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Fiscal Year 2020 Financial Results Briefing

June 7, 2021

OGAWA Ikuzo, President

証券コード：
4008

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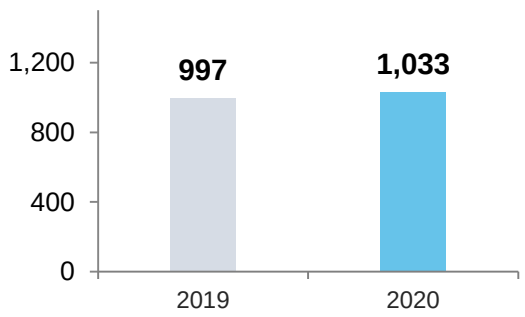
Financial Highlights

Increased net sales for super absorbent polymers
due to higher sales volumes following Chinese market fluctuations in the wake of COVID-19, etc.
Increased profit on operating income
due mainly to lower raw material prices and rationalization efforts, as well as higher sales volumes

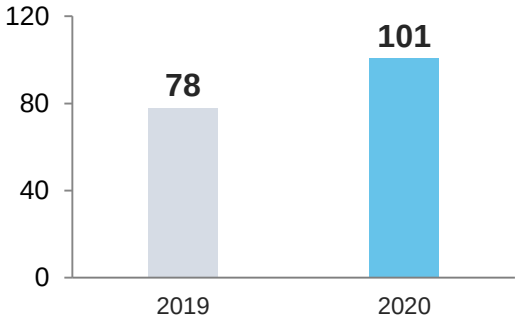
(in units of 100 million JPY)

	FY2019	FY2020	Y-o-Y Change	Y-o-Y Change (%)
Net Sales	**997**	**1,033**	**36**	**3.6%**
Operating Income	**78**	**101**	**23**	**29.9%**
Ordinary Income	**69**	**104**	**35**	**51.1%**
Net Income Attributable to Owners of the Parent	**43**	**71**	**28**	**66.1%**
JPY/USD	108.75	106.07		
JPY/CN	15.60	15.67		
Naphtha Price (JPY／KL)	42,900	31,300		

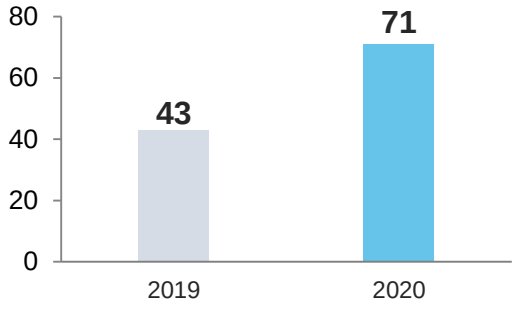
【Net Sales】



【Operating Income】



【Net Income】



Net Sales and Operating Income by Business Segment

(in units of 100 million JPY)

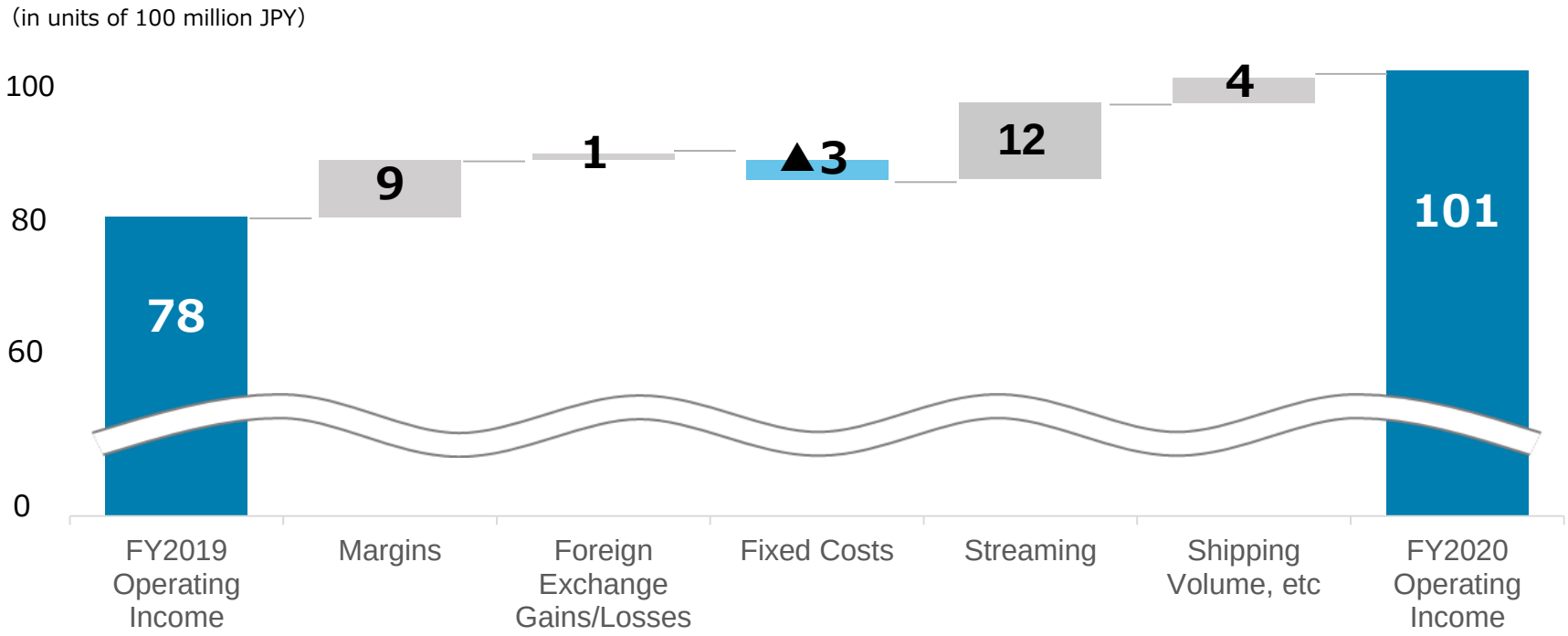
		FY2019	FY2020	Y-o-Y Change	Y-o-Y Change (%)
Super Absorbent Polymers	Net Sales	658.9	692.0	33.1	5.0%
	Operating Income	35.4	58.4	22.9	64.7%
Functional Chemicals	Net Sales	178.1	179.4	1.3	0.7%
	Operating Income	19.1	20.4	1.2	6.5%
Gases & Engineering	Net Sales	153.2	156.1	2.9	1.9%
	Operating Income	23.6	22.8	△0.8	△3.4%
Others	Net Sales	6.7	5.0	△1.7	△25.5%
	Operating Income	△0.5	△0.6	△0.1	△21.1%
Total	Net Sales	997.0	1,032.5	35.5	3.6%
	Operating Income	77.8	101.0	23.3	29.9%

Operating income totals include inter-segment eliminations.

Super Absorbent Polymers	:	Increase in net sales reflecting increased sales volume due to fluctuations in the Chinese market resulting mainly from the spread of COVID-19, etc. Increase in profit due to lower raw material prices, rationalization efforts, and increased sales volume.
Functional Chemicals	:	Increase in profit for operating income with net sales unchanged from previous fiscal year due to an increase in sales volume for latex products and pharmaceutical intermediates and a decline in sales volume for automotive and building material products.
Gases & Engineering	:	Increase in net sales due to an increase in sales volume for electronics gases, etc. Decrease in profit due to a drop in sales volume for gases for food additives.

Analysis of Changes in Operating Income

Benefits from rationalization efforts for super absorbent polymers and lower raw material prices, etc.



Non-Operating Income/Expense & Extraordinary Gain/Loss

(in units of 100 million JPY)

【Non-Operating Income/Expense 】	FY2019	FY2020	Y-o-Y Change
Interest Income & Dividends Income	2.5	1.3	△1.2
Interest Expenses	△2.3	△2.6	△0.3
Foreign Exchange Gain/Loss	△11.2	0.9	12.1
Others	1.9	3.1	1.2
Total	△9.1	2.7	11.8

(in units of 100 million JPY)

【 Extraordinary Gain/Loss 】	FY2019	FY2020	Y-o-Y Change
Gain on Sales of Non-Current Assets	0.3	0.3	0.0
Gain on Sales of Investment Securities	-	0.5	0.5
Loss on Retirement of Non-Current Assets	△2.8	△0.9	2.0
Impairment Loss	△1.8	△7.0	△5.3
Others	-	-	-
Total	△4.3	△7.1	△2.8

Balance Sheet (Assets)

(in units of 100 million JPY)

	End of FY2019	End of FY2020	Y-o-Y Change
Current Assets	**594**	**682**	**87**
Cash & Deposits	(154)	(257)	(103)
Notes & Accounts Receivable-Trade	(232)	(242)	(10)
Inventory	(179)	(165)	(△14)
Fixed Assets	**408**	**397**	**△12**
Property, Plants & Equipment	(366)	(348)	(△18)
Investments & Other Assets	(40)	(47)	(7)
Total Assets	**1,003**	**1,078**	**76**

Balance Sheet (Liabilities & Net Assets)

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(in units of 100 million JPY)

	End of FY2019	End of FY2020	Y-o-Y Change
Current Liabilities	**277**	**275**	**△3**
Accounts Payable-Trade	(119)	(108)	(△11)
Short-Term Loans Payable	(109)	(107)	(△2)
Non-Current Liabilities	**58**	**49**	**△9**
Long-Term Loans Payable	(36)	(29)	(△6)
Lease Obligations	(3)	(4)	(1)
Liabilities for Retirement Benefits	(18)	(15)	(△3)
Total Liabilities	**335**	**323**	**△12**
Total Net Assets	**667**	**755**	**88**
Liabilities & Net Assets	**1,003**	**1,078**	**76**
Bank Loan Balance	**144**	**136**	
Equity Ratio	**64.1%**	**67.5%**	
ROE (Return on Equity)	**6.7%**	**10.4%**	

Cash Flow

(in units of 100 million JPY)

	FY2019	FY2020	Y-o-Y Change
Total Cash Flow from Operating Activities	108	163	55
Total Cash Flow from Investment Activities	△38	△22	16
Total Cash Flow from Financing Activities	△56	△33	23
Effect of Exchange Rate Change on Cash and Cash Equivalents	1	2	1
Net Increase (Decrease) in Cash and Cash Equivalents	15	110	95
Cash and Cash Equivalents at the End of the Period	143	253	110

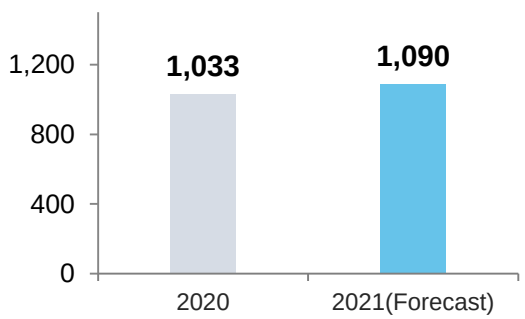
FY2021 Financial Forecasts

Net sales: growth in revenue due to higher raw material prices and exchange rate fluctuations
Operating income: decline in profit due to higher raw material prices, among other factors
⇒ Aim to increase from 7 billion JPY
by expanding sales and promoting rationalization initiatives, etc.

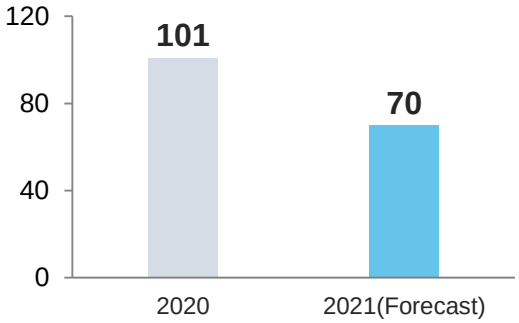
(in units of 100 million JPY)

	FY2020	FY2021	Y-o-Y Change	Y-o-Y Change (%)
Net Sales	**1,033**	**1,090**	**57**	**5.6%**
Operating Income	**101**	**70**	**△31**	**△30.7%**
Ordinary Income	**104**	**70**	**△34**	**△32.5%**
Net Income Attributable to Owners of the Parent	**71**	**50**	**△21**	**△29.8%**
JPY/USD	106.07	110.00		
JPY/CN	15.67	16.50		
Naphtha Price (JPY/KL)	31,300	47,000		

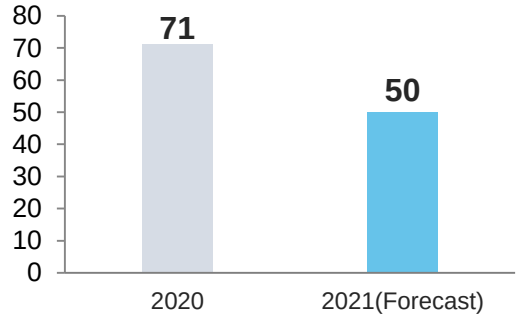
【Net Sales】



【Operating Income】



【Net Income】



FY2021 Financial Forecasts by Business Segment

(in units of 100 million JPY)

		FY2020	FY2021	Y-o-Y Change	Y-o-Y Change (%)
Super Absorbent Polymers	Net Sales	692.0	740.0	48.0	6.9%
	Operating Income	58.4	33.0	△25.4	△43.5%
Functional Chemicals	Net Sales	179.4	175.0	△4.4	△24.5%
	Operating Income	20.4	18.0	△2.4	△11.6%
Gases & Engineering	Net Sales	156.1	170.0	13.9	8.9%
	Operating Income	22.8	20.0	△2.8	△12.1%
Others	Net Sales	5.0	5.0	0.0	0.2%
	Operating Income	△0.6	△1.0	△0.4	△66.7%
Total	Net Sales	1,032.5	1,090.0	57.5	5.6%
	Operating Income	101.0	70.0	△31.0	△30.7%

Operating income totals include inter-segment eliminations.

Super Absorbent Polymers	:	Expected increase in revenue due to a rise in sales prices following increasing raw material prices and the impact of exchange rates, combined with an expected decrease in profit due to the shrinking spread resulting from rising raw material prices.
Functional Chemicals	:	Expected decrease in revenue mainly reflecting declining sales volume for latex products, combined with a decrease in profit due to declining in sales volume, in addition rising raw material prices.
Gases & Engineering	:	Expected increase in revenue due to higher sales volume for electronics gases, etc., combined with a decrease in profit due to rising expenses resulting from increasing shipping volume.

Analysis of Changes in Operating Income（FY2020/FY2021）

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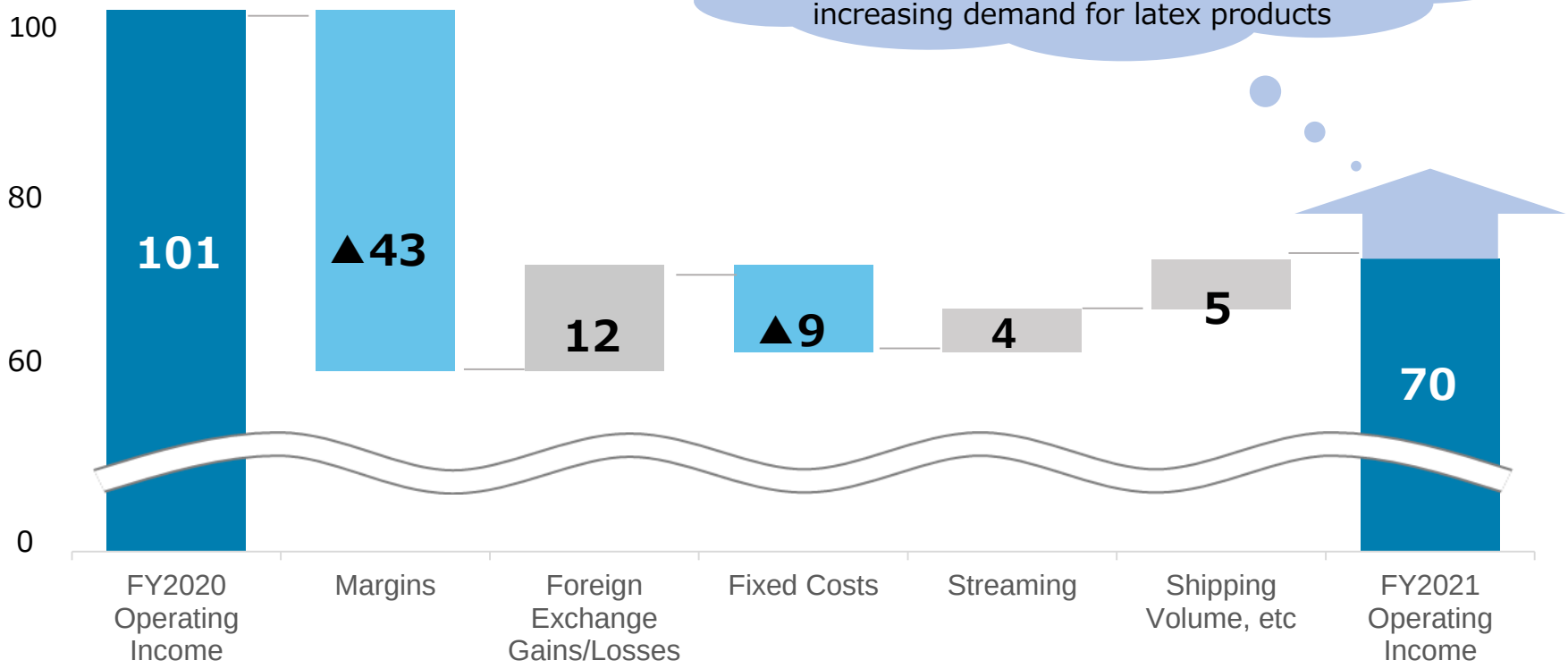
Decrease in profits due to worsening trade terms and increased fixed costs
Aim to increase from 7 billion JPY
by promoting initiatives for expanding sales and rationalization

Super Absorbent Polymers: Increase in market share in China and SE Asia
Functional Chemicals: Address increasing demand for latex products



Dividend Policy & Forecast

FY2021 Dividend Forecast : 100 Yen Per Share

Dividend Policy

Shareholder returns are one of management's top priorities.

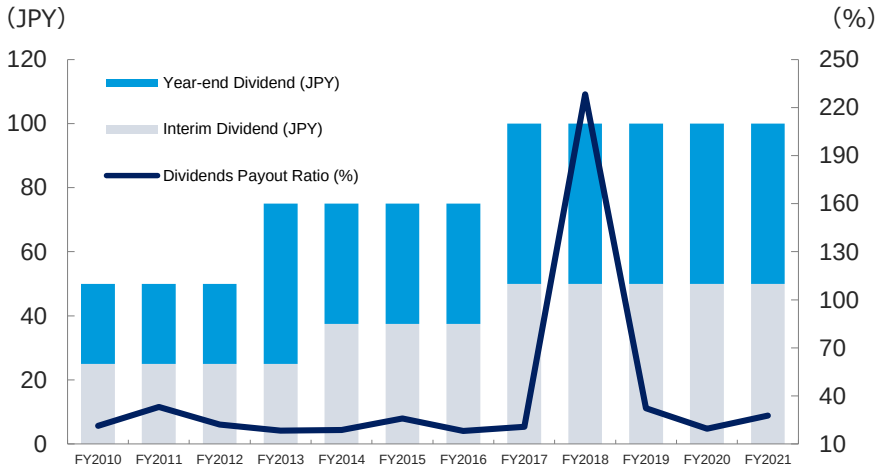
Determinations will be based on quarterly earnings in consideration of delivering stable dividends and retained earnings levels, etc.

Retained earnings will be invested in production system development and R&D, while evaluating further shareholder returns.

FY2020 & FY2021 (Forecast)

【FY2020】
100 yen (interim & year-end dividend of 50 yen)

【FY2021 (Forecast)】
100 yen (interim & year-end dividend of 50 yen)



	FY2019	FY2020	FY2021 (Forecast)
Net Income (in units of 100 million yen)	**43**	**71**	**50**
Total Dividends (in units of 100 million yen)	**13.8**	**13.8**	**13.8**
Dividends Per Share (yen)	100	100	(100)
Interim Dividends Per Share (yen)	50	50	(50)
Dividends Payout Rate	**32.2%**	**19.4%**	**27.6%**

Super Absorbent Polymers Market Environment in China

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【Status from January to May 2021】

- While economic activity has returned to normal, customers are increasingly prioritizing procurement of raw materials for sanitary products, partly due to the impact of governmental travel restrictions during the Chinese New Year.

- Against a backdrop of soaring propylene and acrylic acid prices and procurement concerns from February, price pass-through and supply restrictions have spread among competitors, with orders to our company increasing dramatically and a high-level of shipments continuing through April.

- Diaper distribution and raw material inventories are now at high levels, and with summer being a period of low demand, orders are expected to slow.

【Future Outlook and Company Strategy】

- While birth rates are declining, aging populations are steadily increasing. We will address demand for long-term care-related diapers, demonstrate the strengths of our products to customers, and further expand our business.

Medium-Term Business Plan①

1 Super Absorbent Polymers Update on Progress of Cost Reduction Project

Fundamental Rationalization of Operations (target amount 20 JPY/kg or more)
Cost Reduction Project launched in FY2018

Initiatives ▶

Improvement of manufacturing processes

- Strengthen cost competitiveness by introducing high-efficiency machinery
- Apply to overseas sites after verifying results at our Himeji Works

Restructuring of manufacturing plants

- Improve productivity and dramatically reduce fixed costs by suspending use of aging equipment; increase production by eliminating bottlenecks

Optimization of supply chain

- Rationalize the entire supply chain

Schedule ▶

Increased production/sales : 3.5 billion JPY/year

- Increased production by improving manufacturing processes at overseas bases.
- Unlock the potential of company targets by expanding sales of our increased production volume.

Decreased costs : 4.5 billion JPY/year About 2.5 billion JPY has been planed

- Cut costs through reductions in raw materials and energy, etc.
- Rationalizing the supply chain through reductions in raw material prices, etc.

- For investments in production process improvements, construction at domestic bases is complete, and benefits are expected to be seen throughout this fiscal year. Overseas bases are also scheduled to undergo construction, which will be timed according to global balances in supply and demand.
- Rationalization Efforts : Results in FY2020 : 1.7 billion JPY/year
  ⇒Target in FY2021 : 2.1 billion JPY/year (compared to FY2018)

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2 Strengthening Our Business in China

Establishing a Sales Company	Established Sumisei International Trading (Shanghai) Co., Ltd. in Shanghai's Pilot Free-Trade Zone in March 2021 Streamlined our commercial distribution channels through direct sales in USD and increased marketing opportunities
Expanding Technical Service Bases	Planning new facilities in the South China region where major SAP customers are concentrated Improve the speed and level of our technical services
Manufacturing Base in Yangzhou	Completed construction for our contract manufacturing business Planning to begin mass production this year

3 New Factory Facilities for high-purity carbon monoxide (CO) in Korea

- Increased demand due to high level stacking in 3D NAND flash memories
- New factory facilities for Sumisei Chemical Co., Ltd. (Korea) (to be completed in 2022)
- Two-plant production framework with our Befu Works to meet the strong demand for semiconductors

4 Status of Products in Development

【Super Absorbent Polymers】

- Development of safe and reliable deodorant-grade SAP (currently under customer review)
- Ongoing development of SAP with a new technical concept that enhances the efficiency of absorbent usage

【Functional Chemicals】

- Start selling the cosmetic thickener AQUPEC MG to major domestic manufacturers

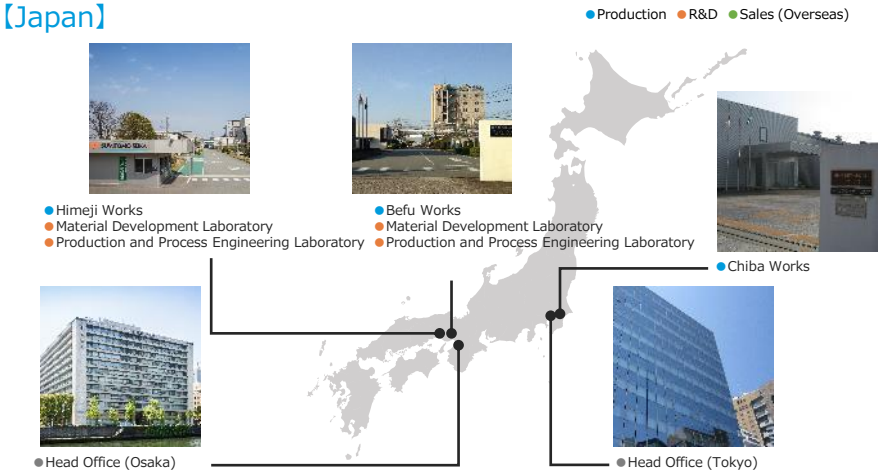
【Gases & Engineering】

- Expand production pipeline of high-purity gases for major semiconductor device manufacturers
- Ongoing development of next-generation semiconductor materials through partnerships with other companies, etc.

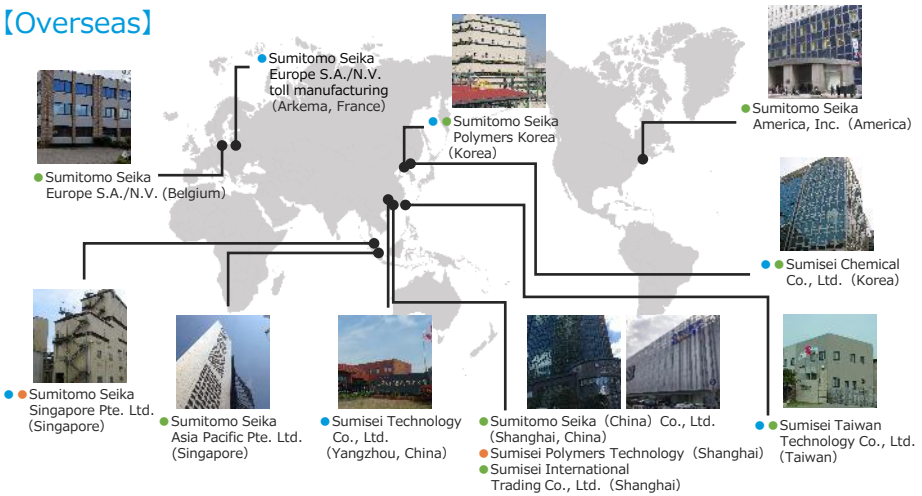
Company Profile

Established	**July 20, 1944**
Paid in Capital	**9,698 million yen**
Number of Employees	**1,359** (as of March 31, 2020)
Main Business Areas	**Super Absorbent Polymers** **Functional Chemicals** **Gases & Engineering**
Consolidated Subsidiaries	**Japan : 1 company** **Overseas : 11 companies**
Production Bases	**Japan : 3 bases** **Overseas : 6 bases**
R & D Bases	**Japan : 2 bases** **Overseas : 2 bases**
Sales Bases	**8 bases**

【Japan】



【Overseas】



Business Field -Super Absorbent Polymers-

Main Applications

Sanitary Materials

AQUA KEEP is used in absorbents found in numerous items, including disposable diapers and sanitary products. This is due to AQUA KEEP's ability to keep the absorbent's surface dry thanks to its rapid absorption and long-lasting liquid retention performance.
AQUA KEEP's super absorption potential also reduces the amount of raw materials used in the absorbent, allowing for a significantly thinner and more compact construction.
Sumitomo Seika began selling AQUA KEEP in the 1980s, and the product has continued to receive high acclaim among users worldwide ever since. In 2014, we began the sale of our AQUA KEEP HP Series, which achieves both "higher absorption capacity" and "higher absorption capacity under load."

Water Repellent Materials

AQUA KEEP is used in water repellent materials for power and optical cables. This is due to its ability to instantly take in moisture and expand, thereby preventing additional water from getting inside the cable when the cable's coating has been damaged. Boasting world-class absorption speeds, AQUA KEEP Series is used in water repellent materials for cables to provide high value-added functionality, earning it wide critical acclaim.
Moving forward, we will continue to carry out R&D to deliver additional performance and improved quality, so we can better support the lives of people around the world.

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Major Product Fields

Medical Care

We have long been involved in the production of pharmaceutical intermediates (active ingredients) in compliance with good manufacturing practices (GMP), and provide a wide variety of materials used in pharmaceutical additives and the production of medical gloves. We are currently focusing on improving our pharmaceutical additives and are widely recognized by our customers for the exceptional functionality, quality control, and additive GMP we deliver.

Daily Living

We provide various materials for improving quality of life, such as water-soluble thickeners that are essential for cosmetics and toiletries and coating agents for increasing weather resistance on outdoor fences. We are also actively working on developing new lines of environmental-friendly products.

Energy & the Environment

We research, develop, and supply the materials used in large capacity batteries that are indispensable to electric vehicles. Using the proprietary technology we have cultivated over the years, we work to further contribute to the advanced technologies used in environmental and energy-related fields.

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Major Products

Electronics Gases

Our high-purity special material gases are used for deposition, etching, and other processes for semiconductor devices like semiconductor memories and logic ICs. Our electronics gases have undergone the ultimate in refinement and impurity reduction processes and enjoy exceptional popularity worldwide thanks to their superior quality.

Industrial Chemicals

We produce various types of sulfur-based industrial chemicals. Sulfolane serves as a cleaning solvent for resists used in the semiconductor fabrication process and as a solvent for refining and extracting various aromatic compounds. Thiophenol and thionyl chloride are used as materials for producing pharmaceuticals, agricultural chemicals, and numerous other compounds.

Specialty Gases

Standard gases serve as analytical standards for monitoring various types of environmental pollution and are pivotal in almost every industry that uses gases. Our standard gases are used in a wide variety of applications, from R&D to production, in fields aimed at controlling air pollution, factory smoke emissions, automobile exhaust, and more. They deliver a high level of reliability and consistently stable concentrations.

PSA Equipment

PSA gas generators utilize differences in adsorption properties among various gases to separate target gases through an alternating cycle of pressurization and decompression. We are capable of refining many types of gases using PSA gas generators. Separated gases are then applied to a wide variety of products, from food and beverages (e.g. CO2 for beer) to industrial products such as fuel cells (hydrogen).

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The content included is based on the company's assessments at the time of preparing these materials and is not a guarantee of the implementation of the measures and targets described.
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