

Consolidated Financial Report for the First Half ended September 30, 2020

Toyobo Co., Ltd.

Listed on the First Section of the TSE

Stock Code: 3101 URL <https://ir.toyobo.co.jp/en/ir.html>

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(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance

(1) Consolidated Operating Results

Six months ended September 30

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2020	157,507	(4.5)	10,420	(6.2)	5,862	(34.6)	2,642	(0.8)
2019	164,909	0.1	11,114	4.8	8,961	2.5	2,662	(32.0)

(Note) Comprehensive profit: First half ended September 30, 2020: ¥4,329 million (--%)

First half ended September 30, 2019: (¥858) million (--%)

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2020	29.75	—
2019	29.99	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2020	486,982	183,499	36.8	2,015.44
March 31, 2020	488,874	182,636	36.4	2,003.01

(Reference) Total shareholders' equity: September 30, 2020: ¥179,072 million, March 31, 2020: ¥177,890 million

2. Dividends

Record date	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY 3/2020	—	0.00	—	40.00	40.00
FY 3/2021	—	0.00			
FY 3/2021 (Forecast)			—	40.00	40.00

(Note) Revision of dividends forecast for this period: None

3. Forecasts for Fiscal Year ending March 31, 2021

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year	330,000	(2.8)	20,000	(12.3)	14,000	(22.4)

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal year	7,000	(49.2)	78.82

(Note) Revision of earnings forecast for this period: None

4. Other

1. Significant changes in subsidiaries during the subject fiscal year (Transfer of particular subsidiaries following a change in the scope of consolidation): None
2. Adoption of simplified and special accounting methods: None
3. Changes from accounting methods, procedures and the presentation of the consolidated financial statements:
 - 1) Changes based on revision of accounting standards : None
 - 2) Changes other than 1) above : None
 - 3) Changes due to accounting estimation change : None
 - 4) Error correction : None
4. Number of shares issued and outstanding (common share)
 - 1) Number of shares outstanding (including treasury stock):

September 30, 2020: 89,048,792 shares	March 31, 2020: 89,048,792 shares
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 - 2) Number of treasury stock

September 30, 2020: 198,608 shares	March 31, 2020: 237,610 shares
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 - 3) Average number of shares outstanding for each period (cumulative term):

Six months ended September 30 2020: 88,822,279 shares	
	2019: 88,780,080 shares

- ※ Quarterly Financial Results reports are exempt from Quarterly review
- ※ Explanation regarding the appropriate use of forecasts of business results

The forward-looking statements made in this document, including the aforementioned forecasts, are based on all information available to the management at the time of this document's release. Actual results may differ from the results anticipated in the statements.

(How to obtain supplementary document on earnings)

The supplementary document on earnings is disclosed on the same day as the Quarterly Financial Results report, and it is made available on the Company's website.

Regarding the fire accident at the Inuyama Plant

We pray that the souls of our two employees who lost their lives due to the fire accident that occurred at the Company's Inuyama Plant around 9 p.m. on September 27, 2020 rest in peace, and extend our deepest sympathies to their families.

Moreover, we sincerely apologize to nearby residents and concerned parties for the enormous inconvenience and concern caused by this accident.

The cause of the accident is currently being investigated by the relevant authorities. After the accident, the Company promptly established the "Accident Investigation Committee," and is also doing its best to investigate the cause of the accident. The Company will take the appropriate measures under the direction of the relevant authorities upon confirming the cause of the accident.

The Company moved forward with disaster prevention measures with the diagnosis and guidance from outside experts, determined to ensure that a fire accident never happens again after the fire at Tsuruga Research and Production Center in the year before last. However, this time a large accident occurred that took the lives of our treasured employees. With "safety" and "disaster prevention" as the top priorities, the TOYOBO Group (hereinafter the "Group") will thoroughly investigate what was lacking, insufficient, etc., for present security and disaster prevention activities, and this time ensure that it will be a safe company where this kind of accident will not occur again.

We will make company-wide efforts on through safety management and prevention of recurrence to recover the trust lost because of this fire accident. The Group appreciates your guidance and encouragement.

Seiji Narahara, President & Representative Director

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Results

As for the business environment surrounding the Group in the six months ended September 30, 2020, despite the economy recovering in China due to the novel coronavirus disease (COVID-19) coming under control, the outlook for the economy continues to be uncertain since the speed of recovery of the Japanese economy is slow despite suppressing the spread of infection, and because there are signs of infection spreading again in the United States and Europe.

In this business environment, in “Films and Functional Materials,” sales of polarizer protective films for LCDs “COSMOSHINE SRF” grew, driven by strong demand. In “Mobility,” engineering plastics and the airbag fabrics business faced challenges as they were affected by reduced automobile production globally. In “Lifestyle and Environmental,” textiles and high-performance fibers were sluggish due to the drop off of consumption and decline in demand. In “Life Science,” reagents for PCR testing for COVID-19 and testing kits achieved growth in sales, but the contract manufacturing business of pharmaceuticals faced challenges.

As a result, consolidated net sales in the six months ended September 30, 2020 decreased ¥7.4 billion (4.5%) over the same period of the previous fiscal year, to ¥157.5 billion. Operating profit decreased ¥0.7 billion (6.2%), to ¥10.4 billion, ordinary profit decreased ¥3.1 billion (34.6%) to ¥5.9 billion, and profit attributable to owners of parent decreased ¥0.0 billion (0.8%), to ¥2.6 billion.

Results by business segment were as follows:

The Group changed its reporting segment classification from the three months ended June 30, 2020. Accordingly, in the following segment information, the figures for the six months ended September 30, 2019, have been restated in accordance with the method of classification existing after the aforesaid change for the purpose of comparing them with those of the six months ended September 30, 2020.

Films and Functional Materials

In this segment, sales and operating profit increased from the same period of the previous fiscal year due to the growth in the films business.

In the films business, in the packaging film business, environmentally friendly films achieved growth in sales due to rising eco-consciousness of the world. Also, a special demand from people staying at home covered the decline of films for professional use, etc., caused by the spread of infection of COVID-19. In the industrial film business, mold releasing film for MLCC “COSMOPEEL” for automotive applications was affected by production adjustments. However, driven by strong demand, sales of polarizer protective films for LCDs “COSMOSHINE SRF” grew steadily.

In the functional materials business, industrial adhesives “Vylon” and adhesion promoter for polyolefin “HARDLEN” experienced sluggish sales for automotive applications and electronic materials applications due to the impact of the spread of infection of COVID-19.

As a result, sales in this segment increased ¥13.9 billion (23.1%) from the same period of the previous fiscal year to ¥73.8 billion, and operating profit increased ¥1.4 billion (19.5%) to ¥8.7 billion.

Mobility

In this segment, sales and operating profit decreased from the same period of the previous fiscal year owing to the effect of global reducing production of vehicles caused by the spread of infection of COVID-19.

Despite signs of recovery primarily in China and the United States, sales of engineering plastics decreased from the same period of the previous fiscal year. The airbag fabrics business faced a decline in sales, primarily in Thailand and the United States.

As a result, sales in this segment decreased ¥7.2 billion (32.3%) from the same period of the previous fiscal year to ¥15.0 billion, and operating loss of ¥1.3 billion (Compared with operating loss of ¥0.4 billion for the same period of the previous fiscal year.)

Lifestyle and Environmental

In this segment, despite achieving growth in sales due to special demand for general commodities, such as hygiene products, due to the spread of COVID-19, sales and operating profit decreased from the same period of the previous fiscal year as a result of decreased sales in textiles and high-performance fibers.

In the environmental solutions business, sales of volatile organic compound (VOC) emissions treatment equipment for recovering solvents were steady due to orders such as received prior to the spread of COVID-19. On the other hand, sales of Reverse Osmosis (RO) membrane for seawater desalination decreased because the timing of orders of replacement elements shifted to the latter half of the fiscal year ending March 31, 2021.

In the nonwoven fabrics business, spunbond struggled, mainly for automotive applications, and sales of functional filters were strong for air purifiers and masks, but were sluggish for office machinery.

In the functional fiber materials business, with regard to high-performance fibers, sales of cut resistant gloves decreased as plant operation for “Tsunoooga” slowed down throughout the world, and “IZANAS” was affected by the decline in demand for use in ropes in Japan. On the other hand, in the functional fiber materials business, polyester staple fibers for use in hygiene products achieved growth in sales, and sales of functional cushion material “BREATHAIR” for bedding applications were strong.

In the textile business, store sales, etc. for sports, underwear and suits were sluggish because of a significant decline in orders.

As a result, sales in this segment decreased ¥13.6 billion (21.4%) from the same period of the previous fiscal year to ¥50.2 billion, and operating profit decreased ¥0.6 billion (26.8%) to ¥1.8 billion.

Life Science

In this segment, sales and operating profit decreased from the same period of the previous fiscal year as the pharmaceutical business faced challenges, despite demand for reagents for PCR testing increasing in the biotechnology business due to the spread of COVID-19, and strong sales in the medical materials business.

In the biotechnology business, demand for raw materials for diagnostic reagents and general testing decreased, but sales of raw materials for PCR-related testing and reagents for research increased significantly due to the spread of COVID-19.

The pharmaceutical business faced challenges due to the impact of a portion of operations being suspended.

In the medical materials business, sales of nerve regeneration inducing devices “Nerbridge” were on par with the previous fiscal year, but sales of membranes for hemodialysis and hemodiafiltration were strong.

As a result, sales in this segment decreased ¥0.1 billion (1.1%) from the same period of the previous fiscal year to ¥12.4 billion, and operating profit decreased ¥0.4 billion (20.4%) to ¥1.6 billion.

Real Estate and Other Business

This segment includes infrastructure-related businesses, such as real estate, engineering, information processing services, and logistics services. Results in these businesses were generally in line with plans.

As a result, total sales in these businesses decreased ¥0.3 billion (5.0%) over the same period of the previous fiscal year to ¥6.2 billion, and operating profit decreased ¥0.2 billion (18.4%) to ¥1.0 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥1.9 billion (0.4%) from the end of the previous fiscal year, to ¥487.0 billion. This was due mainly to a decrease in notes and accounts receivable - trade.

Total liabilities decreased ¥2.8 billion (0.9%) to ¥303.5 billion. This was mainly because of a decrease in notes and accounts payable - trade.

Total net assets increased ¥0.9 billion (0.5%) to ¥183.5 billion. This was due mainly because of an increase in valuation difference on available-for-sale securities.

Cash Flows

Net cash provided by operating activities amounted to ¥13.4 billion in the subject first half period. This was due mainly to a cash increase from a decrease in trade receivables of ¥11.6 billion.

Net cash used in investing activities amounted to ¥18.0 billion. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥15.5 billion.

Net cash provided by financing activities amounted to ¥9.3 billion. This was due mainly to proceeds from long-term loans payable of ¥11.9 billion.

As a result, the balance of cash and cash equivalents at the end of the subject first half (September 30, 2020) stood at ¥29.9 billion, an increase of ¥4.8 billion from the end of the previous fiscal year (March 31, 2020).

(3) Qualitative Information on Consolidated Forecasts

At the Inuyama Plant, buildings for the production of packaging films and a portion of production equipment were affected by the fire that occurred on September 27, 2020. The cause of the accident is currently being investigated by the relevant authorities and the “Accident Investigation Committee” which the Company established. Regarding resumption status, shipments resumed from September 30 excluding some products, and production facilities that have received approval for operations from relevant authorities were restarted successively after confirming safety.

Regarding the forecast for the fiscal year ending March 31, 2021, we will promptly notify you of if any significant impact of the accident is expected on the consolidated forecasts.

3. Consolidated Financial Statements

(1) Consolidate Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2020) (Condensed)	Current First Half (As of September 30, 2020)
Assets		
Current assets		
Cash and deposits	25,247	30,032
Notes and accounts receivable - trade	85,345	74,671
Electronically recorded monetary claims - operating	8,208	7,524
Merchandise and finished goods	49,150	50,083
Work in process	12,750	12,370
Raw materials and supplies	18,728	18,065
Other	7,141	6,743
Allowance for doubtful accounts	(154)	(141)
Total current assets	206,416	199,348
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	52,746	55,470
Machinery, equipment and vehicles, net	43,343	54,561
Land	97,055	96,958
Other, net	38,334	26,769
Total property, plant and equipment	231,478	233,758
Intangible assets	4,641	4,600
Investments and other assets		
Other	47,096	50,083
Allowance for doubtful accounts	(757)	(808)
Total investments and other assets	46,339	49,275
Total non-current assets	282,458	287,634
Total assets	488,874	486,982

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2020) (Condensed)	Current First Half (As of September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	41,659	35,186
Electronically recorded obligations - operating	8,357	4,814
Short-term borrowings	32,027	40,781
Current portion of bonds payable	—	5,000
Current portion of long-term borrowings	8,510	8,769
Provisions	4,664	4,372
Other	27,106	20,125
Total current liabilities	122,321	119,047
Non-current liabilities		
Bonds payable	55,000	50,000
Long-term borrowings	75,851	80,800
Provision for retirement benefits for directors (and other officers)	247	215
Provision for environmental measures	331	158
Retirement benefit liability	21,613	21,793
Other	30,875	31,470
Total non-current liabilities	183,916	184,436
Total liabilities	306,238	303,483
Net assets		
Shareholders' equity		
Share capital	51,730	51,730
Capital surplus	32,200	32,202
Retained earnings	61,929	61,048
Treasury shares	(350)	(293)
Total shareholders' equity	145,509	144,687
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,013	5,895
Deferred gains or losses on hedges	(8)	(14)
Revaluation reserve for land	44,457	44,453
Foreign currency translation adjustment	(11,954)	(12,216)
Remeasurements of defined benefit plans	(4,128)	(3,732)
Total accumulated other comprehensive income	32,381	34,386
Non-controlling interests	4,746	4,427
Total net assets	182,636	183,499
Total liabilities and net assets	488,874	486,982

(2) Consolidated Statements of Income

(Millions of yen)

	Previous First Half (From April 1, 2019 To September 30, 2019)	Current First Half (From April 1, 2020 To September 30, 2020)
Net sales	164,909	157,507
Cost of sales	124,262	116,189
Gross profit	40,647	41,318
Selling, general and administrative expenses	29,534	30,898
Operating profit	11,114	10,420
Non-operating income		
Dividend income	404	317
Share of profit of entities accounted for using equity method	359	—
Other	679	602
Total non-operating income	1,441	919
Non-operating expenses		
Interest expenses	675	683
Loss on suspension of production	466	1,289
Other	2,453	3,505
Total non-operating expenses	3,594	5,476
Ordinary profit	8,961	5,862
Extraordinary income		
Gain on sales of investment securities	19	—
Gain on sales of non-current assets	13	95
Total extraordinary income	32	95
Extraordinary losses		
Loss on disposal of non-current assets	2,110	1,715
Loss due to fire	2,636	—
Other	37	291
Total extraordinary losses	4,783	2,006
Profit before income taxes	4,210	3,952
Income taxes	1,682	1,599
Profit	2,528	2,353
Loss attributable to non-controlling interests	(135)	(289)
Profit attributable to owners of parent	2,662	2,642

(Millions of yen)

	Previous First Half (From April 1, 2019 To September 30, 2019)	Current First Half (From April 1, 2020 To September 30, 2020)
Profit	2,528	2,353
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,350)	1,879
Deferred gains or losses on hedges	(14)	(6)
Foreign currency translation adjustment	(1,071)	(146)
Remeasurements of defined benefit plans, net of tax	157	396
Share of other comprehensive income of entities accounted for using equity method	(108)	(146)
Total other comprehensive income	(3,386)	1,976
Comprehensive income	(858)	4,329
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(674)	4,647
Comprehensive income attributable to non-controlling interests	(184)	(318)

(Millions of yen)

	Previous First Half (From April 1, 2019 To September 30, 2019)	Current First Half (From April 1, 2020 To September 30, 2020)
Cash flows from operating activities		
Profit before income taxes	4,210	3,952
Depreciation	8,080	9,128
Interest expenses	675	683
Loss due to fire	2,636	—
Decrease (increase) in trade receivables	2,525	11,562
Decrease (increase) in inventories	(2,774)	49
Increase (decrease) in trade payables	(46)	(10,021)
Other, net	2,300	2,178
Subtotal	17,607	17,530
Payments for Loss due to fire	(2,530)	—
Income taxes (paid) refund	(567)	(4,136)
Net cash provided by (used in) operating activities	14,510	13,394
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(13,681)	(15,545)
Other, net	(1,477)	(2,410)
Net cash provided by (used in) investing activities	(15,158)	(17,955)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,183	8,749
Proceeds from long-term borrowings	9,932	11,900
Repayments of long-term borrowings	(9,517)	(6,624)
Proceeds from issuance of bonds	15,000	—
Dividends paid	(3,546)	(3,546)
Interest paid	(662)	(667)
Other, net	(443)	(471)
Net cash provided by (used in) financing activities	11,947	9,341
Effect of exchange rate change on cash and cash equivalents	(388)	(10)
Net increase (decrease) in cash and cash equivalents	10,911	4,770
Cash and cash equivalents at beginning of period	22,167	25,084
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	303	18
Cash and cash equivalents at end of period	33,382	29,873

(4) Note to Going Concern:

Not applicable

(5) Notes on Significant Changes in Shareholders' Equity

Not applicable

(6) Additional Information

With regard to the effects of COVID-19, while there are signs of infection spreading again in the United States and Europe, the outbreak has ended in China and the economy is recovering.

Although it is difficult to foresee the end of COVID-19, the Group is assessing the need to recognize and measure impairment loss on non-current assets and the recoverability of deferred tax assets for the end of the current fiscal year, assuming performance will gradually recover from areas where economic activity has resumed.

We make accounting estimates and judgments based on currently available information. However, due to the high degree of uncertainty, any change in the above assumptions could affect the Group's future financial position and operating results.

(7) Segment Information

a. Segment information by business type

(I) Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

(Millions of yen)

	Segment to be reported						Other Businesses (Note 1)	Total	Adjustment (Note 2)	Consolidated Statements of Income (Note 3)
	Films and Functional Materials	Mobility	Lifestyle and Environmental	Life Science	Real Estate	Total				
Net Sales										
(1) Outside customers	59,919	22,195	63,823	12,490	2,137	160,562	4,347	164,909	—	164,909
(2) Inter-segment sales and transfers	51	7	205	8	187	457	9,955	10,412	(10,412)	—
Total	59,970	22,201	64,027	12,498	2,324	161,020	14,302	175,322	(10,412)	164,909
Operating Profit (loss)	7,291	(394)	2,420	2,009	752	12,078	517	12,595	(1,481)	11,114

Note:1. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. Segment profit adjustment of (¥1,481) million includes eliminations of intersegment transactions of (¥11) million and companywide expenses that are not allocated across reporting segments of (¥1,471) million. The principal components of companywide expenses are those related to basic research and development.

3. Segment profit has been adjusted with operating profit on the consolidated financial statements.

(II) Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

(Millions of yen)

	Segment to be reported						Other Business- ses (Note 4)	Total	Adjust ment (Note 5)	Consolidated Statements of Income (Note 6)
	Films and Functional Materials	Mobility	Lifestyle and Environ- mental	Life Science	Real Estate	Total				
Net Sales										
(1) Outside customers	73,779	15,022	50,190	12,358	1,920	153,268	4,239	157,507	—	157,507
(2) Inter-segment sales and transfers	59	13	154	10	224	460	6,706	7,166	(7,166)	—
Total	73,838	15,035	50,344	12,368	2,144	153,728	10,945	164,673	(7,166)	157,507
Operating Profit (loss)	8,715	(1,291)	1,771	1,598	737	11,530	298	11,827	(1,407)	10,420

Note:4. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.

5. Segment profit or loss adjustment of (¥1,407) million includes eliminations of intersegment transactions of ¥80 million and companywide expenses that are not allocated across reporting segments of (¥1,488) million.

The principal components of company wide expenses are those related to basic research and development.

6. Segment profit or loss has been adjusted with operating profit on the consolidated financial statements.

(III) Matters concerning changes to reporting segments

From the first quarter of this fiscal year, the Group is reviewing the method of classification of reportable segments in conformity with the changes of the Group's internal organizational structure carried out in order to realize the "ability to provide solutions" (contribution to society through business), which is the Group's materiality. Accordingly, business segments were changed from "Films and Functional Polymers," "Industrial Materials," "Health care" and "Textiles and Trading" to "Films and Functional Materials," "Mobility," "Lifestyle and Environmental" and "Life science".

Segment Information for the first half of the previous fiscal year was restated in accordance with the method of classification after the aforesaid change.