

Consolidated Financial Report for the Third Quarter ended December 31, 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

Nine months ended December 31

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	243,878	(1.7)	18,305	14.6	12,460	(7.3)	25	(99.6)
2019	248,018	(0.8)	15,968	4.1	13,439	6.1	5,881	—

(Note) Comprehensive profit: Third Quarter ended December 31, 2020: ¥ 832 million (80.2) %,

Third Quarter ended December 31, 2019: ¥ 4,200 million -%

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2020	0.28	—
2019	66.23	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2020	481,481	179,997	36.8	1,993.00
March 31, 2020	488,874	182,636	36.4	2,003.01

(Reference) Total shareholders' equity: December 31, 2020: ¥ 177,077 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	335,000	(1.4)	23,000	0.9	16,000	(11.3)

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal Year	0	(100.0)	0

(Note) Revision of earnings forecast for this period: Yes

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):

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

December 31, 2020: 199,161 shares	March 31, 2020: 237,610 shares
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 - 3) Average number of shares outstanding for each period (cumulative term):

Nine months ended December 31 2020: 88,830,532 shares	
	2019: 88,789,605 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.

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Results

As for the business environment surrounding the Toyobo Group (hereinafter the “Group”) in the nine months ended December 31, 2020, despite the economic activities recovering in China due to the progress in suppression of the novel coronavirus disease (COVID-19), the slowdown of the economy is intensifying due to infection spreading again in the United States and Europe. Despite temporary improvement of business confidence in Japan, it is slowing down due to infection spreading again. While anticipation for the vaccine is increasing, the outlook for the Japanese and global economies continues to be uncertain as there are concerns over the impact of infection spreading again.

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,” sales of engineering plastics and airbag fabrics recovered due to the recovery of automobile production globally, but were unable to compensate for the impact of reduced automobile production through the six months ended September 30, 2020. In “Lifestyle and Environmental,” high-performance fibers and textiles were sluggish due to the decline in demand. In “Life Science,” the contract manufacturing business of pharmaceuticals faced challenges, but sales of PCR testing-related raw materials and reagents achieved significant growth due to the spread of COVID-19.

Impairment loss of ¥7.8 billion was recorded on business assets for the acrylic fiber business in the nine months ended December 31, 2020.

As a result, consolidated net sales in the nine months ended December 31, 2020 decreased ¥4.1 billion (1.7%) over the same period of the previous fiscal year, to ¥243.9 billion. Operating profit increased ¥2.3 billion (14.6%), to ¥18.3 billion, ordinary profit decreased ¥1.0 billion (7.3%) to ¥12.5 billion, and profit attributable to owners of parent decreased ¥5.9 billion (99.6%), to ¥0.0 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 nine months ended December 31, 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 nine months ended December 31, 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, the packaging film business experienced a decline in sales of films for professional use, etc. caused by the spread of infection of COVID-19, but on the other hand, demand from people staying at home increased. Furthermore, despite a decrease in sales of some products due to the fire accident, environmentally friendly films achieved growth in sales due to rising eco-consciousness of the world. In the industrial film business, sales of polarizer protective films for LCDs "COSMOSHINE SRF" grew steadily, driven by strong demand, and sales of mold releasing film for MLCC "COSMOPEEL" achieved growth due to the recovery of automotive applications.

In the functional materials business, industrial adhesives "Vylon" and adhesion promoter for polyolefin "HARDLEN" saw signs of a recovery trend, mainly for electronic materials applications, but this was unable to compensate for the impact of the spread of COVID-19 through the six months ended September 30, 2020. On the other hand, in the photo functional materials business, which handles water-wash photo-sensitive printing plates, sales of products for China were strong.

As a result, sales in this segment increased ¥22.6 billion (25.0%) from the same period of the previous fiscal year to ¥113.0 billion, and operating profit increased ¥3.7 billion (34.9%) to ¥14.3 billion.

Mobility

In this segment, despite sales recovering due to the recovery of global automobile production, sales and operating profit decreased from the same period of the previous fiscal year as this recovery was unable to compensate for the effect of reducing production of vehicles caused by the spread of infection of COVID-19 through the six months ended September 30, 2020.

Despite recovery in sales of engineering plastics primarily in Japan and China, this recovery was unable to compensate for decreases through the six months ended September 30, 2020. The airbag fabrics business continued to face challenges due to production adjustments, etc., despite sales recovering primarily in North America.

As a result, sales in this segment decreased ¥7.5 billion (22.8%) from the same period of the previous fiscal year to ¥25.5 billion, with an operating loss of ¥1.7 billion. (Compared with operating loss of ¥0.6 billion for the same period of the previous fiscal year.)

Lifestyle and Environmental

In this segment, sales and operating profit decreased from the same period of the previous fiscal year as a result of high-performance fibers and textiles being sluggish caused by decline of demand due to the influence of COVID-19.

In the environmental solutions business, sales of volatile organic compound (VOC) emissions treatment equipment for recovering solvents were steady due to elements for overseas being on a recovery trend. On the other hand, although the timing of orders of replacement elements for Reverse Osmosis (RO) membrane for seawater desalination shifted to the latter half of the fiscal year ending March 31, 2021, this was unable to compensate for the decrease in sales through the six months ended September 30, 2020.

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

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

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

The acrylic fiber business struggled as the deterioration of the market environment continued in China and Europe.

As a result, sales in this segment decreased ¥18.3 billion (19.1%) from the same period of the previous fiscal year to ¥77.3 billion, and operating profit decreased ¥0.9 billion (22.4%) to ¥3.0 billion.

Life Science

In this segment, sales and operating profit increased from the same period of the previous fiscal year as demand for reagents for PCR testing increased due to the spread of COVID-19, despite the pharmaceutical business facing challenges.

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

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

In the medical materials business, sales of membranes for hemodialysis and hemodiafiltration in the medical membrane business were strong.

As a result, sales in this segment increased ¥0.3 billion (1.6%) from the same period of the previous fiscal year to ¥19.2 billion, and operating profit increased ¥0.4 billion (16.6%) to ¥3.2 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 ¥1.2 billion (12.1%) over the same period of the previous fiscal year to ¥8.8 billion, and operating profit decreased ¥0.1 billion (4.5%) to ¥1.6 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥7.4 billion (1.5%) from the end of the previous fiscal year, to ¥481.5 billion. This was due mainly to financing through borrowings from financial institutions in order to increase liquidity on hand, taking into account the impact of the spread of COVID-19, a decrease in notes and accounts receivable - trade, despite an increase in cash and deposits, and a decrease in property, plant and equipment resulting from impairment losses.

Total liabilities decreased ¥4.8 billion (1.6%) from the end of the previous fiscal year to ¥301.5 billion. This was mainly because of a decrease in notes and accounts payable - trade.

Total net assets decreased ¥2.6 billion (1.4%) to ¥180.0 billion. This was due mainly to a decrease in non-controlling interests resulting from impairment loss.

(3) Qualitative Information on Consolidated Forecasts

The Company has revised its consolidated forecasts for the fiscal year ending March 31, 2021 from the forecast announced on August 6, 2020 in light of the recording of impairment loss on business assets for the acrylic fiber business, the recent trend of business performance and other factors.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2020) (Condensed)	Current Third Quarter (As of December 31, 2020)
Assets		
Current assets		
Cash and deposits	25,247	29,582
Notes and accounts receivable - trade	85,345	78,289
Electronically recorded monetary claims - operating	8,208	8,441
Merchandise and finished goods	49,150	49,743
Work in process	12,750	11,970
Raw materials and supplies	18,728	17,060
Other	7,141	6,843
Allowance for doubtful accounts	(154)	(153)
Total current assets	206,416	201,774
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	52,746	53,982
Machinery, equipment and vehicles, net	43,343	56,493
Land	97,055	93,467
Other, net	38,334	21,749
Total property, plant and equipment	231,478	225,692
Intangible assets	4,641	4,521
Investments and other assets		
Other	47,096	50,327
Allowance for doubtful accounts	(757)	(833)
Total investments and other assets	46,339	49,493
Total non-current assets	282,458	279,706
Total assets	488,874	481,481

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2020) (Condensed)	Current Third Quarter (As of December 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	41,659	35,488
Electronically recorded obligations - operating	8,357	5,634
Short-term borrowings	32,027	41,271
Current portion of bonds payable	—	10,000
Current portion of long-term borrowings	8,510	9,631
Provisions	4,664	2,413
Other	27,106	20,434
Total current liabilities	122,321	124,871
Non-current liabilities		
Bonds payable	55,000	45,000
Long-term borrowings	75,851	79,119
Provision for retirement benefits for directors (and other officers)	247	232
Provision for environmental measures	331	100
Retirement benefit liability	21,613	21,789
Other	30,875	30,373
Total non-current liabilities	183,916	176,613
Total liabilities	306,238	301,484
Net assets		
Shareholders' equity		
Share capital	51,730	51,730
Capital surplus	32,200	32,202
Retained earnings	61,929	60,176
Treasury shares	(350)	(293)
Total shareholders' equity	145,509	143,815
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,013	6,069
Deferred gains or losses on hedges	(8)	(19)
Revaluation reserve for land	44,457	42,707
Foreign currency translation adjustment	(11,954)	(11,950)
Remeasurements of defined benefit plans	(4,128)	(3,545)
Total accumulated other comprehensive income	32,381	33,262
Non-controlling interests	4,746	2,919
Total net assets	182,636	179,997
Total liabilities and net assets	488,874	481,481

(2) Consolidated Statements of Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2019 To December 31, 2019)	Current Third Quarter (From April 1, 2020 To December 31, 2020)
Net sales	248,018	243,878
Cost of sales	186,632	178,795
Gross profit	61,385	65,083
Selling, general and administrative expenses	45,417	46,778
Operating profit	15,968	18,305
Non-operating income		
Dividend income	580	484
Other	2,107	918
Total non-operating income	2,687	1,402
Non-operating expenses		
Interest expenses	1,025	1,005
Loss on suspension of production	704	1,567
Other	3,487	4,674
Total non-operating expenses	5,216	7,247
Ordinary profit	13,439	12,460
Extraordinary income		
Gain on sales of investment securities	440	—
Gain on extinguishment of tie-in shares	—	387
Other	15	73
Total extraordinary income	455	460
Extraordinary losses		
Loss on disposal of non-current assets	2,338	2,207
Impairment loss	—	7,817
Loss due to fire	3,040	1,749
Other	37	1,377
Total extraordinary losses	5,415	13,150
Profit (loss) before income taxes	8,479	(230)
Income taxes	2,891	1,539
Profit (loss)	5,588	(1,769)
Loss attributable to non-controlling interests	(292)	(1,795)
Profit attributable to owners of parent	5,881	25

**(3) Consolidated Statements of
Comprehensive Income**

(Millions of yen)

	Previous Third Quarter (From April 1, 2019 To December 31, 2019)	Current Third Quarter (From April 1, 2020 To December 31, 2020)
Profit (loss)	5,588	(1,769)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,179)	2,048
Deferred gains or losses on hedges	48	(11)
Foreign currency translation adjustment	(291)	112
Remeasurements of defined benefit plans, net of tax	235	582
Share of other comprehensive income of entities accounted for using equity method	(201)	(130)
Total other comprehensive income	(1,388)	2,601
Comprehensive income	4,200	832
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,499	2,656
Comprehensive income attributable to non-controlling interests	(298)	(1,825)

(4) Note to Going Concern

Not applicable

(5) Notes on Significant Changes in Shareholders' Equity

Not applicable

(6) Additional Information**1. Effects of COVID-19**

With regard to the effects of COVID-19, a state of emergency has been declared in Japan, and it is still difficult to foresee the end of COVID-19. Accordingly, it is difficult to reasonably forecast the impact on the Group's business performance. However, 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, although it will take about another year for demand to recover for certain products, such as textiles.

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.

2. Merger with TOYOBO FILM SOLUTIONS LIMITED

The Company has resolved to implement an absorption-type merger, effective April 1, 2021, with its consolidated subsidiary, TOYOBO FILM SOLUTIONS LIMITED (hereinafter, "TFS"), at the meeting of the Board of Directors held on December 25, 2020, and entered into a merger agreement on the same date. Pursuant to Article 796, paragraph 2 (as for the Company) and Article 784, paragraph 1 (as for TFS) of the Companies Act, the merger will be conducted without the general meeting of shareholders of each company on their respective approval for the merger agreement.

The outline of the merger is as follows.

Outline of the transaction

(1) Name and content of business of the company involved in the merger

Name of the company involved in the merger: TOYOBO FILM SOLUTIONS LIMITED

Content of business: Manufacturing and sale of films

(2) Date of the business combination

April 1, 2021

(3) Legal form of the business combination

The merger will be conducted as an absorption-type merger, with the Company as the surviving company and TFS as the disappearing company, and TFS will be dissolved upon the merger.

(4) Name of the company after the business combination

TOYOBO CO., LTD.

(5) Other items related to the outline of the transaction

(i) Purpose of the merger

The Company decided to implement an absorption-type merger with TFS with the aim of establishing a structure to seamlessly and efficiently provide high-performance film products to customers by combining the distinctive technologies and product lineups of TFS and the Company.

(ii) Allotment regarding the merger

There shall be no issuance of new shares or allotment of any other consideration with respect to the merger.

(iii) Financial position and operating results of the company involved in the merger for immediately preceding fiscal year (Fiscal year ended December 31, 2019)

Assets ¥16,723 million

Liabilities ¥8,486 million

Net assets ¥8,237 million

Operating income ¥37 million

Loss ¥629 million

Outline of the accounting method to be applied

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the merger will be accounted for as a transaction under common control.

(7) Segment Information

(I) Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

(Millions of yen)

	Segment to Be Reported						Other Business- ses (Note 1)	Total	Adjust- ment (Note 2)	Consolidated Statements of Profit (Note 3)
	Films and Functional Materials	Mobility	Lifestyle and Environ- mental	Life Science	Real Estate	Total				
Net sales										
(1) Outside customers	90,431	33,043	95,562	18,932	3,335	241,302	6,715	248,018	—	248,018
(2) Inter-segment sales and transfers	61	7	318	27	286	699	13,892	14,591	(14,591)	—
Total	90,491	33,050	95,880	18,959	3,621	242,001	20,607	262,608	(14,591)	248,018
Operating profit (loss)	10,626	(597)	3,877	2,714	1,122	17,742	597	18,338	(2,371)	15,968

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

2. Segment profit or loss adjustment of (¥2,371) million includes eliminations of intersegment transactions of (¥119) million and companywide expenses that are not allocated across reporting segments of (¥2,252) 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) Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

(Millions of yen)

	Segment to Be Reported						Other Business- ses (Note 4)	Total	Adjust- ment (Note 5)	Consolidated Statements of Profit (Note 6)
	Films and Functional Materials	Mobility	Lifestyle and Environ- mental	Life Science	Real Estate	Total				
Net sales										
(1) Outside customers	113,020	25,518	77,273	19,237	3,000	238,047	5,831	243,878	—	243,878
(2) Inter-segment sales and transfers	91	21	252	32	337	732	9,226	9,958	(9,958)	—
Total	113,111	25,539	77,524	19,269	3,337	238,780	15,057	253,837	(9,958)	243,878
Operating profit (loss)	14,337	(1,658)	3,009	3,163	1,221	20,072	419	20,491	(2,187)	18,305

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 (¥2,187) million includes eliminations of intersegment transactions of ¥140 million and companywide expenses that are not allocated across reporting segments of (¥2,326) million.

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

6. Segment profit 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 third quarter of the previous fiscal year was restated in accordance with the method of

classification after the aforesaid change.

(IV) Information regarding impairment loss on non-current assets or goodwill by segment to be reported

(Significant impairment loss on non-current assets)

Impairment loss on non-current assets was recorded in the Lifestyle and Environmental Solutions segment.

Impairment loss amounted to ¥7,817 million in the nine months ended December 31, 2020.