

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the Third Quarter Ended July 31, 2019 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: Takeshi Nakano, General Manager of General & Personnel Affairs Department (Telephone: 81-3-3822- 5036)
 Scheduled Filing of Quarterly Securities Report: September 12, 2019
 Scheduled Commencement of Dividend Payment: —
 Supplementary Materials on Financial Results: None
 IR Presentation on Financial Results: None

Amounts less than one million yen have been omitted.

1. Consolidated Financial Results (for the nine months ended July 31, 2019)

(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	
Nine months ended July 31, 2019	¥79,412	6.5%	¥6,248	23.8%	¥7,527	13.8%	¥5,547	4.6%
Nine months ended July 31, 2018	74,583	28.8	5,046	41.6	6,612	3.3	5,302	(21.5)

Notes: 1. Comprehensive income: Nine months ended July 31, 2019: ¥3,764 million [146.0%] Nine months ended July 31, 2018: ¥1,530 million [(80.3)%]
 Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)
Nine months ended July 31, 2019	¥44.28	¥ —
Nine months ended July 31, 2018	42.16	—

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of July 31, 2019	¥137,224	¥100,203	67.3%
As of October 31, 2018	132,680	97,739	67.9

(Reference) Shareholders' equity: As of July 31, 2019: ¥92,288 million As of October 31, 2018: ¥90,022 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, 2018	¥ —	¥3.00	¥ —	¥7.00	¥10.00
Year ending October 31, 2019	—	3.00	—		
Year ending October 31, 2019 (Forecast)				¥6.00	¥9.00

Notes: 1. Most recently announced revisions to dividend forecast: No

2. The year-end dividend for the fiscal year ended October 31, 2018 included a commemorative dividend of ¥2 for the 70th anniversary of the Company's founding.

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2019)

(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, 2019	¥107,000	10.5%	¥6,100	9.3%	¥8,100	0.3%	¥5,600	19.0%	¥44.71

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 July 31, 2019	As of October 31, 2018
a) Number of shares issued (including treasury stock)	133,184,612 shares	133,184,612 shares
b) Number of treasury stock	7,923,229 shares	7,921,665 shares
	Nine months ended July 31, 2019	Nine months ended July 31 2018
c) Average number of shares issued in the period	125,262,091 shares	125,762,751 shares

**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.

Accompanying Materials

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

(1) Explanation of Operating Results

During the cumulative third-quarter period under review (November 1, 2018 to July 31, 2019), although a moderate upward trend was seen in the Japanese economy due to robust domestic demand, including personal consumption and capital expenditure, the outlook remained uncertain due to the negative impact of prolonged trade friction between the United States and China on the economy, an economic slowdown in emerging economies, including China, and concerns over the deteriorating relations between Japan and South Korea.

Against this backdrop, the Company formulated Create the Future, a new Medium-Term Business Plan, by consolidating its strengths as the newly born Kumiai Chemical Industry Co. Ltd. through a business merger with the former Ihara Chemical Industry Co., Ltd. in 2017. The Company achieved its initial fiscal year plans last fiscal year. Each department at Kumiai Chemical Industry will continue working toward the achievement of the priority policies in order to ensure synergy from the Merger.

In the period under review, net sales increased by ¥4,829 million (6.5%) year on year to ¥79,412 million, due to an increase in sales of mainstay Axeev. Operating income increased by ¥1,202 million (23.8%) year on year to ¥6,248 million owing to the increase in net sales. Ordinary income increased by ¥915 million (13.8%) year on year to ¥7,527 million. Net income attributable to owners of the parent increased by ¥246 million (4.6%) year on year to ¥5,547 million.

The percentage of net sales to markets overseas in the second quarter period under review was 40.5%.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Nine months ended July 31, 2018			Nine months ended July 31, 2019			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	¥54,131	72.6%	¥4,415	¥56,846	71.6%	¥5,550	¥2,716 [5.0]	¥1,135 [25.7]
Fine Chemicals Business	14,370	19.3	1,117	15,759	19.8	1,185	1,389 [9.7]	68 [6.1]
Other Businesses	6,082	8.2	444	6,806	8.6	548	724 [11.9]	104 [23.4]
Total	74,583	100.0	5,046	79,412	100.0	6,248	4,829 [6.5]	1,202 [23.8]

Notes: 1. Consolidated segment operating income for the cumulative third quarter period of the previous fiscal year includes ¥930 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 third quarter period of the current fiscal year includes ¥1,035 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

Among farmland products for the Japanese market, the Company commenced full-scale sales of its rice paddy field herbicide Effeeda, launched new compound agents of insecticide for rice pest management to the market and increased shipments of other compound agents. As a result, overall sales of farmland products for the Japanese market increased compared with the same period of the previous fiscal year.

Among active ingredients developed in house, sales of fungicides for horticulture were strong, particularly those of the Fantasista brand. As a result, overall sales of specialty products increased compared with the same period of the previous fiscal year.

Sales of products to markets outside Japan grew significantly overall compared with the same period of the previous fiscal year, mainly due to steadily rising shipments of Axeev, the Company's mainstay herbicide for dry-field farming.

As a result of the factors above, net sales in the Agricultural Chemicals and Agriculture-Related Businesses segment came to ¥56,846 million, up ¥2,716 million (5.0%) compared with the same period of the previous fiscal year. Operating income jumped ¥1,135 million (25.7%) year on year to ¥5,550 million.

2) Fine Chemicals Business segment

In the Fine Chemicals Business segment, in the chlorination business, sales of chloroxylylene-based chemical products for use as raw materials for aramid fiber and high-performance resin remained strong.

In the fine chemicals business, sales continued to be steady overall, led by bismaleimides for raw materials of electronic materials and of high-heat resistant resins. Sales of urethane curing agents for the raw materials of waterproofing agents and of electronic materials also remained steady overall.

In the polystyrene business, sales increased on the back of growing demand. The consigned production business also posted strong results.

Meanwhile, sales in the industrial chemical business for active ingredients to sterilize medical devices and for paper manufacturing decreased compared with the same period of the previous fiscal year.

As a result of the factors above, net sales in the Fine Chemicals Business segment came to ¥15,759 million, up ¥1,389 million (9.7%) compared with the same period of the previous fiscal year. Operating income increased by ¥68 million (6.1%) year on year to ¥1,185 million.

3) Other Businesses segment

The Other Businesses segment includes the leasing business, power-generating and electricity sales business, construction business, printing business, logistics business, and information services business.

The leasing business continued working to effectively utilize owned properties, and sales were on a par with the same period of the previous fiscal year. In the electricity generating and service business, sales increased year on year due to the recovery efforts made to repair damage from a typhoon. In the construction business, although some construction projects had yet to be completed, orders received were steady, and sales were somewhat higher than the same period of the previous fiscal year. In the printing business and the logistics business, sales remained on a par with the same period of the previous fiscal year.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥686 million, up ¥724 million (11.9%) compared with the same period of the previous fiscal year. Operating income increased by ¥104 million (23.4%) year on year to ¥548 million.

(2) Explanation of Financial Position

Total assets on a consolidated basis as of July 31, 2019 stood at ¥137,224 million, up by ¥4,544 million from the end of the previous fiscal year. This was mainly due to year-on-year increases in notes and accounts receivable-trade, merchandise and finished products, raw materials and supplies, and machinery, equipment and vehicles, which collectively more than offset year-on-year decreases in cash and deposits and construction in progress.

Liabilities increased ¥2,080 million compared with previous fiscal year-end to ¥37,021 million. This was mainly due to a year-on-year increase in short-term loans payable, which exceeded decreased amounts of notes and accounts payable-trade and accounts payable-other.

Net assets totaled ¥100,203 million as of July 31, 2019, resulting in an equity ratio of 67.3% and net assets per share of ¥736.76.

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

No changes have been made to the forecasts for the fiscal year ending October 31, 2019 published at the December 14, 2018 announcement of the financial results for the fiscal year ended October 31, 2018.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2018	As of July 31, 2019
ASSETS		
Current assets:		
Cash and deposits	17,729	15,493
Notes and accounts receivable-trade	21,769	26,291
Marketable securities	30	30
Merchandise and finished products	18,405	20,520
Work in process	10,032	9,814
Raw materials and supplies	4,494	5,715
Other current assets	1,942	1,574
Allowance for doubtful accounts	(67)	(63)
Total current assets	74,334	79,375
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	9,720	9,842
Machinery, equipment and vehicles, net	5,327	7,262
Land	12,061	12,095
Construction in progress	1,932	279
Other property, plant and equipment, net	1,397	1,492
Total property and equipment	30,438	30,969
Intangible fixed assets	603	1,003
Investments and other assets:		
Investments securities	24,377	23,196
Long-term loans	309	11
Deferred tax assets	885	924
Net defined benefit asset	124	151
Other	1,765	1,731
Allowance for doubtful accounts	(154)	(137)
Total investments and other assets	27,306	25,877
Total fixed assets	58,346	57,849
Total assets	132,680	137,224

	Millions of yen	
	As of October 31, 2018	As of July 31, 2019
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	15,052	12,580
Short-term loan payable	2,759	9,787
Accounts payable-other	4,377	2,819
Income taxes payable	788	1,638
Provision for bonuses	1,475	730
Other current liabilities	648	619
Total current liabilities	25,099	28,173
Long-term liabilities:		
Long-term loan payable	970	415
Deferred tax liabilities	3,548	3,055
Provision for directors' retirement benefits	579	587
Net defined benefit liability	4,358	4,325
Asset retirement obligations	39	39
Other long-term liabilities	348	427
Total long-term liabilities	9,843	8,848
Total liabilities	34,942	37,021
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	35,735	35,735
Retained earnings	54,660	58,955
Less treasury stocks, at cost	(4,113)	(4,114)
Total shareholders' equity	90,817	95,110
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	795	662
Foreign currency translation adjustments	(1,438)	(3,353)
Remeasurements of defined benefit plans	(152)	(131)
Total accumulated other comprehensive income	(794)	(2,822)
Non-controlling interests	7,717	7,915
Total net assets	97,739	100,203
Total liabilities and net assets	132,680	137,224

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

Consolidated Statements of Income

	Millions of yen	
	Nine months ended July 31, 2018	Nine months ended July 31, 2019
Net sales	74,583	79,412
Cost of sales	56,284	59,620
Gross profits	18,299	19,792
Selling, general and administrative expenses	13,253	13,544
Operating income	5,046	6,248
Non-operating income:		
Interest income	68	39
Dividend income	290	202
Equity in earnings of affiliates	1,223	1,352
Reversal of allowance for doubtful accounts	13	10
Other	190	111
Total non-operating income	1,784	1,715
Non-operating expenses:		
Interest expenses	38	26
Sales discounts	36	36
Foreign exchange losses	125	233
Commission expenses	—	119
Other	20	22
Total non-operating expenses	219	436
Ordinary income	6,612	7,527
Extraordinary income:		
Gain on sales of fixed assets	13	144
Gain on sales of investment securities	11	—
Insurance income	64	217
Gain on extinguishment of tie-in shares	45	—
Total extraordinary income	133	362
Extraordinary loss:		
Loss on disposal of fixed assets	156	89
Loss on sales of investment securities	12	—
Loss on sales of golf club membership	1	—
Loss on valuation of golf club membership	5	0
Compensation expenses	—	23
Loss on disaster	44	46
Office transfer expenses	—	10
Total extraordinary loss	218	168
Income before income taxes and non-controlling interests	6,528	7,721
Income taxes	969	1,932
Net income	5,559	5,789
Net income attributable to non-controlling interests	257	242
Net income attributable to owners of parent	5,302	5,547

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended July 31, 2018	Nine months ended July 31, 2019
Net income	5,559	5,789
Other comprehensive income:		
Valuation difference on available-for-sale securities	(4,050)	(138)
Foreign currency translation adjustment	(95)	(47)
Remeasurements of defined benefit plans	32	21
Share of other comprehensive income of associates accounted for using equity method	85	(1,860)
Total other comprehensive income (loss)	(4,029)	(2,025)
Comprehensive income	1,530	3,764
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,287	3,519
Comprehensive income attributable to non-controlling interests	243	245

(Segment Information)

For the third quarter ended July 31, 2018 (From November 1, 2017 to July 31, 2018)

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	54,131	14,370	68,501	6,082	74,583	—	74,583
Inter-segment	0	—	0	2,033	2,034	(2,034)	—
Total	54,131	14,370	68,501	8,115	76,616	(2,034)	74,583
Segment income/(loss)	4,415	1,117	5,533	444	5,977	(930)	5,046

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥930 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 third quarter ended July 31, 2019 (From November 1, 2018 to July 31, 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	56,846	15,759	72,606	6,806	79,412	—	79,412
Inter-segment	—	24	24	2,308	2,332	(2,332)	—
Total	56,846	15,784	72,630	9,114	81,744	(2,332)	79,412
Segment income/(loss)	5,550	1,185	6,736	548	7,283	(1,035)	6,248

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥1,035 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.