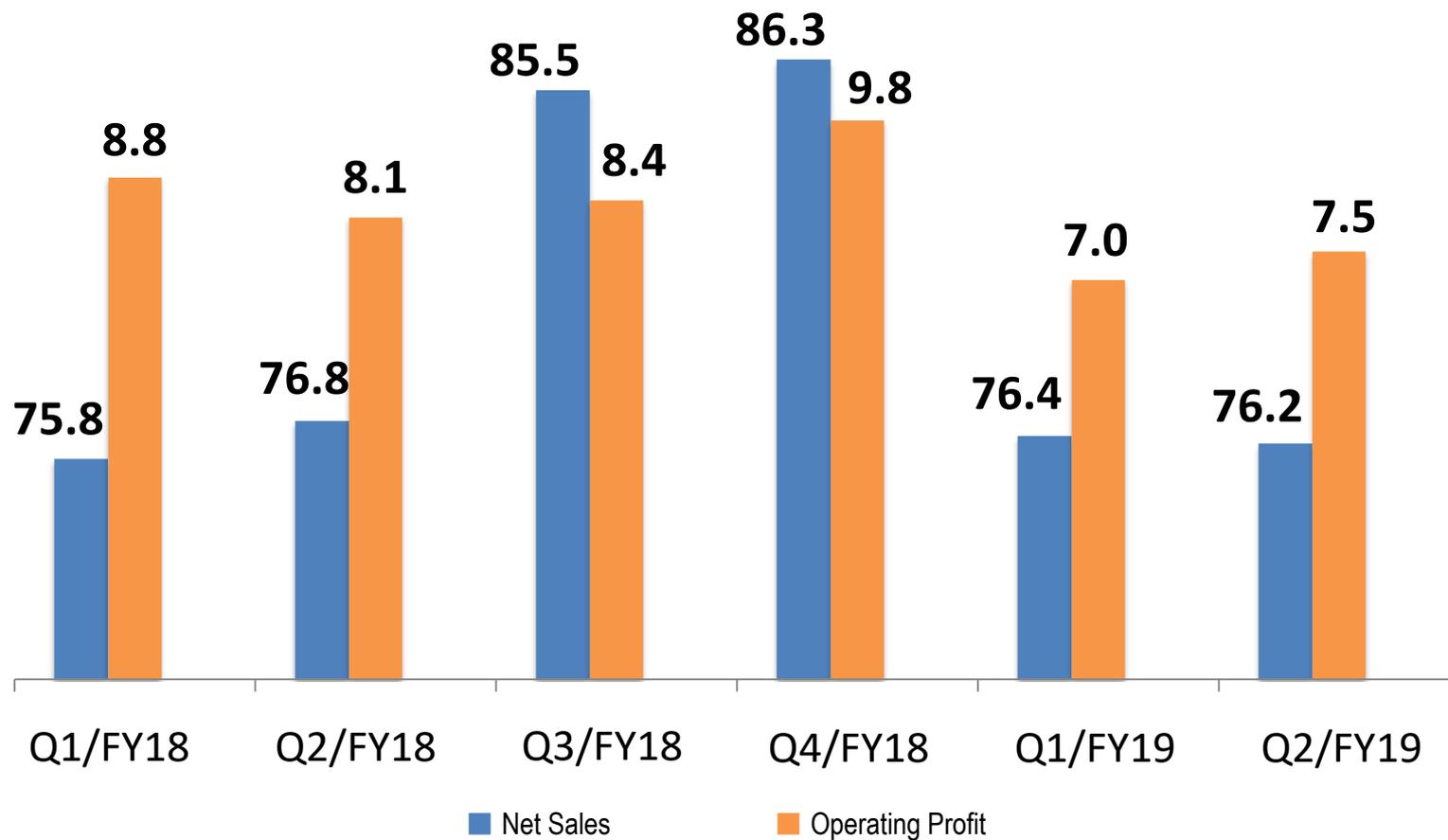


# 4. Performance Trend

(Quarter)

Consolidated

(Billions of yen)

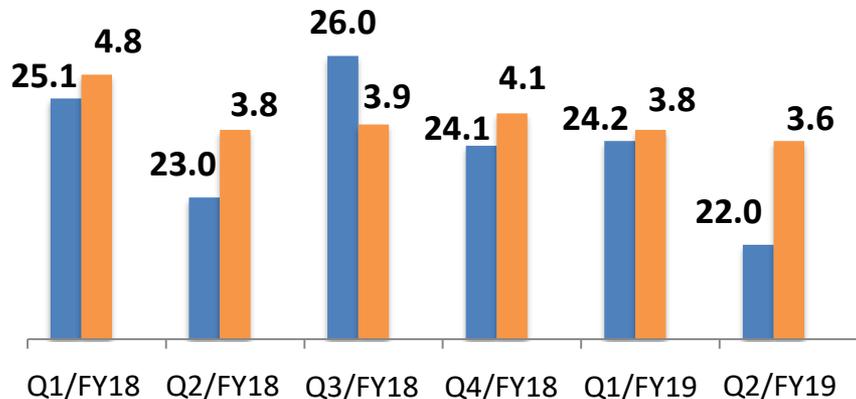


# 4. Performance Trend

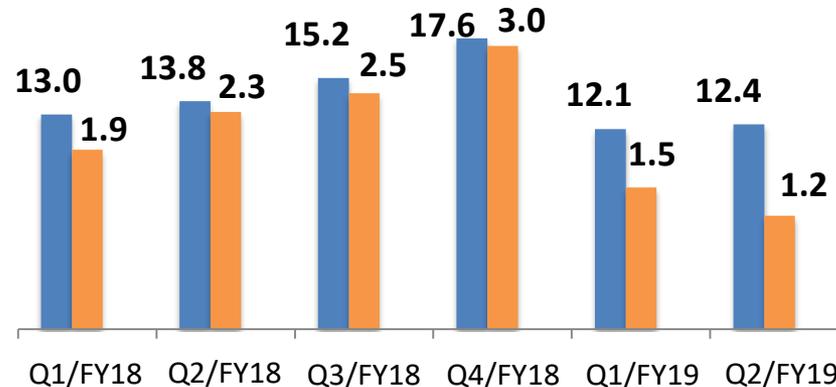
(Billions of yen)

Quarter

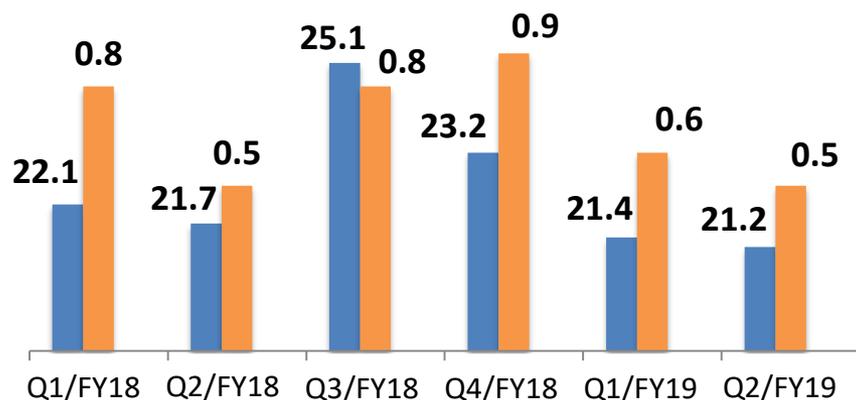
## Chemicals



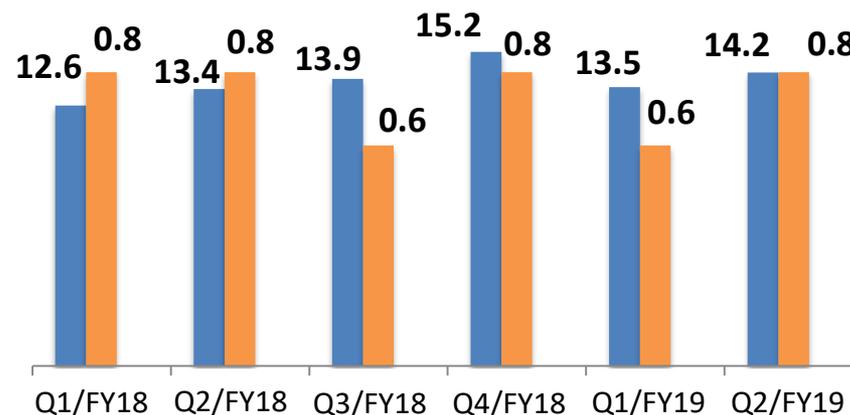
## Specialty Products



## Cement



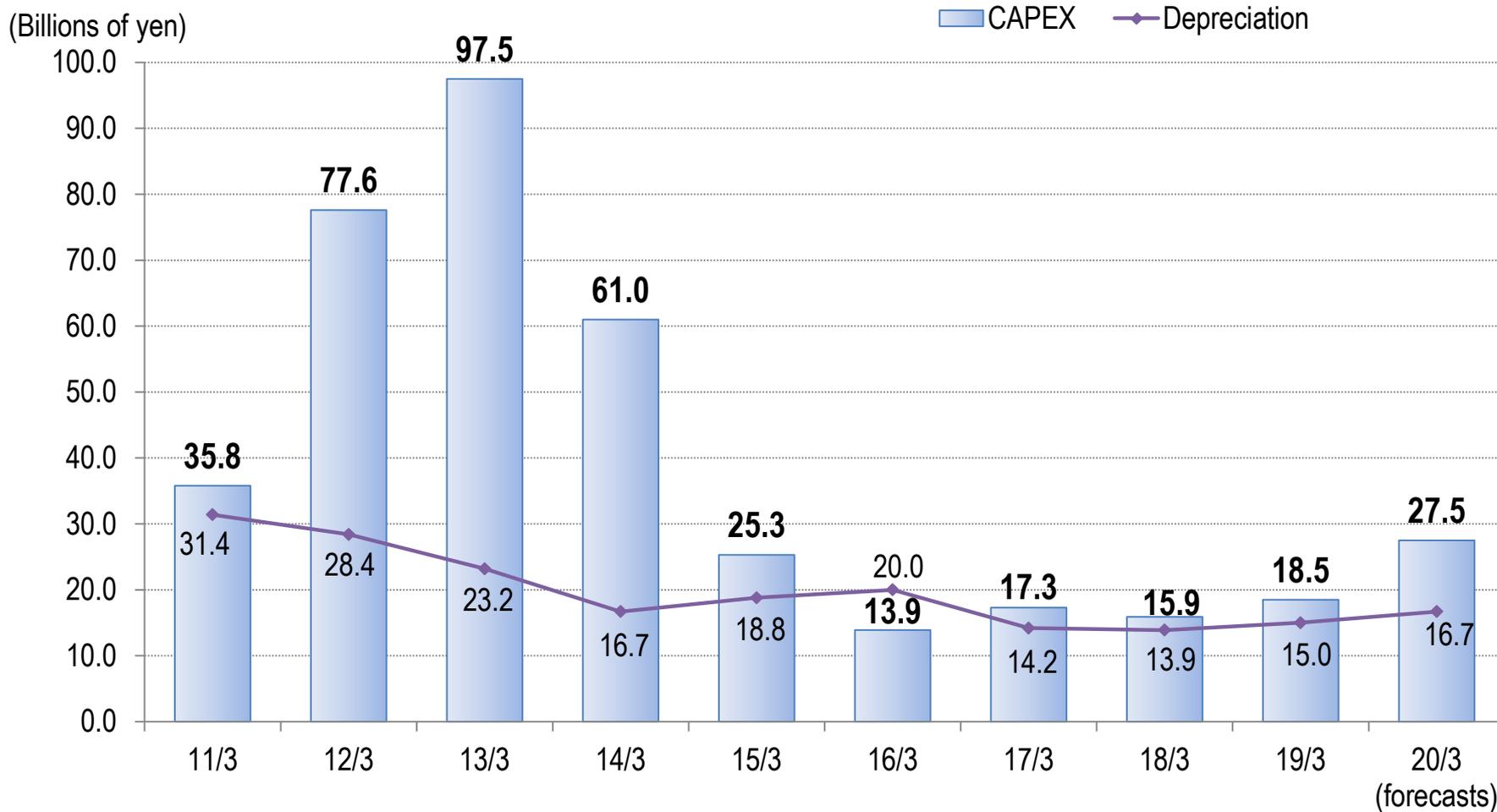
## Life & Amenity



■ Net Sales

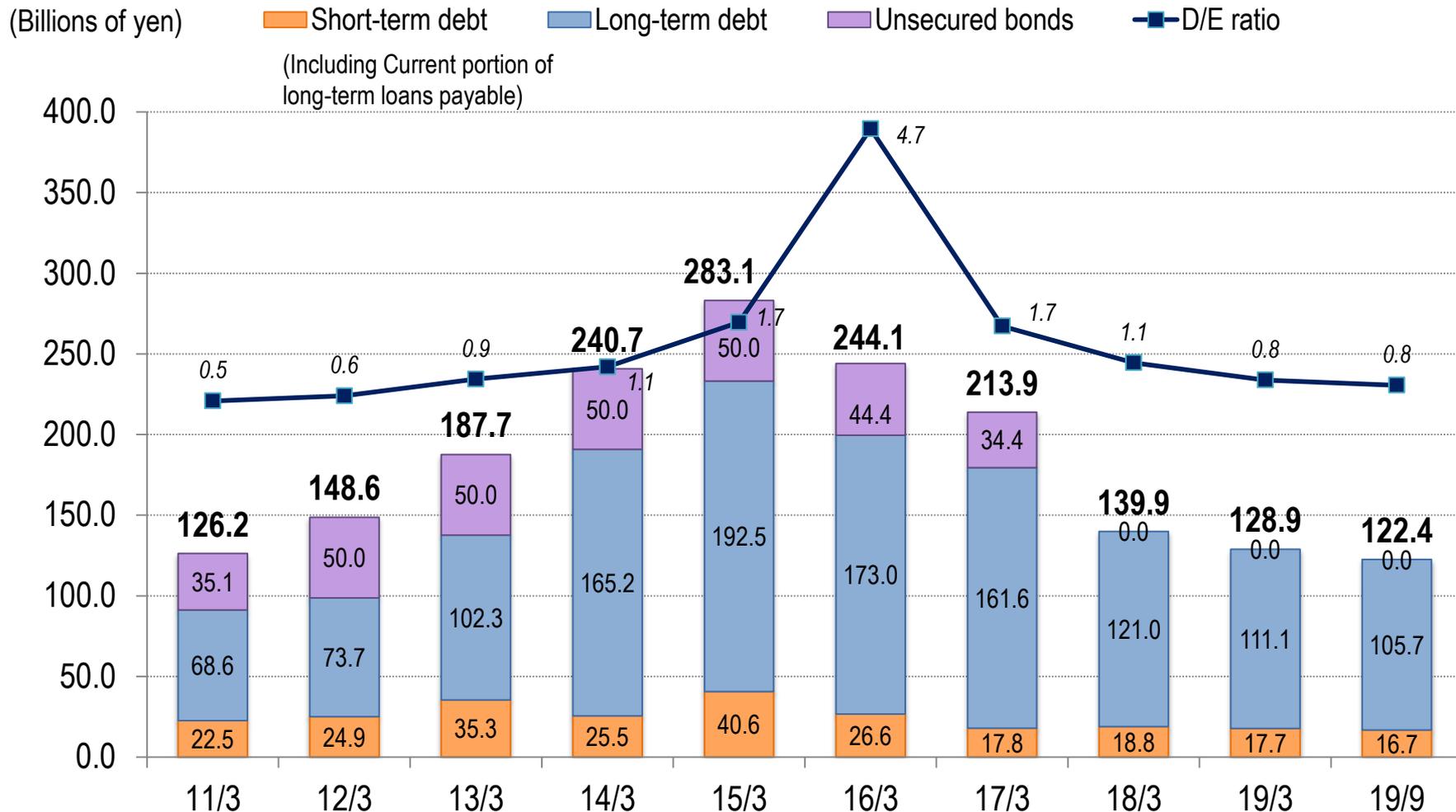
■ Operating Profit

# 5. CAPEX and Depreciation Trend



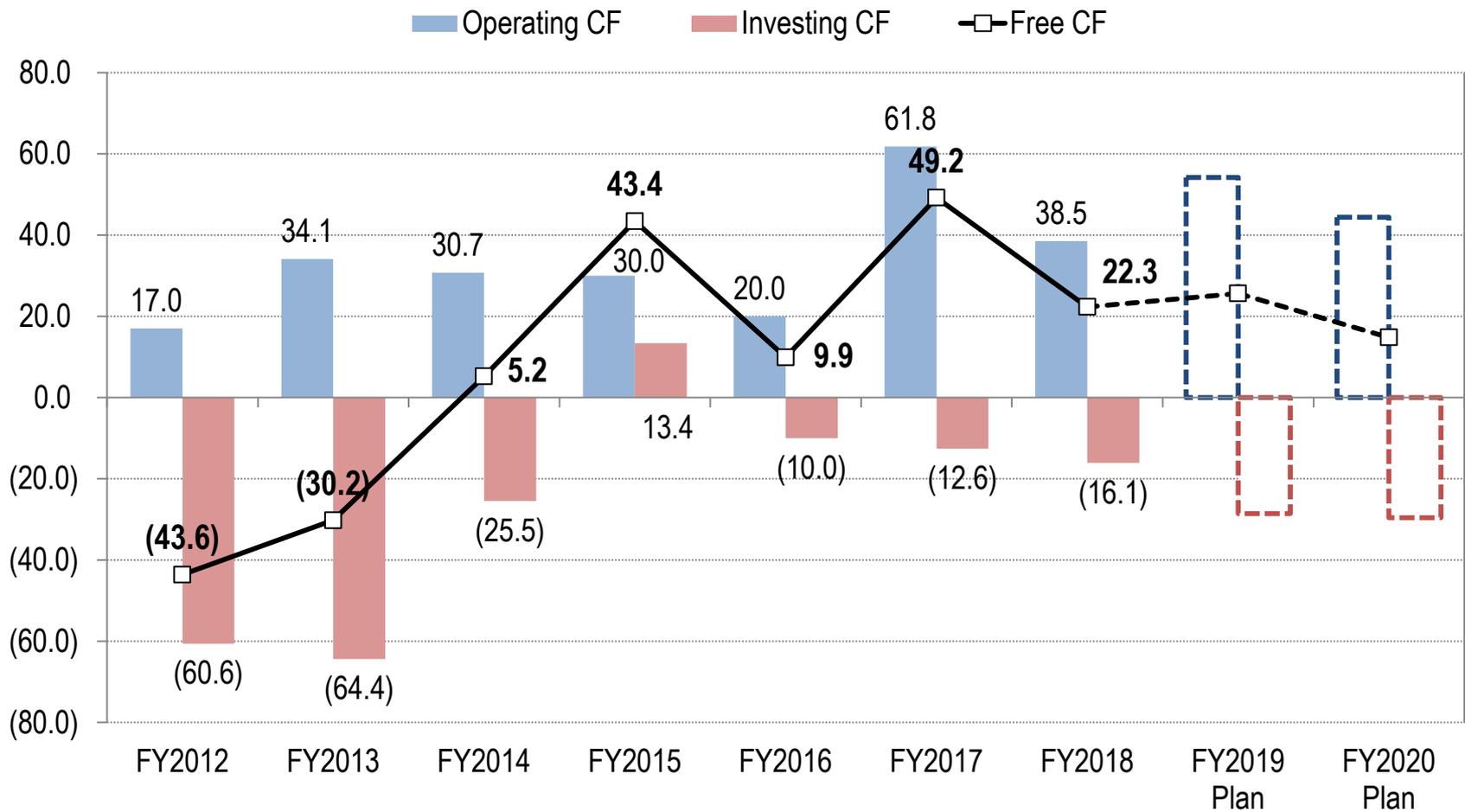
# 6. Interest-Bearing Debts Trend

Consolidated



# 7. Cash Flow Plan

(Billions of yen)



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