

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the Second Quarter Ended April 30, 2020 Under Japanese GAAP

This document is an English translation of the consolidated financial results (tanshin) prepared in Japanese. It is only for the reference of non-Japanese readers, and the Japanese version is the original.

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 Stock Exchange Listings: First Section of Tokyo Stock Exchange (Securities code: 4996)
 URL: <http://www.kumiai-chem.co.jp>
 Representative: Yoshitomo Koike, President and Representative Director
 For Inquiry: Takumi Yoshimura, Executive Officer and General Manager of General & Personnel Affairs Department (Telephone: 81-3-3822-5036)
 Scheduled Filing of Quarterly Securities Report: June 19, 2020
 Scheduled Commencement of Dividend Payment: July 14, 2020
 Supplementary Materials on Financial Results: None
 IR Presentation on Financial Results: Scheduled (For Institutional Investors and Analysts)

Amounts less than one million yen have been omitted.

1. Consolidated Financial Results (for the six months ended April 30, 2020)

(1) Consolidated Operating Results

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent	
Six months ended April 30, 2020	¥58,383	(0.1)%	¥4,971	(11.3)%	¥5,473	(15.5)%	¥3,805	(18.4)%
Six months ended April 30, 2019	58,471	7.9	5,607	17.0	6,479	15.6	4,663	4.7

Notes: 1. Comprehensive income: Six months ended April 30, 2020: ¥3,329 million [11.3%] Six months ended April 30, 2019: ¥2,992 million [83.3%]
 Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)
Six months ended April 30, 2020	¥30.42	¥ —
Six months ended April 30, 2019	37.22	—

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of April 30, 2020	¥159,800	¥101,496	60.2%
As of October 31, 2019	142,660	99,260	65.9

(Reference) Shareholders' equity: As of April 30, 2020: ¥96,142 million As of October 31, 2019: ¥93,977 million

2. Cash Dividends for Shareholders of Common Stock

(Yen)

	Cash Dividends per Share over the Fiscal Year				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-End	Annual
Year ended October 31, 2019	¥ —	¥3.00	¥ —	¥8.00	¥11.00
Year ending October 31, 2020	—	4.00	—	—	—
Year ending October 31, 2020 (Forecast)	—	—	—	7.00	11.00

Note: Most recently announced revisions to dividend forecast: No

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2020)

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent		Net Income per Share
Year ending October 31, 2020	¥113,000	9.3%	¥8,000	4.7%	¥9,800	0.7%	¥6,800	0.2%	¥54.29

Notes: 1. Most recently announced revisions to consolidated earnings forecast: No
 2. For fiscal-year figures, percentages indicate the percentage change from the previous fiscal year.

***Notes:**

(1) Changes in significant subsidiaries during the period under review (changes to subsidiaries that would alter the scope of consolidation): No

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction

a) Changes in accounting policies due to revisions of accounting standards: No

b) Changes in accounting policies due to other reasons: No

c) Changes in accounting estimates: No

d) Restatements of prior period financial statements due to error correction: No

(4) Number of shares issued (common stock)

	As of April 30, 2020	As of October 31, 2019
a) Number of shares issued (including treasury stock)	133,184,612 shares	133,184,612 shares
b) Number of treasury stock	8,134,990 shares	7,934,971 shares
	Six months ended April 30, 2020	Six months ended April 30, 2019
c) Average number of shares issued in the period	125,083,173 shares	125,259,214 shares

Note: The number of shares of treasury stock increased by 200,019 shares during the cumulative second-quarter period (November 1, 2019 to April 30, 2020) as the Company acquired its common stock owned by a subsidiary in accordance with the resolution of the Board of Directors held on December 13, 2019 among other factors.

**The Quarterly Financial Results Report has not been subjected to audit procedures by certified public accountants or an audit corporation.*

**Statement concerning the Proper Use of Business Results Forecasts and Other Relevant Specific Items*

Earnings forecasts contained in this document are based on information available to management and provisional assumptions made as of the date of publication regarding uncertain factors that may impact future earnings. Readers are advised that actual results may differ materially from the forecasts due to a variety of factors. For the conditions that form the basis for the results forecasts and precautionary information on the use of results forecasts, please see (3) Explanation of Forecast Data, including Consolidated Results Forecasts under 1. Qualitative Information Regarding Consolidated Financial Results for the Period under Review on page 4 of the attached materials.

(How to Obtain the financial results briefing materials and records of the financial results online briefing session)

The Company plans to hold an online financial results briefing for institutional investors and securities analysts on Thursday, July 16, 2020.

The results briefing materials to be distributed at the meeting will be uploaded to the corporate website after the meeting has been held.

Accompanying Materials

1. Qualitative Information Regarding Consolidated Financial Results for the Period under Review

(1) Explanation of Operating Results

During the cumulative second-quarter period under review (November 1, 2019 to April 30, 2020), the impact of the COVID-19 pandemic on the global economy became more serious, and the outlook remained uncertain, with no clear end to the spread of infections.

Moreover, the Japanese economy has also been affected significantly by the spread of COVID-19, and challenging conditions are likely to persist going forward.

Against this backdrop, the Company worked toward achieving priority policies in each department to complete Create the Future, the Medium-Term Business Plan, for which this fiscal year is the final fiscal year.

In the period under review, net sales decreased by ¥88 million (0.1%) year on year to ¥58,383 million as a result of lower sales of some fine chemicals even though sales of Axeev, a herbicide for field crops, stayed solid, and sales of rice paddy field herbicide Effeeda remained strong. Operating income decreased by ¥636 million (11.3%) year on year to ¥4,971 million due to an increase in selling, general and administrative expenses. Ordinary income was ¥5,473 million, down by ¥1,006 million (15.5%) year on year due to an increase in foreign exchange loss. Net income attributable to owners of the parent decreased by ¥857 million (18.4%) to ¥3,805 million.

The percentage of net sales to markets overseas in the second-quarter period under review was 36.2%.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Six months ended April 30, 2019			Six months ended April 30, 2020			YoY	
	Net sales	Composition ratio	Operating income	Net sales	Composition ratio	Operating income	Net sales [% change]	Operating income [% change]
Agricultural Chemicals and Agriculture-Related Businesses	¥44,088	75.4%	¥5,122	¥44,285	75.9%	¥4,985	¥197 [0.4]	¥(138) [(2.7)]
Fine Chemicals Business	10,180	17.4	690	9,726	16.7	226	(454) [(4.5)]	(464) [(67.3)]
Other Businesses	4,204	7.2	426	4,373	7.5	449	169 [4.0]	24 [5.5]
Total	58,471	100.0	5,607	58,383	100.0	4,971	(88) [(0.1)]	(636) [(11.3)]

- Notes: 1. Consolidated segment operating income for the cumulative second-quarter period of the previous fiscal year includes ¥632 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).
2. Consolidated segment operating income for the cumulative second-quarter period of the current fiscal year includes ¥689 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).

1) Agricultural Chemicals and Agriculture-Related Businesses segment

Sales in the Japanese market increased significantly year on year as a result of dramatic expansion in sales of rice paddy field herbicide Effeeda in the period under review.

Sales of specialty products increased year on year as a result of strong sales of rice paddy herbicide Effeeda and the new inclusion of sales of bensulfuron methyl, which was transferred in the previous fiscal year, in the sales of active ingredients developed in house.

Sales to markets outside Japan decreased year on year due to a decline in shipments resulting from inventory adjustments for fungicide and plant growth regulator in Europe, although sales of Axeev, a herbicide for field crops, remained strong.

As a result of the factors above, net sales in the Agricultural Chemicals and Agriculture-Related Businesses segment came to ¥44,285 million, up by ¥197 million (0.4%) compared with the same period of the previous fiscal year. Operating income decreased by ¥138 million (2.7%) year on year to ¥4,985 million.

2) Fine Chemicals Business segment

In the chlorination business, sales of chlorotoluene-based chemical products, which are raw materials for aramid fiber and high-performance resin, decreased, affected by temporary plant closures in automobile-related industries due to the spread of COVID-19 infections.

In the fine chemical business, sales of bismaleimides used in electronic materials and high-heat-resistant resins remained strong, but sales of urethane curing agents used in waterproofing agents decreased.

In the industrial chemicals business, orders for chemicals used in paper manufacturing, water treatment agents and other chemicals remained strong.

Sales decreased in the polystyrene business due to a downturn in demand as a result of the impact of the COVID-19 pandemic, leading to sluggish sales.

As a result of the factors above, net sales in the Fine Chemicals Business segment came to ¥9,726 million, down by ¥454 million (4.5%) compared with the same period of the previous fiscal year. Operating income decreased by ¥464 million (67.3%) year on year to ¥226 million.

3) Other Businesses segment

The Other Businesses segment includes the leasing business, power generation and electricity service business, construction business, printing business, logistics business, and information services business.

The leasing business continued working to effectively utilize owned properties, and both sales and operating income were on a par with the same period of the previous fiscal year. In the power generation and electricity service business, both sales and operating income were on a par with the same period of the previous fiscal year. Both sales and operating income in the construction business were higher year on year due to an increase in construction carried forward from the previous fiscal year.

In the printing and the logistics businesses, both sales and operating income were higher year on year mainly due to an increase in demand.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥4,373 million, up ¥169 million (4.0%) compared with the same period of the previous fiscal year. Operating income increased ¥24 million (5.5%) year on year to ¥449 million.

(2) Explanation of Financial Position

Total assets on a consolidated basis as of April 30, 2020 stood at ¥159,800 million, up by ¥17,141 million from the end of the previous fiscal year. This was mainly because the increase in notes and accounts receivable-trade and work in progress exceeded the decrease in merchandise and finished products.

Liabilities increased ¥14,904 million compared with previous fiscal year-end to ¥58,304 million. This was mainly because increases in short-term loans payable and notes and accounts payable-trade exceeded the decrease in accounts payable-other and income taxes payable.

Net assets totaled ¥101,496 million as of April 30, 2020, resulting in an equity ratio of 60.2% and net assets per share of ¥768.83.

(3) Explanation of Forecast Data, including Consolidated Results Forecasts

No changes have been made to the consolidated results forecasts for the fiscal year ending October 31, 2020 from the forecasts published at the December 13, 2019 announcement of the financial results for the fiscal year ended October 31, 2019.

At the present stage, it is assumed that the impact of COVID-19 will subside during the second half of 2020, and economic conditions will improve in 2021.

The impact of COVID-19 on the Company's consolidated results forecasts is considered to be immaterial. The Company will inform investors promptly of any factors of concern going forward.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2019	As of April 30, 2020
ASSETS		
Current assets:		
Cash and deposits	15,354	16,173
Notes and accounts receivable-trade	26,623	42,939
Marketable securities	30	—
Merchandise and finished products	23,040	21,188
Work in process	9,032	11,400
Raw materials and supplies	6,147	5,871
Other current assets	1,840	804
Allowance for doubtful accounts	(63)	(67)
Total current assets	82,003	98,308
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	10,394	10,121
Machinery, equipment and vehicles, net	7,291	7,219
Land	12,103	12,101
Construction in progress	727	1,626
Other property, plant and equipment, net	1,446	1,564
Total property and equipment	31,961	32,632
Intangible fixed assets:		
Goodwill	4,268	3,998
Other intangible assets	1,043	1,140
Total intangible assets	5,310	5,138
Investments and other assets:		
Investments securities	20,783	20,877
Long-term loans	11	310
Deferred tax assets	797	870
Net defined benefit asset	156	102
Other	1,772	1,695
Allowance for doubtful accounts	(133)	(131)
Total investments and other assets	23,385	23,723
Total fixed assets	60,657	61,493
Total assets	142,660	159,800

	Millions of yen	
	As of October 31, 2019	As of April 30, 2020
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	13,175	14,955
Short-term loan payable	12,747	29,109
Accounts payable-other	4,271	2,795
Income taxes payable	3,129	1,277
Provision for bonuses	1,463	1,268
Other current liabilities	796	865
Total current liabilities	35,581	50,269
Long-term liabilities:		
Long-term loan payable	311	206
Deferred tax liabilities	2,168	2,464
Provision for directors' retirement benefits	618	585
Net defined benefit liability	4,263	4,252
Asset retirement obligations	39	40
Other long-term liabilities	419	488
Total long-term liabilities	7,818	8,035
Total liabilities	43,400	58,304
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	37,137	37,081
Retained earnings	60,196	63,001
Less treasury stocks, at cost	(5,268)	(5,372)
Total shareholders' equity	96,600	99,244
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	833	788
Foreign currency translation adjustments	(3,339)	(3,787)
Remeasurements of defined benefit plans	(117)	(104)
Total accumulated other comprehensive income	(2,623)	(3,103)
Non-controlling interests	5,283	5,354
Total net assets	99,260	101,496
Total liabilities and net assets	142,660	159,800

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Consolidated Statements of Income

	Millions of yen	
	Six months ended April 30, 2019	Six months ended April 30, 2020
Net sales	58,471	58,383
Cost of sales	43,694	43,665
Gross profits	14,777	14,719
Selling, general and administrative expenses	9,171	9,747
Operating income	5,607	4,971
Non-operating income:		
Interest income	27	12
Dividend income	100	92
Equity in earnings of affiliates	716	771
Reversal of allowance for doubtful accounts	0	0
Other	90	101
Total non-operating income	935	975
Non-operating expenses:		
Interest expenses	13	47
Sales discounts	26	1
Foreign exchange losses	10	418
Other	13	8
Total non-operating expenses	63	474
Ordinary income	6,479	5,473
Extraordinary income:		
Gain on sales of fixed assets	144	23
Gain on sales of investment securities	—	4
Insurance income	83	8
Total extraordinary income	227	35
Extraordinary loss:		
Loss on disposal of fixed assets	27	79
Loss on valuation of investment securities	—	1
Loss on valuation of golf club membership	0	0
Compensation expenses	23	24
Loss on disaster	45	4
Office transfer expenses	10	—
Total extraordinary loss	105	108
Income before income taxes and non-controlling interests	6,601	5,400
Income taxes	1,750	1,571
Net income	4,851	3,829
Net income attributable to non-controlling interests	188	24
Net income attributable to owners of parent	4,663	3,805

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended April 30, 2019	Six months ended April 30, 2020
Net income	4,851	3,829
Other comprehensive income:		
Valuation difference on available-for-sale securities	(45)	(49)
Foreign currency translation adjustment	(1)	(256)
Remeasurements of defined benefit plans	14	13
Share of other comprehensive income of associates accounted for using equity method	(1,827)	(208)
Total other comprehensive loss	(1,859)	(500)
Comprehensive income	2,992	3,329
(Breakdown)		
Comprehensive income attributable to owners of the parent	2,794	3,326
Comprehensive income attributable to non-controlling interests	197	3

(Segment Information, etc.)

[Segment Information]

For the second quarter ended April 30, 2019 (From November 1, 2018 to April 30, 2019)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	44,088	10,180	54,267	4,204	58,471	—	58,471
Inter-segment	—	16	16	1,572	1,588	(1,588)	—
Total	44,088	10,195	54,283	5,776	60,059	(1,588)	58,471
Segment income/(loss)	5,122	690	5,813	426	6,238	(632)	5,607

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity service business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥632 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.

For the second quarter ended April 30, 2020 (From November 1, 2019 to April 30, 2020)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	44,285	9,726	54,011	4,373	58,383	—	58,383
Inter-segment	—	22	22	1,979	2,001	(2,001)	—
Total	44,285	9,748	54,032	6,352	60,384	(2,001)	58,383
Segment income/(loss)	4,985	226	5,210	449	5,660	(689)	4,971

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity service business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥689 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.