

Sumitomo Chemical Announces Consolidated Financial Results for FY2019

The economic condition outside Japan during the fiscal 2019 has shown clear signs of overall slowdown as evidenced by bleak outlook on the US economy, which has been driving the global economy for some time, and by the changes in Chinese economy impacted by the US-China trade war.

Around the time when the Japanese economy was beginning to be in a lull, the consumption tax hike and damages from frequent heavy rainfall caused sharp decline in consumer spending, resulting in adverse business environment.

Amid these circumstances, the new coronavirus began to spread, having a severe negative impact on economic activity in China, and then in all over the world.

Against this backdrop, the Sumitomo Chemical Group has formulated its Corporate Business Plan (for fiscal 2019 - fiscal 2021), centering on the basic policies of accelerating the development of next-generation businesses, improving productivity through digital innovation, sophisticating the company's business portfolio, and building a more robust financial structure. The Group has come together, working to create a sustainable society and to deliver its sustainable growth through exponential growth in productivity and acceleration of innovation.

The Group's sales revenue on the consolidated basis for the fiscal 2019 ended March 31, 2020 declined by ¥92.8 billion from the previous year to ¥2,225.8 billion. The core operating income* was ¥132.7 billion, operating income was ¥137.5 billion, and net income attributable to owners of the parent was ¥30.9 billion, all of which were lower than the previous year.

*: Core operating income is a gain and loss concept, reflecting recurring earning capacity, and deducts gains and losses incurred by non-recurring factors from operating income. It includes the share of profit of investments accounted for using the equity method.

The financial results by business segment for the fiscal 2019 are as follows:

Petrochemicals & Plastics

Market conditions for petrochemical products and synthetic resins declined because feedstock prices fell year on year. Market prices for raw materials for synthetic fibers and methyl methacrylate (MMA) also hovered around at a low level. As a result, the sales revenue declined by ¥100.6 billion from the previous year to ¥656.9 billion. Core operating income declined by ¥47.1 billion to ¥14.5 billion, amid the deteriorated margins of petrochemical products and MMA.

Energy & Functional Materials

Shipments of resorcinol (a raw material for adhesives) stayed firm. Meanwhile, market prices for aluminum and for the metal raw materials for cathode materials remained low, resulting in lower selling prices. The sales revenue declined by ¥27.8 billion from the previous year to ¥255.0 billion, and core operating income declined by ¥2.6 billion year on year to ¥20.3 billion.

IT-related Chemicals

Despite the drop in selling prices of polarizing film, shipments of polarizing film for both TV and mobile applications, as well as touchscreen panels increased, due to growth in demand. As a result, the sales revenue increased by ¥8.0 billion from the previous year to ¥404.9 billion. Core operating income fell by ¥1.1 billion year on year to ¥25.1 billion as it is largely impacted by lower selling prices.

Health & Crop Sciences

While market prices for methionine (feed additive) declined, shipments increased because of the increased production capacity in the previous fiscal year. On the other hand, shipments of crop protection products decreased due to the extreme weather in North America. As a result, the sales revenue increased by ¥5.6 billion from the previous year to ¥343.7 billion. Core operating income declined by ¥17.6 billion year on year to ¥2.1 billion, due to the deteriorated margins of methionine and lower shipments of crop protection products.

Pharmaceuticals

In Japan, sales increased, driven by Equa® and EquMet® (for type II diabetes mellitus). In North America, sales of Latuda® (atypical antipsychotic agent) increased. As a result, the sales revenue increased by ¥23.7 billion from the previous fiscal year to ¥515.8 billion. While sales revenue increased, sales expenses, general and administrative expenses (SG&A), and research and development expenses also increased. This was because the expenses at Sumitovant Biopharma and its subsidiaries (which were acquired as part of the strategic alliance with Roivant Sciences Ltd.) were recognized. Core operating income thus fell by ¥5.5 billion to ¥75.3 billion.

Others

In addition to the above five segments, the Sumitomo Chemical Group supplies electric power and steam, designs chemical plants/supervises the construction of those facilities, provides transportation and warehousing, and conducts physical property analysis/environmental analysis. The sales revenue of these businesses declined by ¥1.7 billion from the previous year to ¥49.5 billion, and core operating income decreased by ¥0.7 billion to ¥8.8 billion.

Given the severe financial results as noted above, coupled with uncertainty over the future business climate, the Sumitomo Chemical Group has decided ¥6 per share for the year-end dividend for fiscal 2019. The annual dividend will be ¥17 per share, which includes the interim dividend (¥11 per share).

Net cash from operating activities in fiscal 2019 was ¥106.0 billion, a decrease of ¥102.1 billion from the previous year, due to a decrease in pretax income. Net cash used in investing activities was ¥499.7 billion, an increase in cash outflows of ¥318.8 billion from the previous year, due to an increase in outflows for acquiring investment securities and subsidiaries as a result of stock purchases of Roivant Sciences by Sumitomo Dainippon Pharma Co., Ltd. (a consolidated subsidiary of the Sumitomo Chemical Group) after the completion of the procedures for their strategic alliances. This resulted in negative free cash flow of ¥393.7 billion for fiscal 2019, compared with positive free cash flow of ¥27.3 billion for fiscal 2018. Net cash from financing activities was ¥373.5 billion as Sumitomo Dainippon Pharma procured bridging loans and Sumitomo Chemical issued corporate hybrid bonds (publicly offered subordinated corporate bonds). The balance of cash and cash equivalents at the end of the fiscal 2019 fell by ¥21.0 billion year on year to ¥180.6 billion.

The Sumitomo Chemical Group refrains from providing earnings forecasts and dividend projection for fiscal 2020, as reasonable calculation for such outlook and the assumption of future foreign exchange rates and naphtha prices is not currently feasible in the face of Covid-19 pandemic.

Going forward, the Sumitomo Chemical Group will examine the business trend, factoring in the impact of the pandemic, and announce financial forecasts as soon as the situation allows such calculation.

Consolidated statements of profit or loss
Years ended March 31, 2020(FY2019) and 2019(FY2018)

	Millions of yen		Thousands of US dollars*
	FY2019	FY2018	FY2019
Sales revenue	2,225,804	2,318,572	20,452,118
Cost of sales	(1,519,047)	(1,576,299)	(13,957,980)
Gross profit	706,757	742,273	6,494,138
Selling, general and administrative expenses	(575,135)	(590,062)	(5,284,710)
Other operating income	11,590	11,154	106,496
Other operating expenses	(14,928)	(17,594)	(137,168)
Share of profit of investments accounted for using the equity method	9,233	37,201	84,839
Operating income	137,517	182,972	1,263,595
Finance income	13,178	16,615	121,088
Finance expenses	(20,215)	(11,217)	(185,748)
Income before taxes	130,480	188,370	1,198,934
Income tax expenses	(76,081)	(35,904)	(699,081)
Net income	54,399	152,466	499,853
Net income attributable to:			
Owners of the parent	30,926	117,992	284,168
Non-controlling interests	23,473	34,474	215,685
Net income	54,399	152,466	499,853

	Yen		US dollars*
	FY2019	FY2018	FY2019
Earnings per share:			
Basic earnings per share	18.91	72.17	0.17
Diluted earnings per share	—	72.12	—

	Yen		US dollars*
	FY2019	FY2018	FY2019
Dividends per share:			
Interim dividends	11.00	11.00	0.10
Year-end dividends	6.00	11.00	0.06
For the year	17.00	22.00	0.16

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥108.83= \$1 prevailing on March 31, 2020.

Consolidated statements of comprehensive income
Years ended March 31, 2020(FY2019) and 2019(FY2018)

	Millions of yen		Thousands of US dollars*
	FY2019	FY2018	FY2019
Net income	54,399	152,466	499,853
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of financial assets measured at fair value through other comprehensive income	(13,397)	(7,341)	(123,100)
Remeasurements of defined benefit plans	(8,323)	667	(76,477)
Share of other comprehensive income of investments accounted for using the equity method	(4,812)	1,496	(44,216)
Total items that will not be reclassified to profit or loss	(26,532)	(5,178)	(243,793)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	1,871	561	17,192
Exchange differences on translation of foreign operations	(45,048)	4,782	(413,930)
Share of other comprehensive income of investments accounted for using the equity method	(2,050)	(4,485)	(18,837)
Total items that may be subsequently reclassified to profit or loss	(45,227)	858	(415,575)
Other comprehensive income, net of taxes	(71,759)	(4,320)	(659,368)
Total comprehensive income	(17,360)	148,146	(159,515)
Total comprehensive income attributable to:			
Owners of the parent	(39,080)	110,448	(359,092)
Non-controlling interests	21,720	37,698	199,577
Total comprehensive income	(17,360)	148,146	(159,515)

(Note)

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Consolidated statements of cash flows
Years ended March 31, 2020(FY2019) and 2019(FY2018)

	Millions of yen		Thousands of US dollars*
	FY2019	FY2018	FY2019
Cash flows from operating activities:			
Income before taxes	130,480	188,370	1,198,934
Depreciation and amortization	131,741	112,495	1,210,521
Impairment loss	37,328	24,639	342,994
Reversal of impairment loss	(61)	(2,969)	(561)
Share of profit of investments accounted for using the equity method	(9,233)	(37,201)	(84,839)
Interest and dividend income	(10,904)	(10,849)	(100,193)
Interest expenses	12,513	10,623	114,977
Business structure improvement expenses	7,806	9,067	71,727
Changes in fair value of contingent consideration	(48,475)	(8,950)	(445,419)
Gain on sale of property, plant and equipment	(931)	(1,434)	(8,555)
Increase in trade receivables	(10,938)	(26,600)	(100,505)
Increase in inventories	(11,713)	(35,613)	(107,627)
Increase in trade payables	(22,048)	(18,673)	(202,591)
Increase in provisions	(8,060)	4,124	(74,060)
Others, net	(52,303)	38,041	(480,594)
Subtotal	145,202	245,070	1,334,209
Interest and dividends received	27,033	32,999	248,397
Interest paid	(12,733)	(10,940)	(116,999)
Income taxes paid	(48,688)	(50,161)	(447,377)
Business structure improvement expenses paid	(4,802)	(8,825)	(44,124)
Net cash provided by operating activities	106,012	208,143	974,106
Cash flows from investing activities:			
Payments of deposit	(61,028)	—	(560,764)
Purchase of property, plant and equipment, and intangible assets	(120,449)	(174,816)	(1,106,763)
Proceeds from sale of property, plant and equipment, and intangible assets	1,974	4,010	18,138
Purchase of investments in subsidiaries	(204,592)	(3,348)	(1,879,923)
Purchase of other financial assets	(122,493)	(9,126)	(1,125,544)
Proceeds from sales and redemption of other financial assets	6,763	2,420	62,143
Others, net	155	23	1,424
Net cash used in investing activities	(499,670)	(180,837)	(4,591,289)
Cash flows from financing activities:			
Net increase in short-term borrowings	237,592	3,180	2,183,148
Net decrease of commercial paper	(28,000)	(4,000)	(257,282)
Proceeds from long-term borrowings	67,689	89,190	621,970
Repayments of long-term borrowings	(85,657)	(67,871)	(787,072)
Proceeds from issuance of bonds	282,575	49,725	2,596,481
Redemption of bonds	(30,500)	(77,000)	(280,254)
Repayments of finance lease obligations	(14,778)	(3,175)	(135,790)
Cash dividends paid	(35,970)	(37,606)	(330,515)
Cash dividends paid to non-controlling interests	(16,717)	(13,521)	(153,607)
Payments for acquisition of subsidiaries' interests from non-controlling interests	(2,622)	(2,205)	(24,093)
Others, net	(70)	2,417	(643)
Net cash provided by (used in) financing activities	373,542	(60,866)	3,432,344
Effect of exchange rate changes on cash and cash equivalents	(914)	3,309	(8,398)
Net decrease in cash and cash equivalents	(21,030)	(30,251)	(193,237)
Cash and cash equivalents at beginning of year	201,678	231,929	1,853,147
Cash and cash equivalents at end of year	180,648	201,678	1,659,910

(Note)

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¥108.83= \$1 prevailing on March 31, 2020.

Segment information
Years ended March 31, 2020(FY2019) and 2019(FY2018)

Millions of yen

	Reporting segments					Total	Others	Adjustments	Consolidated
	Petro-chemicals&Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals				
FY2019									
Sales revenue									
Sales revenues from external customers	656,929	255,034	404,871	343,666	515,845	2,176,345	49,459	—	2,225,804
Inter-segment sales revenues	5,828	9,533	1,013	5,600	49	22,023	58,844	(80,867)	—
Total sales revenue	662,757	264,567	405,884	349,266	515,894	2,198,368	108,303	(80,867)	2,225,804
Segment profit (core operating income)	14,485	20,343	25,084	2,083	75,266	137,261	8,770	(13,379)	132,652
Segment assets	725,697	305,523	387,907	656,470	1,312,719	3,388,316	280,831	(18,815)	3,650,332
Other items									
Depreciation and amortization	27,850	15,852	28,973	26,081	20,020	118,776	7,468	5,497	131,741
Share of profit (loss) of investments accounted for using the equity method	3,179	(23)	1	(1,150)	(5)	2,002	7,240	(9)	9,233
Impairment loss	1,108	781	225	18	35,196	37,328	—	—	37,328
Reversal of impairment loss	—	—	61	—	—	61	—	—	61
Investments accounted for using the equity method	152,410	191	455	7,374	1,060	161,490	105,847	(3,283)	264,054
Capital expenditures	23,834	21,383	21,581	19,677	17,012	103,487	5,020	7,841	116,348
FY2018									
Sales revenue									
Sales revenues from external customers	757,529	282,850	396,839	338,094	492,130	2,267,442	51,130	—	2,318,572
Inter-segment sales revenues	6,161	7,892	952	5,648	13	20,666	62,265	(82,931)	—
Total sales revenue	763,690	290,742	397,791	343,742	492,143	2,288,108	113,395	(82,931)	2,318,572
Segment profit (core operating income)	61,610	22,959	26,227	19,716	80,764	211,276	9,422	(16,446)	204,252
Segment assets	756,996	312,096	389,744	591,995	896,702	2,947,533	282,911	(58,826)	3,171,618
Other items									
Depreciation and amortization	22,047	15,437	31,087	18,714	16,260	103,545	5,647	3,303	112,495
Share of profit (loss) of investments accounted for using the equity method	31,230	20	5	(1,107)	27	30,175	6,909	117	37,201
Impairment loss	535	878	200	—	22,996	24,609	19	11	24,639
Reversal of impairment loss	—	2,969	—	—	—	2,969	—	—	2,969
Investments accounted for using the equity method	165,455	214	455	26,853	1,055	194,032	108,286	(3,274)	299,044
Capital expenditures	31,466	24,281	33,550	39,931	16,861	146,089	12,302	5,272	163,663

Segment information

Years ended March 31, 2020(FY2019) and 2019(FY2018)

Adjustments to income before taxes from segment profit were as follows:

	Millions of yen	
	FY2019	FY2018
Segment profit	132,652	204,252
Changes in fair value of contingent consideration	48,475	8,950
Gain on sale of property, plant and equipment	931	1,434
Reversal of impairment loss	61	2,969
Impairment loss	(37,328)	(24,639)
Restructuring charges	(7,806)	(9,067)
Others, net	532	(927)
Operating income	137,517	182,972
Finance income	13,178	16,615
Finance expenses	(20,215)	(11,217)
Income before taxes	130,480	188,370

Overseas operations

Years ended March 31, 2020(FY2019) and 2019(FY2018)

	FY2019				FY2018
	Millions of yen	Thousands of US dollars*	Share (%)	Growth (%)	Millions of yen
Overseas operations	1,460,749	13,422,301	65.6	-3.0	1,505,711

(Note)

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(Cautionary statement)

This release of financial results is exempt from audit procedures.

Statements made in this release with respect to the Company's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties.

The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.