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Consolidated Results for 1st Quarter Fiscal 2020: April 1, 2020 – June 30, 2020

(All figures in millions of yen, rounded to the nearest million, unless otherwise specified)

I. Summary of Consolidated Results

1. Operating results (percent change from previous year in brackets)

	Q1 2020	Q1 2019
Net sales	455,159 [-9.3%]	502,083 [+2.5%]
Operating income	30,103 [-27.2%]	41,343 [-13.7%]
Ordinary income	30,221 [-31.3%]	43,967 [-15.1%]
Net income attributable to owners of the parent	13,588 [-44.3%]	24,380 [-33.0%]
Net income per share*	9.79	17.52
Diluted net income per share*	—	—

* Yen

Note: Comprehensive income was ¥19,014 million during Q1 2020, and ¥(2,521) million during Q1 2019.

2. Financial position

At end of	June 2020	March 2020
Total assets	2,788,099	2,822,277
Net assets	1,379,056	1,383,460
Net worth/total assets	48.6%	48.2%
Net worth per share*	976.55	979.69

* Yen

Notes:

- Net worth consists of shareholders' equity and accumulated other comprehensive income.
- Net worth as of June 30, 2020, was ¥1,354,957 million; as of March 31, 2020, ¥1,359,314 million.
- Calculation of total assets as of March 31, 2020, previously based on provisional accounting treatment related to business combinations, has been finalized.

II. Cash Dividends

Fiscal year	Cash dividends per share*				Total annual
	Q1	Q2	Q3	Q4	
2019	—	18.00	—	16.00	34.00
2020	—	—	—	—	—
2020 (forecast)	—	—	—	—	—

* Yen

Note: Forecast of cash dividends for the year ending March 31, 2021, remains indeterminate.

III. Forecast for Fiscal 2020 (April 1, 2020 – March 31, 2021)

1. Latest forecasts (percent change from results in year-ago period in brackets)

	For Q1–Q2	For the fiscal year
Net sales	979,000 [–8.4%]	— [—]
Operating income	66,000 [–35.1%]	120,000–130,000 [–32.3% – –26.7%]
Ordinary income	66,500 [–36.8%]	— [—]
Net income attributable to owners of the parent	33,000 [–57.6%]	— [—]
Net income per share*	23.78	—

* Yen

Notes:

- Performance forecasts are based on the best information available at this time, but actual results may diverge from these forecasts due to a variety of factors which cannot be foreseen.
- The forecast for fiscal 2020 has been revised.
- The full-year operating income forecast is shown as a range.

IV. Other Information

1. Changes in significant subsidiaries which affected scope of consolidation during the period: None

2. Special accounting methods for preparation of the consolidated financial statements

Income tax expenses: A reasonable estimate of the effective tax rate after applying tax-effect accounting for the current fiscal year is made, and quarterly income before income taxes is multiplied by the corresponding effective tax rate.

3. Changes in accounting policies, changes in accounting estimates, and retroactive restatement: None

4. Notable changes in shareholders' equity: None

5. Number of shares outstanding

	Q1 2020	FY 2019
Number of shares outstanding at end of period	1,393,932,032	1,393,932,032
Number of shares of treasury stock at end of period	6,440,890	6,440,327
Average number of shares outstanding during period	1,387,491,589	1,391,781,100*

* Q1 2019

V. Qualitative Information on Quarterly Results

1. Description of operating results

In the April–June period of 2020, operating income in the Material segment decreased from the year-ago period as an effect of the global economic slowdown resulting from the novel coronavirus pandemic, while operating income in the Homes and Health Care segments increased.

MATERIAL

Basic Materials operating income decreased with reduced shipment volumes, effects of lower market prices for petrochemical feedstocks on inventories, and deteriorated terms of trade for acrylonitrile (AN).

Performance Products operating income decreased as an effect of broad declines in demand among automobile-related markets and apparel-related markets.

Specialty Solutions operating income increased with favorable demand related to communications infrastructure and tablet PCs, while lithium-ion battery separator shipments increased firmly.

HOMES

Orders for order-built homes decreased from the year-ago period with restriction of admission to model homes to prevent the spread of novel coronavirus infection, while operating income increased with firm performance of condominiums in real estate, and a portion of deliveries of order-built homes being postponed from the previous period due to delayed supply of components as an effect of the novel coronavirus.

HEALTH CARE

Despite negative factors such as reduced outpatient visits and curtailed business activity due to the novel coronavirus, and amortization of goodwill related to the acquisition of Veloxis Pharmaceuticals Inc., operating income increased with shipment growth for ventilators and virus removal filters as an effect of elevated demand due to the novel coronavirus.

2. Description of consolidated performance forecast and future outlook

i. Second quarter forecast

Q2 operating income is expected to be even with Q1 in the Material segment and to increase from Q1 in the Homes and Health Care segments. Year-on-year, Q2 operating income is expected to decrease overall with a decrease in the Material and Homes segments and an increase in the Health Care segment.

MATERIAL

Recovery of demand is expected, especially with recovery of vehicle production, but operating income is expected to be even with Q1 as a portion of product shipments extend into Q3. Year-on-year, a decrease is expected with effects of lower petrochemical feedstock prices and declines in demand among automobile-related and apparel-related markets similar to Q1.

HOMES

Firm performance in real estate such as condominiums is expected, but year-on-year operating income is expected to decrease with reduced deliveries of order-built homes as measures to prevent novel coronavirus infection make construction work slower, and remodeling is impacted by lower orders. Orders for order-built homes are expected to recover with gradual recovery of customer visits to model homes and the use of digital marketing leveraging IT.

HEALTH CARE

Year-on-year, operating income is expected to decrease in the Health Care business category with the impact of amortization of goodwill related to Veloxis, effect of the novel coronavirus, and reduced reimbursement prices in Japan, but operating income is expected to increase in the Critical

Care business category centered on increased demand for ventilators, and operating income for the Health Care segment overall is expected to increase.

ii. Second-half and full-year forecasts

Regarding the impact of the novel coronavirus, although it remains difficult to anticipate the spread of infections, economic policies, and recovery of markets in various countries, it is believed that the general trend for recovery of economic activity with measures to prevent infection will continue. Due to obscurity of the market environment outlook, the second-half and full-year forecasts for the Material segment, having a broad scope of business activity, are determined in a range, as are the overall consolidated operating income forecasts.

From the first half to the second half, operating income in the Material segment is expected to increase with improved automobile-related demand due to recovery of vehicle production, and recovery of demand and improved terms of trade for petrochemical products such as AN. Operating income in the Homes segment is expected to increase slightly with gradual easing of restrictions to prevent novel coronavirus infection. Operating income in the Health Care segment is expected to decrease as ventilator demand subsides and due to a tendency for fixed costs in the Health Care business category to occur in the second half.

For the full year, net sales in the Health Care segment are expected to increase by over 15% with contribution from acquired businesses and operating income to increase by around 25%, net sales in the Material segment are expected to decrease by around 15% and operating income to decrease by around 50% with significant impact from the novel coronavirus, and net sales in the Homes segment are expected to decrease by around 5% and operating income to decrease by around 30%. Together with curtailment of corporate expenses, overall operating income is expected to decrease by around 30% to ¥120–130 billion. While the severe operating environment and uncertainty about the outlook persist, efforts will be made to improve performance by curtailing fixed costs, reducing inventories, and making swift and appropriate management decisions according to changes in the environment.

iii. Policy for shareholder returns

The basic policy for stable dividends and continuously increased dividends remains unchanged. Interim dividends are to be determined based on first-half results and the full-year forecast after Q2, and annual dividends are to be determined based on full-year results and ascertaining the effect of the novel coronavirus on the subsequent fiscal year.

VI. Consolidated Financial Statements

1. Balance sheets

	At end of March 2020	At end of June 2020
Assets		
Current assets		
Cash and deposits	207,957	210,084
Notes and accounts receivable–trade	330,999	278,539
Merchandise and finished goods	216,463	217,945
Work in process	160,064	175,074
Raw materials and supplies	101,313	104,114
Other	92,153	86,598
Allowance for doubtful accounts	(1,519)	(1,461)
Total current assets	1,107,430	1,070,893
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	563,110	567,709
Accumulated depreciation	(305,259)	(308,300)
Buildings and structures, net	257,851	259,409
Machinery, equipment and vehicles	1,466,958	1,479,679
Accumulated depreciation	(1,243,780)	(1,256,562)
Machinery, equipment and vehicles, net	223,179	223,118
Land	67,024	67,182
Lease assets	9,645	9,379
Accumulated depreciation	(8,964)	(8,730)
Lease assets, net	681	650
Construction in progress	75,487	84,749
Other	172,674	174,069
Accumulated depreciation	(143,210)	(144,429)
Other, net	29,464	29,640
Subtotal	653,686	664,748
Intangible assets		
Goodwill	365,680	355,457
Other	349,566	340,907
Subtotal	715,246	696,364
Investments and other assets		
Investment securities	244,581	252,389
Long-term loans receivable	7,951	8,040
Long-term advance payments–trade	20,467	24,525
Deferred tax assets	44,466	41,988
Other	28,883	29,662
Allowance for doubtful accounts	(435)	(511)
Subtotal	345,914	356,094
Total noncurrent assets	1,714,846	1,717,206
Total assets	2,822,277	2,788,099

	At end of March 2020	At end of June 2020
Liabilities		
Current liabilities		
Notes and accounts payable–trade	131,207	117,971
Short-term loans payable	275,671	205,030
Commercial paper	139,000	87,000
Lease obligations	1,006	991
Accrued expenses	121,520	98,482
Income taxes payable	18,145	18,262
Advances received	73,623	78,811
Provision for grant of shares	78	68
Provision for periodic repairs	4,043	4,107
Provision for product warranties	3,738	3,550
Provision for removal cost of property, plant and equipment	2,640	5,147
Other	71,863	69,726
Total current liabilities	842,531	689,144
Noncurrent liabilities		
Bonds payable	60,000	110,000
Long-term loans payable	229,172	308,806
Lease obligations	3,506	3,299
Deferred tax liabilities	70,600	68,206
Provision for grant of shares	412	422
Provision for periodic repairs	4,560	4,935
Provision for removal cost of property, plant and equipment	5,771	3,975
Net defined benefit liability	174,365	173,604
Long-term guarantee deposits	21,613	21,505
Other	26,287	25,148
Total noncurrent liabilities	596,286	719,898
Total liabilities	1,438,817	1,409,043
Net assets		
Shareholders' equity		
Capital stock	103,389	103,389
Capital surplus	79,641	79,660
Retained earnings	1,125,738	1,116,896
Treasury stock	(5,990)	(5,991)
Total shareholders' equity	1,302,777	1,293,954
Accumulated other comprehensive income		
Net unrealized gain on other securities	67,027	73,951
Deferred gains or losses on hedges	(241)	(246)
Foreign currency translation adjustment	13,027	9,477
Remeasurements of defined benefit plans	(23,275)	(22,178)
Total accumulated other comprehensive income	56,538	61,003
Non-controlling interests	24,145	24,099
Total net assets	1,383,460	1,379,056
Total liabilities and net assets	2,822,277	2,788,099

2. Statements of income and statements of comprehensive income

1) Statements of income

	Q1 2019	Q1 2020
Net sales	502,083	455,159
Cost of sales	339,362	305,280
Gross profit	162,721	149,879
Selling, general and administrative expenses	121,378	119,776
Operating income	41,343	30,103
Non-operating income		
Interest income	732	504
Dividends income	1,963	1,733
Equity in earnings of affiliates	2,162	—
Other	1,092	721
Total non-operating income	5,949	2,958
Non-operating expenses		
Interest expense	992	864
Equity in losses of affiliates	—	92
Foreign exchange loss	906	428
Other	1,427	1,456
Total non-operating expenses	3,325	2,840
Ordinary income	43,967	30,221
Extraordinary income		
Gain on sales of investment securities	522	20
Gain on sales of noncurrent assets	360	55
Total extraordinary income	883	75
Extraordinary loss		
Loss on valuation of investment securities	—	46
Loss on disposal of noncurrent assets	995	1,654
Impairment loss	11	3
Business structure improvement expenses	88	3,131
Total extraordinary loss	1,094	4,834
Income before income taxes	43,757	25,463
Total income taxes	18,844	11,156
Net income	24,913	14,306
Net income attributable to non-controlling interests	533	718
Net income attributable to owners of the parent	24,380	13,588

2) Statements of comprehensive income

	Q1 2019	Q1 2020
Net income	24,913	14,306
Other comprehensive income		
Net increase (decrease) in unrealized gain on other securities	(5,264)	6,860
Deferred gains or losses on hedges	(59)	(5)
Foreign currency translation adjustment	(23,947)	(4,779)
Remeasurements of defined benefit plans	1,867	1,091
Share of other comprehensive income of affiliates accounted for using equity method	(31)	1,541
Total other comprehensive income	(27,434)	4,708
Comprehensive income	(2,521)	19,014
Comprehensive income attributable to:		
Owners of the parent	(2,847)	18,053
Non-controlling interests	327	960

3. Statements of cash flows

	Q1 2019	Q1 2020
Cash flows from operating activities		
Income before income taxes	43,757	25,463
Depreciation and amortization	21,625	25,951
Impairment loss	11	3
Amortization of goodwill	5,267	6,320
Amortization of negative goodwill	(40)	—
(Decrease) increase in provision for periodic repairs	(590)	438
Increase (decrease) in provision for product warranties	82	(180)
(Decrease) increase in provision for removal cost of property, plant and equipment	(228)	712
Decrease in net defined benefit liability	(879)	(762)
Interest and dividend income	(2,695)	(2,237)
Interest expense	992	864
Equity in (earnings) losses of affiliates	(2,162)	92
Gain on sales of investment securities	(522)	(20)
Loss on valuation of investment securities	—	46
Gain on sale of property, plant and equipment	(360)	(55)
Loss on disposal of noncurrent assets	995	1,654
Decrease in notes and accounts receivable–trade	19,382	55,249
Increase in inventories	(15,130)	(18,682)
Decrease in notes and accounts payable–trade	(21,372)	(14,390)
Decrease in accrued expenses	(21,476)	(23,917)
Increase in advances received	8,216	5,451
Other, net	(4,292)	(4,126)
Subtotal	30,580	57,873
Interest and dividend income, received	4,519	3,738
Interest expense paid	(494)	(366)
Income taxes paid	(18,732)	(11,106)
Net cash provided by operating activities	15,872	50,139
Cash flows from investing activities		
Payments into time deposits	(457)	(749)
Proceeds from withdrawal of time deposits	12,132	691
Purchase of property, plant and equipment	(27,618)	(27,239)
Proceeds from sales of property, plant and equipment	220	79
Purchase of intangible assets	(2,825)	(3,669)
Purchase of investment securities	(1,517)	(2,287)
Proceeds from sales of investment securities	5,355	28
Purchase of shares in subsidiaries resulting in change in scope of consolidation	(2,363)	—
Payments for transfer of business	(862)	—
Payments of loans receivable	(2,334)	(248)
Collection of loans receivable	3,990	643
Other, net	(129)	(88)
Net cash used in investing activities	(16,406)	(32,839)

	Q1 2019	Q1 2020
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	13,206	(80,982)
Increase (decrease) in commercial paper	16,000	(52,000)
Proceeds from long-term loans payable	20	90,000
Repayment of long-term loans payable	(203)	(196)
Proceeds from issuance of bonds payable	—	50,000
Repayments of lease obligations	(48)	(338)
Purchase of treasury stock	(10,005)	(1)
Proceeds from disposal of treasury stock	1	0
Cash dividends paid	(23,742)	(22,206)
Cash dividends paid to non-controlling interests	(708)	(556)
Purchase of shares in subsidiaries not resulting in change in scope of consolidation	—	(307)
Other, net	175	147
Net cash used in financing activities	(5,304)	(16,438)
Effect of exchange rate change on cash and cash equivalents	(4,279)	(524)
Net (decrease) increase in cash and cash equivalents	(10,117)	338
Cash and cash equivalents at beginning of period	180,520	204,771
Increase in cash and cash equivalents resulting from changes in scope of consolidation	86	1,700
Cash and cash equivalents at end of period	170,489	206,809