Transcript of FY2020 First Half Consolidated Financial Results Presentation and Q&A

Kaoru Ino:

Thank you all for taking time out of your busy schedules to be here today. My name is Kaoru Ino and I am the president and CEO of DIC. This is our second remote results briefing. We are working to ensure that these events are as effective as in-person briefings, but it remains a work in progress. I hope you will all find today's proceedings both interesting and informative.

As we do every year, I would like to start by giving a brief overview of our performance in the first half of fiscal year 2020. Our CFO, Shuji Furuta, will then provide a more in-depth explanation.

To begin with, we have revised our full-term consolidated results forecasts for fiscal year 2020 downward. We now expect net sales of ¥700.0 billion, operating income of ¥35.0 billion and net income of ¥15.0 billion.

In the first half of fiscal year 2020, all three of our operating segments reported declines in net sales. However, only the Color & Display segment also saw operating income fall, owing primarily to the impact of slack demand in the area of pigments for cosmetics.

The principal factor impacting Color & Display segment results was shrinking demand for high-value-added pigments for cosmetics, a highly profitable product area, and for publication inks, a consequence of lifestyle changes. Until now, pigments have been a core profit driver, so the drop in demand this time is truly disappointing.

In contrast, both the Packaging & Graphic and Functional Products segments reported increases in operating income, bolstered by, respectively, robust demand for products for packaging applications and consistently healthy sales of epoxy resins for use in 5G and other telecommunications base stations and in semiconductor devices.

Profitability benefited from lower raw materials prices and reduced activity expenses, which helped push up the operating margin, despite the depreciation of emerging economy currencies.

The key to our performance in the full term will be the degree to which we can expect the markets for materials for cosmetics and automotive applications to recover. At this moment, we anticipate a full-scale recovery in demand in those markets to begin in fiscal year 2021.

Regarding the positive impact of lower raw materials prices from a macro perspective, we would normally have expected ¥10 billion–plus for the year. Unfortunately, assuming a 10% top-line decline we currently anticipate a decrease in marginal profit—resulting in the deterioration of profitability—in excess of ¥20 billion. Accordingly, believing that we must thus expect a gap of approximately ¥10 billion, as previously stated we have revised our operating income forecast down to ¥35.0 billion, from our initial forecast of ¥45.0 billion.

That said, newspapers have recently reported indications of a recovery in the manufacturing sector. There have also been reports of signs that the markets for materials for cosmetics and automotive applications will start to pick up in the second half, beginning in the PRC. As a result, we currently feel that there is less of a need to be pessimistic as there was in the first half.

In our first quarter results briefing, I spoke about the degree to which we could expect to improve profitability and counter the top-line decline. If the top-line was to recover, I think we would be able to expect a boost from the positive impact of lower raw materials prices—which we should be enjoying now—and that this will bolster marginal profit.

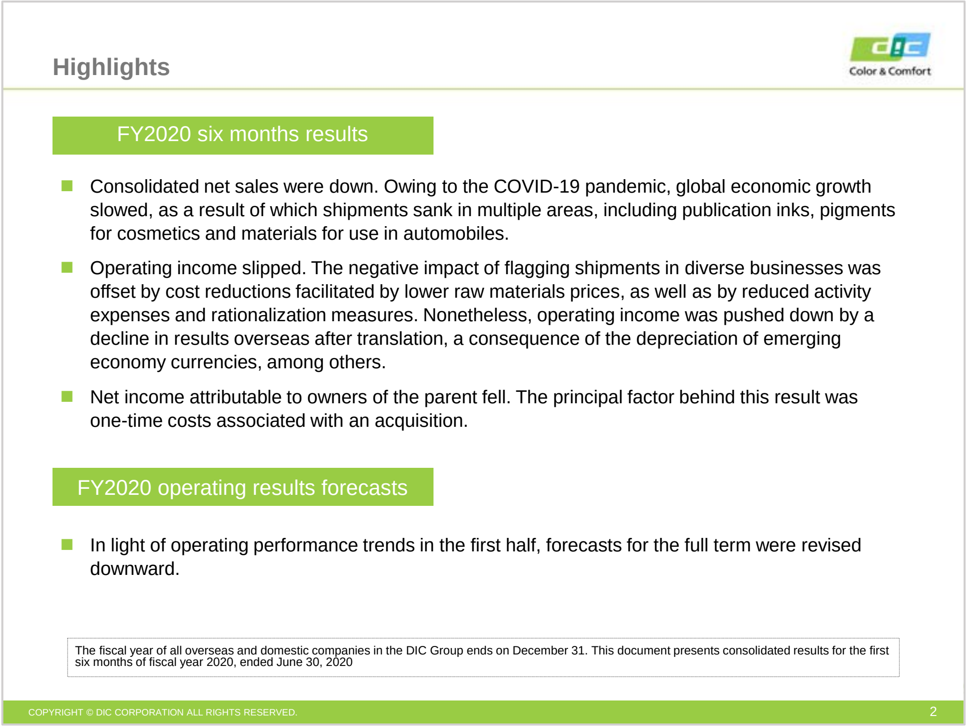
Our revised forecast for net income attributable to owners of the parent in fiscal year 2020 is ¥15 billion. This reflects a deterioration in total non-operating income, a consequence of flagging equity in earnings of affiliates, as well as the impact of one-time expenses associated with the acquisition of BASF SE’s Colors & Effects business on extraordinary loss.

The aforementioned acquisition-related expenses represent a one-time advance outlay incurred in anticipation of future income from and synergies with the business acquired from BASF. With regard to cash flow, our net debt-to-capital (D/C) ratio* looks likely to improve to 40% or even lower. Owing to this, despite the downward revision of our operating results forecasts, we currently plan to declare dividends of ¥100.00 per share in fiscal year 2020, the same as in fiscal year 2019.

* (Interest-bearing debt cash - cash equivalents / (Interest-bearing debt - Cash and cash equivalents) + Net assets)

We have thus resolved to allow a dividend payout ratio of over 50%, notwithstanding a decline in operating income, thanks to a pause major investments. Moreover, with the acquisition of BASF’s Colors & Effects business also anticipate a pause in strategic investments aimed at accelerating growth. Accordingly, our focus is on actively enhancing returns to shareholders.

Thank you for your attention. I will now turn the microphone over to Mr. Furuta.



Shuji Furuta:

Thank you. I would now like to provide a few more details on our performance in the first half. As Mr. Ino outlined, and as you are all aware, our results in the first quarter were buoyed by robust results for packaging materials. Accordingly, despite the impact of COVID-19 in certain areas, we succeeded in maintaining income in line with projections.

Nonetheless, in the second quarter, particularly from May, we saw net sales plunge, notably of materials for automotive applications. Sales of a wide range of products, including materials for housing construction and office automation (OA) equipment, also fell. In the area of packaging materials, which had benefited from special procurement demand in March and April, returned to a normal level.

Operating income was essentially flat, thanks to persistently low raw materials prices, as well as to reduced activity expenses, which offset curtailed sales. Net income attributable to owners of the parent declined. While the principal factor behind this was one-time expenses incurred as the result of an acquisition, as Mr. Ino explained, performance trends in the first half prompted us to revise our forecasts for the full term downward.

Summary of financial results

(Billion yen)		2019 6 Mon hs	2020 6 Months	% Change	% Change on a local currency basis
Net sales		385.0	**343.7**	-10.7%	-7.7%
Operating income		18.4	**17.8**	-3 0%	+3.2%
Operating margin		4 8%	**5.2%**	–	–
Ordinary income		19.0	**15.6**	-18.1%	–
Net income*		13.1	**10.3**	-21 3%	–
EPS (Yen)		138.73	**109.18**	–	–
EBITDA**		33.7	**30.7**	-9 0%	–
Average rate	USD/YEN	109 83	**108.03**	-1.6%	
	EUR/YEN	124 05	**118.99**	-4.1%	

* Net income attributable to owners of the parent
** EBITDA: Net income attributable to owners of the parent + Total income taxes + (Interest expenses – Interest income) + Depreciation and amortization

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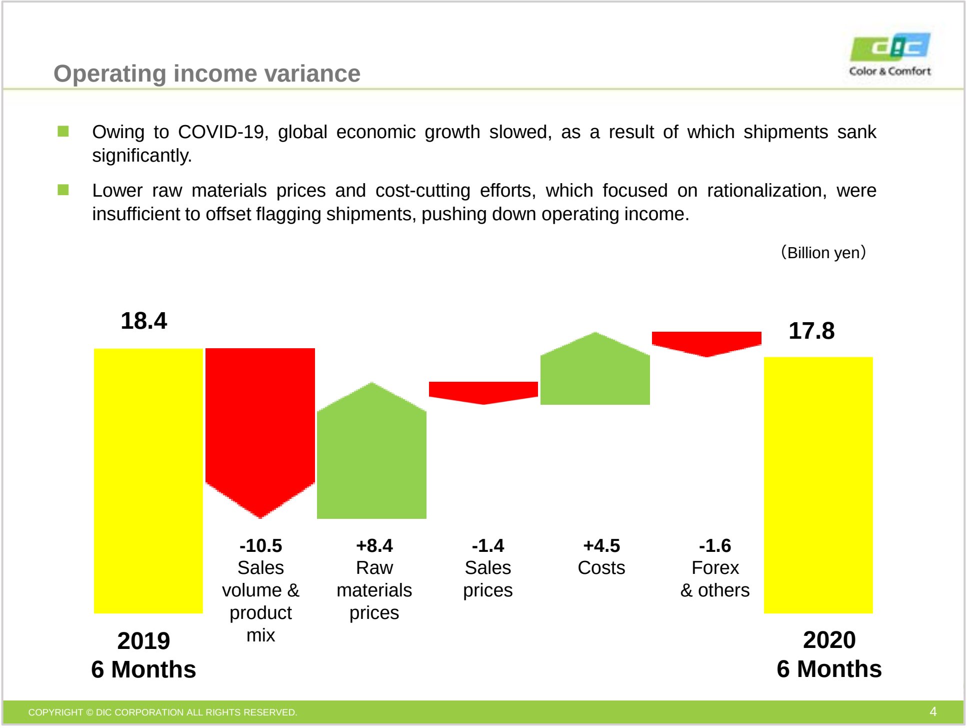
Let's begin with a quick overview of the first half. Consolidated net sales totaled ¥343.7 billion, comprising ¥181.7 billion in the first quarter and ¥162.1 billion in the second quarter. Net sales were thus more than 10% lower in the second quarter than in the first quarter. First-half net sales decreased 10.7% from the first half of fiscal year 2019, precipitated by the depreciation of emerging economy currencies. On a local currency basis, net sales were down 7.7% from the first half of the previous fiscal year.

Operating income was just shy of ¥10.0 billion in the first quarter and was ¥7.9 billion in second quarter, for a first-half result of ¥17.8 billion, a dip of 3.0%—in other words, largely level with the fiscal 2019 first half. This result also reflected the depreciation of emerging economy currencies. On a local currency basis, operating income in the first half was up slightly, rising 3.2%. For more information on these results, let's take a look at page 4 of the presentation materials.



As you can see from the bridge chart, sales volume had a considerable negative impact on operating income. This was offset to a certain extent, but not fully, by lower raw materials prices and cost reductions.

The negative impact of dwindling sales volume ballooned from ¥2.2 billion in the first quarter to ¥8.3 billion in the second quarter. The positive impact of lower raw materials prices was also greater in the second quarter, rising by close to ¥5.0 billion from ¥3.5 billion in the first quarter.

Costs plunged in the second quarter, owing mainly to a contraction in activity expenses because operating activities were more or less impossible in the second quarter, that is, from March forward. We also took advantage of subsidies offered in various countries for companies temporarily suspending operations, as well as social insurance payment exemptions, particularly in the second quarter.

Summary of financial results

Color & Comfort

(Billion yen)		2019 6 Mon hs	2020 6 Months	% Change	% Change on a local currency basis
Net sales		385.0	**343.7**	-10.7%	-7.7%
Operating income		18.4	**17.8**	-3 0%	+3.2%
Operating margin		4 8%	**5.2%**	–	–
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Let’s turn back to page 3 for a moment. Ordinary income in the first half of fiscal year 2020 fell to ¥15.6 billion, from ¥19.0 billion in the first half of fiscal year 2019, a significantly sharper drop than was seen in operating income. Part of this was a consequence of the equity in losses of affiliates in the area of ¥300 million. Particularly notable was equity in losses of Renaissance, Inc., which as an operator of sports clubs was forced to close its doors temporarily due to COVID-19. The estimated impact of this was around ¥900 million.

Another contributing factor was the absence of equity in earnings of affiliates, which includes non-operating income of around ¥500 million reported in fiscal year 2019 as a result of the sale of a resins company in the Republic of Korea (ROK). The combined negative impact of this absence and equity in losses of affiliates was ¥1.4 billion. These and various other factors resulted in ordinary income of ¥15.6 billion.

Net income attributable to owners of the parent amounted to ¥10.3 billion.

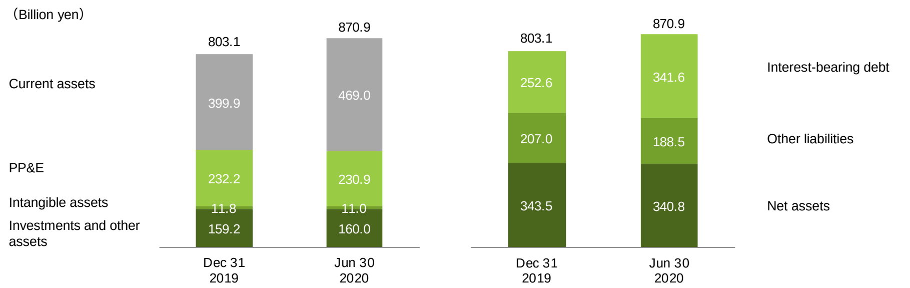
Total extraordinary income and total extraordinary loss were largely the same, at ¥3.1 billion and ¥3.2 billion, respectively. Total extraordinary income comprised a gain on sales of non-current assets, namely, land overseas, of ¥1.7 billion and a gain on bargain purchase of ¥1.3 billion. The latter was due to the acquisition by Sun Chemical of a company involved in the manufacture of jet inks used in digital printing on textiles from Sensient Technologies Corporation, which resulted in the recognition of temporary negative goodwill.

Total extraordinary loss reflected loss on the scheduled disposal of non-current assets, as well as costs related to the acquisition of BASF’s Colors & Effects business of close to ¥2.0 billion, which consisted mainly of fees paid to lawyers related to regulatory clearance, among others. These factors led to net income attributable to owners of the parent of ¥10.3 billion. Exchange rates used to translate the results of overseas Group companies were ¥108.03/$1.00 and ¥118.99/€1.00.

In August 2020, the aforementioned Renaissance will dispose of treasury shares through a third-party allotment. As a consequence, our stake in the company will fall below 20%. Because the company will no longer be accounted for using the equity method, as of the second half of the current fiscal year it will no longer impact our equity in earnings and losses of affiliates results.

Financial health

Balance sheet



Financial health

(Billion yen)	Dec 31 2019	Jun 30 2020	Change
Interest-bearing debt	252.6	341.6	88.9
Net interest-bearing debt	235.8	231.4	-4.4
Net assets	343.5	340.8	-2.7
D/C ratio *	42.4%	50.1%	
Equity ratio	38.9%	35.5%	
BPS (Yen)	3,304.34	3,269.92	
Closing rate (USD/YEN)	108.71	107.74	

Up as a result of an increase in cash on hand

* D/C ratio: Interest-bearing debt / (Interest-bearing debt + Net assets)

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Let's take a quick look at our financial position. As I explained during our first quarter results briefing, we have increased our cash holdings to approximately ¥110 billion to increase short-term liquidity and ensure our ability to ride out the COVID-19 crisis. While on the surface it may appear at this point that interest-bearing debt has risen, net interest-bearing debt at the end of the first half was ¥231.4 billion, down ¥4.4 billion from the end of fiscal year 2019, while our net D/C ratio, at 40.4%, was more or less level with the previous fiscal year-end.

Segment results

Color & Comfort

Bi lion yen)	Net sales					Operating income					Operating margin	
	2019 6 Months	**2020 6 Months**	Change	% Change	% Change on a ocal currency bas s	2019 6 Months	**2020 6 Months**	Change	% Change	% Change on a loca currency basis	2019 6 Months	**2020 6 Months**
Packaging & Graphic	208.7	**190.1**	-18.6	-8.9%	-4 6%	8.0	**8.7**	0.7	+ 9.4%	+ 20.3%	3.8%	**4.6%**
Japan	57.2	**51.1**	-6.1	-10.7%	-10.7%	3.0	**2.5**	-0.5	-17 6%	-17.6%	5.2%	**4.8%**
The Amer cas and Europe	123.5	**115.9**	-7.6	-6.2%	+ 0.1%	3.3	**4.6**	1.3	+ 39.1%	+ 62.8%	2.7%	**3.9%**
Asia and Oceania	33.6	**28.9**	-4.7	-14.0%	-9 8%	1.7	**1.9**	0.2	+ 13 3%	+ 16.8%	5.0%	**6.6%**
E imina ions	(5.7)	**(5.8)**	-0.1	-	-	0.0	**(0.2)**	-0.2	-	-	-	
Color & Display	61.1	**54.5**	-6.6	-10.8%	-8.1%	6.0	**4.6**	-1.4	-23 8%	-21.2%	9.8%	**8.4%**
Japan	15.6	**13.5**	-2.1	-13.3%	-13 3%	2.6	**2.7**	0.1	+ 4 5%	+ 4.5%	16.9%	**20.3%**
Overseas	51.0	**44.9**	-6.2	-12.1%	-8.7%	3.4	**1.9**	-1.5	-44 0%	-39.6%	6.6%	**4.2%**
E imina ions	(5.5)	**(3.8)**	1.6	-	-	0.0	**(0.0)**	-0.1	-	-	-	
Functional Products	132.1	**114.5**	-17.6	-13.3%	-12.4%	7.9	**8.1**	0.2	+ 2 6%	+ 3.7%	6.0%	**7.1%**
Japan	98.1	**88.0**	-10.1	-10.3%	-10 3%	4.7	**5.0**	0.4	+ 8 3%	+ 8.3%	4.7%	**5.7%**
Overseas	45.4	**36.8**	-8.7	-19.1%	-16 5%	3.2	**3.1**	-0.0	-1.1%	+ 1.6%	7.0%	**8.5%**
E imina ions	(11.5)	**(10.3)**	1.2	-	-	0.1	**(0.1)**	-0.1	-	-	-	
Others, Corporate and e iminat ons	(16.9)	**(15.4)**	1.5	-	-	(3.5)	**(3.6)**	-0.1	-	-	-	
Total	385.0	**343.7**	-41.3	-10.7%	-7.7%	18.4	**17.8**	-0.6	-3 0%	+ 3.2%	4.8%	**5.2%**
USD/YEN	109.83	**108.03**		-1.6%		109.83	**108.03**		-1 6%			
EUR/YEN	124.05	**118.99**		-4.1%		124.05	**118.99**		-4.1%			

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I will now turn to our segment results. You can see the actual results here, but I think we can grade the Packaging & Graphic segment as “good,” the Color & Display segment as “poor” and the Functional Products segment as “fair.” Let’s look at each segment individually.

Packaging & Graphic

Color & Comfort

Net sales

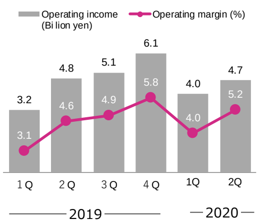
- Segment sales were level in Europe and the Americas on a local currency basis, as shipments of packaging inks remained firm. In Japan, where the weighting of publication inks is high, segment sales decreased as shipments fell sharply in response to the declaration of a state of emergency, which discouraged demand for print advertisements and leaflets.
- Owing to the depreciation of the euro and emergency economy currencies, segment net sales declined on a yen basis.

Operating income

- Segment operating income rose substantially on a local currency basis. This was attributable to rationalization measures and lower raw materials prices.
- In Japan, shipments of high-value-added jet inks languished, pushing the operating margin down.

(Bi lion yen)	Net sales					Operating income					Opera ing margin	
	2019 6 Months	2020 6 Months	Change	% Change	% Change on a ocal currency basis	2019 6 Months	2020 6 Months	Change	% Change	% Change on a local currency bas s	2019 6 Months	2020 6 Months
Packaging & Graphic	208.7	190.1	-18.6	-8.9%	-4.6%	8.0	8.7	0.7	+ 9.4%	+ 20.3%	3.8%	4.6%
Japan	57.2	51.1	-6.1	-10.7%	-10.7%	3.0	2.5	-0.5	-17.6%	-17 6%	5.2%	4.8%
The Americas and Europe	123.5	115.9	-7.6	-6.2%	+ 0.1%	3.3	4.6	1.3	+ 39.1%	+ 62 8%	2.7%	3.9%
Asia and Oceania	33.6	28.9	-4.7	-14.0%	-9.8%	1.7	1.9	0.2	+ 13.3%	+ 16 8%	5.0%	6.6%
E iminations	(5.7)	(5.8)	-0.1	-	-	0.0	(0.2)	-0.2	-	-	-	

Operating income/margin



Sales of principal products

(B llion yen)	% Change	
Packaging inks*	+ 0%	Demand driven by stay-at-home measures peaked, but sales in Europe and the Americas remained comparatively firm.
Publication inks*	-22%	Sales declined as the spread of COVID-19 d scouraged demand for advertisements and eaflets and prompted newspapers to reduce print runs and page counts.
Jet inks	-14%	Sales were down, as the expanded use of teleworking arrangements depressed demand for office use.
Polystyrene	-14%	Sales declined, owing to falling sales pr ces.
Multilayer films	+ 3%	Sales rose despite demand driven by stay-at-home measures having run its course in Japan, owing to an increase in the adoption of DIC Group products.

*Change on a local currency bas s

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In the Packaging & Graphic segment, sales of publication inks were hindered by the spread of COVID-19, as events were cancelled, print advertising lost ground and newspaper print runs were slashed. Sales had already been on a downslide, but conditions in the first half accelerated this trend, resulting in a dramatic decrease. In contrast, sales of packaging materials peaked sharply in March and April, bolstered by special procurement demand, and while we have seen a tapering off since then, sales remain robust.

As you can see, regional segment net sales were down across the board. However, if we discount the impact of translation into yen, sales in the Americas and Europe were essentially flat, although declines were still significant in Asia and Oceania and in Japan. The domestic market was particularly hard hit, owing to the high weighting of publication inks, falling demand associated with events during the Golden Week holiday and torpid demand for inks for building applications, which combined to push overall sales down.

As I have just stated, sales in the Americas and Europe were pretty much level with the first half of fiscal year 2019 on a local currency basis, as reduced sales of publication inks were offset by firm sales of packaging inks. Sales overall thus remained largely even, particularly in North and South America.

In Asia, sales have recovered steadily in the PRC since March. In Southeast Asia, several areas continue to feel the impact of the new coronavirus, while in India, the Philippines and several other countries, the impact of lockdowns has intensified.

Segment operating income rose solidly on a local currency basis, with key contributing factors including rationalization measures implemented and sales price increases for some products in North America and elsewhere, as well as lower raw materials prices. Regrettably, only Japan saw a decrease. As previously noted, flagging sales of printing inks combined with a downturn in sales of high-margin jet inks to push down profit margins. Of note, the COVID-19 crisis resulted in an increasing number of people working from home, depressing demand for office use. The impact of this circumstance was particularly significant.

Color & Display

Color & Comfort

Net sales

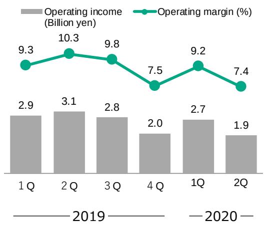
- Owing to the spread of COV D-19, shipments of pigments declined for a broad range of applications, particularly cosmetics.
- Shipments of thin-film transistor liquid crystals (TFT LCs) decreased.

Operating income

- Operations at certain production facilities in Europe and the Americas were suspended to adjust production, making it impossible to absorb fixed and other costs.

Bil ion yen)	Net sales					Operating income					Operating margin	
	2019 6 Months	2020 6 Months	Change	% Change	% Change on a local currency basis	2019 6 Months	2020 6 Months	Change	% Change	% Change on a local currency basis	2019 6 Months	2020 6 Months
Color & Display	61.1	54.5	-6.6	-10 8%	-8.1%	6.0	4 6	-1.4	-23.8%	-21.2%	9.8%	8.4%
Japan	15.6	13.5	-2.1	-13.3%	-13.3%	2.6	2.7	0.1	+ 4.5%	+ 4.5%	16.9%	20.3%
Overseas	51.0	44.9	-6.2	-12.1%	-8.7%	3.4	1 9	-1.5	-44.0%	-39.6%	6.6%	4.2%
Eliminations	(5.5)	(3.8)	1.6	-	-	0.0	(0 0)	-0.1	-	-	-	

Operating income/margin



Sales of principal products

(Bi lion yen)	% Change	
General-purpose pigments	-7%	Sales were down, as special procurement demand of pigments for packaging inks drew to an end and sales of pigments for publication inks fell.
Functional pigments	-18%	Shipments of p gments for cosmet cs declined, owing to the COVID-19 pandemic, pushing down sales.
Liquid crystal (LC) materials	-15%	Shipments of TFT LCs fe l.
Hea th foods	-5%	

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Next is the Color & Display segment. We list pigments for cosmetics as a core component of segment net sales, but as I mentioned earlier shipments of publication inks are on a downtrend, as a result of which sales of pigments for these inks were sluggish, as were pigments for automotive coatings. Sales of pigments for color filters also languished in the first half, owing to weak shipments of televisions.

In terms of pigments for cosmetics, we continued to expand marketing of pigments for use in eyeliner and nail polish, as well as for lip color. However, these efforts so far have met with little success.

Segment operating income plunged as waning sales, particularly in the Americas and Europe, prompted a slowdown at certain production facilities, as a result of which operations were temporarily suspended. Because we were unable to absorb fixed costs, operating income plummeted.

Functional Products

Color & Comfort

Net sales

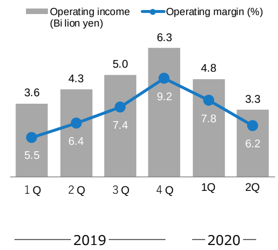
- Shipments of epoxy resins were robust, bolstered by increased demand for use in semiconductor devices for 5G.
- Shipments of a wide range of other products dwindled, hampered by slowing economic conditions amid the spread of COVID-19.

Operating income

- Segment operating income edged up, notwithstanding dwindling shipments. Contributing factors included lower raw materials prices and efforts to reduce costs.

Billion yen)	Net sales					Operating income					Operating margin	
	2019 6 Months	2020 6 Months	Change	% Change	% Change on a local currency basis	2019 6 Months	2020 6 Months	Change	% Change	% Change on a local currency basis	2019 6 Months	2020 6 Months
Functional Products	132.1	114.5	-17.6	-13.3%	-12.4%	7.9	8.1	0.2	+ 2.6%	+ 3.7%	6.0%	7.1%
Japan	98.1	88.0	-10.1	-10.3%	-10.3%	4.7	5.0	0.4	+ 8.3%	+ 8.3%	4.7%	5.7%
Overseas	45.4	36.8	-8.7	-19.1%	-16.5%	3.2	3.1	-0.0	-1.1%	+ 1.6%	7.0%	8.5%
Eliminations	(11.5)	(10.3)	1.2	-	-	0.1	(0.1)	-0.1	-	-	-	

Operating income/margin



Sales of principal products

(Bi lion yen)	% Change	
Environment-friendly resins*	-13%	Shipments of resins for use in automob les and housing construction applications—other than u traviolet (UV)-curable resins—declined.
Epoxy resins	+ 6%	Shipments for use in semiconductor devices were brisk.
Polyphenylene sulfide (PPS) compounds	-16%	Sales decreased, owing to a decrease in automotive production and a negative rebound in the second quarter, following a strong first quarter.
Industrial tapes	+ 0%	Sales were level as demand for use in smartphones ran its course and shipments for use in office automation (OA) equipment languished.
Hollow-fiber membrane modules	+ 9%	Shipments for use in semiconductor fabrication were robust.

* DIC uses the term “Environment-friendly resins” to describe strategic resins designed to improve both environmental performance and functionality. These include waterborne, UV-curable, polyester, acry ic and polyurethane resins.

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I gave the Functional Products segment a grade of “fair” a few moments ago. In the first quarter, however, results were actually fairly good, but as previously noted shipments fell off considerably from beginning of the second quarter, as a result of which the segment struggled, evidenced by the fact that second-quarter segment net sales were ¥8.0 billion lower than in the first quarter.

Before April, many companies—viewing the situation from the perspective of business continuity planning (BCP)—had no plans to halt production, as a result of which many had accumulated substantial inventories. This became an issue in May, particularly in the automobile industry, and led to our shipments being cancelled for an extended period of time. However, shipments began to recover gradually in June, a trend that continued through July, and we thus feel confident saying that shipments bottomed out in May.

Segment operating income edged up, notwithstanding dwindling shipments. Factors behind this included lower raw materials prices and efforts to reduce costs.

Consolidated balance sheet

(Billion yen)	Dec 31 2019	Jun 30 2020	Change
Current assets	399 9	469.0	69.1
Property, plant and equipment	232 2	230.9	-1 2
Intangible assets	11 8	11.0	-0 8
Investments and other assets	159 2	160.0	0 8
Total assets	**803.1**	**870.9**	**67.8**
Current liabilities	210.1	262.9	52 8
Non-current liabilities	249 5	267.2	17.7
Total liabilities	**459.6**	**530.1**	**70.5**
Shareholders' equity	407.4	414.0	6 6
Accumulated other comprehensive income	(94.7)	(104.5)	-9 8
[Foreign currency translation adjustment]	[(72.7)]	[(83.3)]	[-10.6]
Non-controlling interests	30 8	31.3	0 5
Total net assets	**343.5**	**340.8**	**-2.7**
Total liabilities and net assets	**803.1**	**870.9**	**67.8**
Closing rate (USD/YEN)	108.71	107.74	
Shareholders' equity to total assets	38.9%	35.5%	
Interest-bearing debt	252.6	341.6	88.9
Cash and deposits	16.8	110.1	93.3

- Cash on hand was increased.
- As a result, interest-bearing debt also rose.

Consolidated statement of income

(Billion yen)	2019 6 Months	2020 6 Months	Change
Net sales	**385.0**	**343.7**	**-41.3**
Cost of sales	(303.2)	(266.3)	36.9
Selling, general and administrative expenses	(63.4)	(59.7)	3.8
Operating income	**18.4**	**17.8**	**-0.6**
Interest expenses	(0.6)	(0.5)	0.1
Equity in earnings of affiliates	1.1	-	-1.1
Equity in losses of affiliates	-	(0.3)	-0.3
Foreign exchange gains (losses)	(0.4)	(0.5)	-0.2
Other, net	0.5	(0.9)	-1.4
Ordinary income	**19.0**	**15.6**	**-3.4**
Extraordinary income	1.6	3.1	1.5
Extraordinary loss	(2.4)	(3.2)	-0.8
Income before income taxes	18.2	15.4	-2.7
Income taxes	(4.0)	(3.9)	0.1
Net income	14.2	11.5	-2.7
Net income attributable to non-controlling interests	(1.1)	(1.2)	-0.1
Net income attributable to owners of the parent	**13.1**	**10.3**	**-2.8**
Average rate USD/YEN	109.83	108.03	
EUR/YEN	124.05	118.99	

Extraordinary income and loss

	2019 6 Months	2020 6 Months
Extraordinary income		
Gain on sales of non-current assets	-	1.7
Gain on bargain purchase	-	1.3
Gain on sales of subsidiaries and affi iates securities	1.6	-
Extraordinary loss		
Acquisition related expenses	-	(1.9)
Loss on disposal of non-current assets	(0.9)	(1.0)
Severance costs	(0.5)	(0.3)
Provision of allowance for doubtful accounts	(0.6)	-
Amortization of past service costs	(0.4)	-

Acquisition of BASF SE's Colors & Effects business

Consolidated statement of cash flows

(Billion yen)	2019 6 Months	2020 6 Months	Change
Cash flows from operating activities	3.2	23.3	20.0
[Excluding the impact of restraint of A/R securitization]	[16.3]	[23.3]	[7.0]
Cash flows from investing activities	(15.7)	(18.5)	-2.9
Cash flows from financing activities	52.8	83.5	30.8
[Excluding the impact of restraint of A/R securitization]	[39.7]	[83.5]	[43.8]
Cash and cash equivalents at end of the period	57.9	105.8	47.9
Free cash flow	**(12.4)**	**4.7**	**17.2**
[Excluding the impact of restraint of A/R securitization]	[0.6]	[4.7]	[4.1]
Increase (decrease) in working capital	(20.4)	5.7	26.1
[Excluding the impact of restraint of A/R securitization]	[(7.4)]	[5.7]	[13.1]
Capital expenditure and investment	18.4	16.8	-1.6
Depreciation and amortization	15.9	15.9	-0.1

FY2020 forecasts: Full-year operating results

Color & Comfort

DIC has revised its full-year operating results forecasts down.

(Billion yen)		2019	2020 Forecast	% Change	% Change on a local currency basis
Net sales		768 6	**700.0**	-8.9%	-6 3%
Operating income		41 3	**35.0**	-15.3%	-11.1%
Operating margin		5.4%	**5.0%**	–	–
Ordinary income		41 3	**31.5**	-23.7%	–
Net income*		23 5	**15.0**	-36.2%	–
EPS (Yen)		248 29	**158.48**	–	–
EBITDA		67.4	**57.1**	-15.3%	–
Capital expenditure and investment		37 5	**38.0**	+1.4%	
Depreciation and amortization		33.1	**32.5**	-1.9%	
Average rate	USD/YEN	109.11	**108.01**	-1.0%	
	EUR/YEN	122.13	**118.40**	-3.1%	
ROE		7.7%	**4.8%**		
D/C ratio **		42.4%	**44.7%**		
Annual dividends per share (Yen)		100 0	**100.0**		
Payout ratio		40 3%	**63.1%**		

* Net income attributable to owners of the parent
** D/C ratio Interest-bearing debt / (Interest-bearing debt + Net assets)

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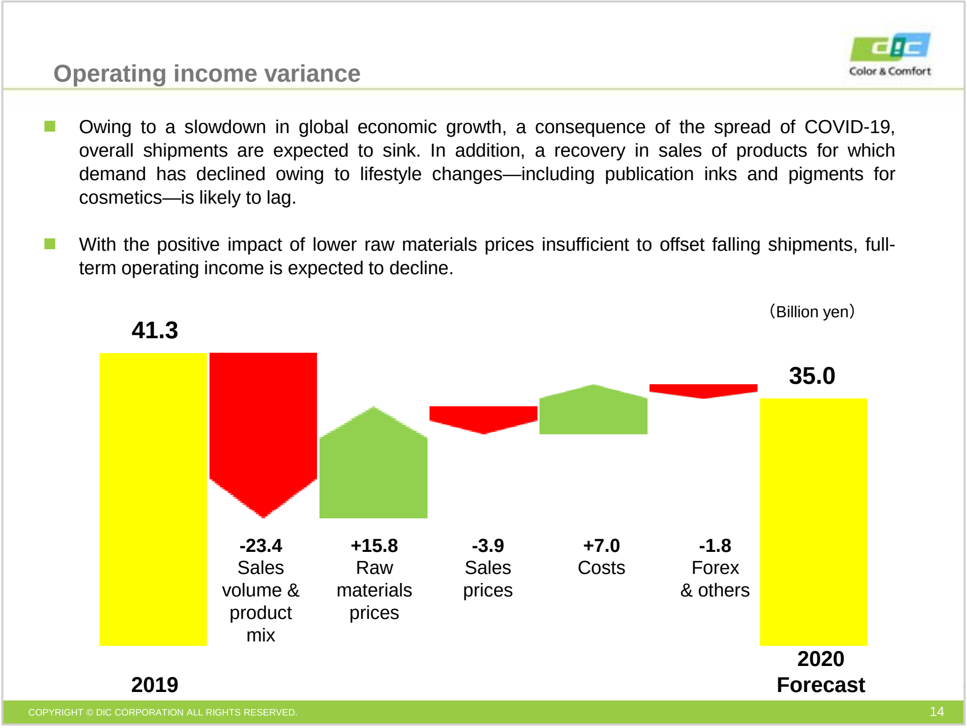
I will skip over the balance sheets and cash flow statement to explain our consolidated results forecasts for the fiscal year 2020 full term. As Mr. Ino explained, we currently forecast net sales of ¥700.0 billion, operating income of ¥35.0 billion, ordinary income of ¥31.5 billion and net income attributable to owners of the parent of ¥15.0 billion. In other words, we expect results in the second half to be essentially the same as in the first half.

As I stated earlier, trends in the third quarter appear to be largely the same as in the second quarter. We thus expect results in the fourth quarter to be up slightly from the third quarter. Groupwide, we foresee a gradual recovery over the final months of the year.

Regarding extraordinary income and loss, the latter is likely to rise slightly. We expect expenses associated with the acquisition of BASF’s Colors & Effects business to be a little higher than in the first half. Outlays related to the planned restructuring of our publication inks business in the Americas and Europe will be concentrated in the second half of fiscal year 2020 and we thus expect to report related expenses.



We have prepared a full-term operating income bridge chart. Once again, declining sales volume will definitely influence full-term results. We expect the impact of this factor to be ¥23.4 billion over the full term, so ¥12.9 billion in the second half, up from ¥10.5 billion in the first half. We anticipate that the impact of raw materials prices in the second half will be essentially the same as in the first half.

Looking at this, it looks as if we expect the positive impact of cost reductions in the second half to be down from the first half, but this is of course a year-on-year full-year comparison. Since June of last year, we have pared outlays through moderate belt-tightening. Accordingly, while the positive impact of lower costs in the second half of the current term year-on-year appears to be less than in the first half , in absolute terms we expect second-half costs to be slightly higher.

FY2020 forecasts: Full-year segment results

(Bill on yen)	Net sales					Operating income					Operating margin	
	2019	2020 Forecast	Change	% Change	% Change on a ocal currency bas s	2019	2020 Forecast	Change	% Change	% Change on a oca currency basis	2019	2020 Forecast
Packaging & Graphic	416.4	390.5	-25 9	-6.2%	-2. %	19.2	17.5	-1.7	-8.9%	-3 5%	.6%	4 5%
Japan	114.7	103.0	-11 6	-10.1%	-10.1%	6.4	4.8	-1.6	-2 . %	-2 . %	5.6%	4 7%
The Amer cas and Europe	244.3	235.9	-8 3	-3. %	2.2%	8.2	8.3	0.0	0. %	10 6%	3. %	3 5%
Asia and Ocean a	68.7	62.9	-5 9	-8.5%	- .9%	4.5	4.4	-0.1	-2.3%	0 8%	6.5%	7 0%
Eliminat ons	(11.3)	(11.3)	-0 0	-	-	0.1	(0.0)	-0.1	-	-	-	
Color & D splay	116.4	109.0	-7.	-6. %	- .7%	10.8	8.9	-1.9	-17.5%	-13 0%	9.3%	8 2%
Japan	29.7	27.8	-1 9	-6.3%	-6.3%	4.8	5.8	0.9	19.2%	19 2%	16.3%	20 7%
Overseas	95.8	90.3	-5 5	-5.8%	-3.6%	6.0	3.1	-2.8	- 7. %	-39.1%	6.2%	3 5%
Eliminat ons	(9.1)	(9.1)	-0 0	-	-	(0.0)	(0.0)	0.0	-	-	-	
Functional Products	268.6	235.5	-33.1	-12.3%	-11.5%	19.2	16.1	-3.2	-16.5%	-15 5%	7.2%	6 8%
Japan	199.3	177.0	-22.	-11.2%	-11.2%	11.6	8.8	-2.8	-2 .5%	-2 5%	5.8%	5 0%
Overseas	91.9	81.3	-10 7	-11.6%	-9.1%	7.5	7.3	-0.1	-2.0%	1.1%	8.1%	9 0%
Eliminat ons	(22.7)	(22.7)	-0 0	-	-	0.2	(0.0)	-0.2	-	-	-	
Others, Co pora e and eliminat ons	(32.8)	(35.0)	-2 2	-	-	(7.9)	(7.4)	0.	-	-	-	
Total	768.6	700.0	-68 6	-8.9%	-6.3%	41.3	35.0	-6.3	-15.3%	-11.1%	5. %	5 0%
YEN/USD	109.11	108.01		-1.0%		109.11	108.01		-1.0%			
YEN/EUR	122.13	118.40		-3.1%		122.13	118.40		-3.1%			

Packaging & Graphics

Shipments of packaging inks are expected to be solid. The significant impact of lifestyle changes is expected to delay a recovery in demand for publication inks and jet inks for office use.

Color & Display

The impact of lifestyle changes is expected to delay a recovery in demand for pigments for cosmetics.

Functional Products

Products for use in automobiles are expected to begin recovering in the third quarter, but the pace is likely to be slow, owing to the need to eliminate current distribution inventory.

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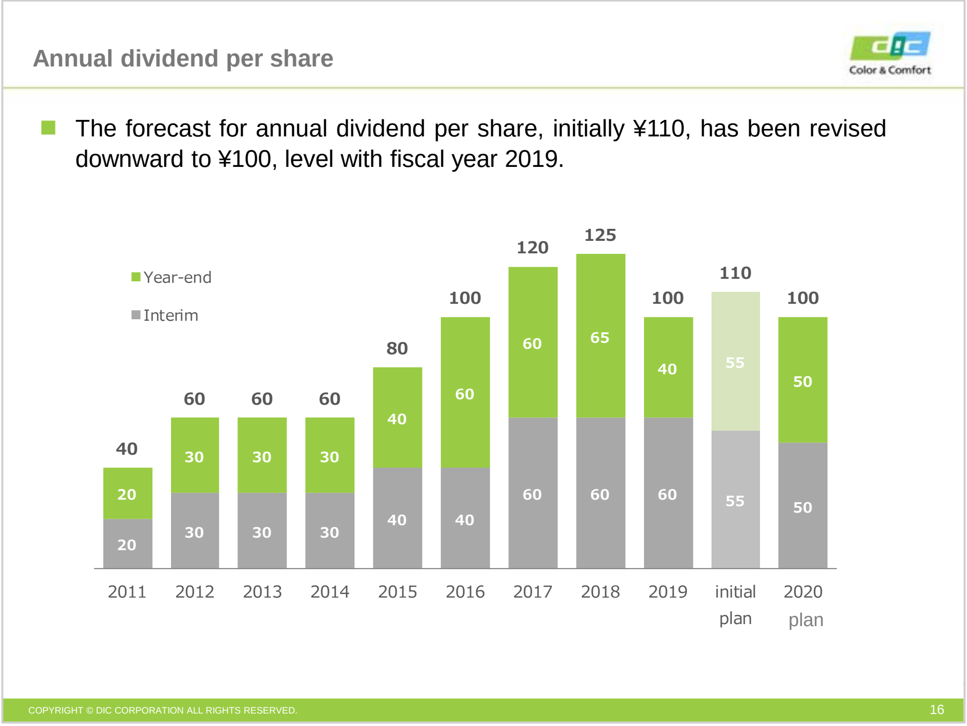
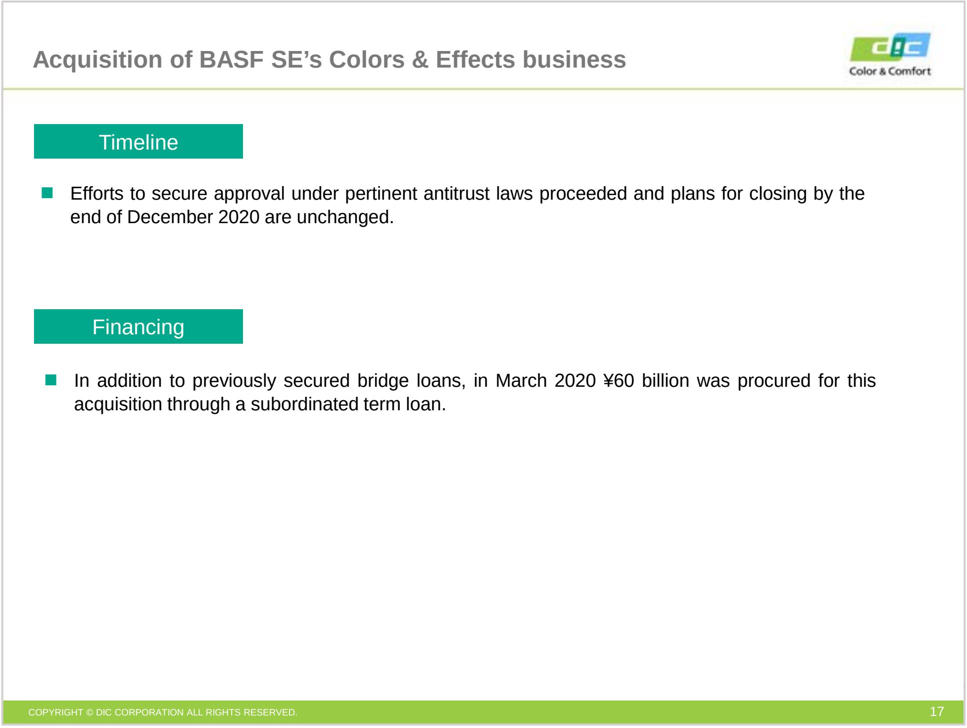
We forecast operating income in the Packaging & Graphic segment of ¥17.5 billion, with ¥8.8 billion in the second half, roughly on a par with ¥8.7 billion reported in the first half. While we saw a temporary jump in demand in March and April spurred by panic buying in the Americas and Europe, market conditions have since returned to normal. Our forecast for the second half to be pretty much level with the first half is based on our expectation that demand in the PRC and the Asia–Pacific region will also rally to a certain extent.

In the Color & Display segment, we anticipate operating income of ¥4.3 billion in the second half, down slightly from ¥4.6 billion in the first half. Pigments for cosmetics will likely continue to struggle. However, we are slightly more bullish about pigments for color filters because sales of televisions are expected to rise sharply in the second half.

We also forecast that operating income in the Functional Products segment in the second half will be broadly in line with the first half. As I have already said, we believe that demand bottomed out in May and will continue to recover gradually over the coming months. This was the trend in June and July, but demand usually dips in August as a result of Japan's *Obon* festival, during which time many companies shut down for several days. We thus see the start of a full-fledged recovery being in late August or September. Our performance for the full term will depend on this, but with raw materials prices remaining persistently low we expect to be able to secure operating income in line with our forecast.



Our initial forecast for annual dividends, as was previously presented by Mr. Ino, was ¥110.00 per share. We have revised this forecast, but in part because we are determined to maintain returns to shareholders at least on a par with fiscal year 2019, our new forecast is ¥100.00 per share.



Efforts to complete our acquisition of BASF’s Colors & Effects business is proceeding smoothly. As far as we are aware, no major issues have arisen and we currently expect to complete closing by the end of 2020.

Q&A Session

Outlook for recovery in functional pigments and compounds in the second half

Questioner 1:

You said you believe that demand bottomed out in May, but can you elaborate on the accuracy of your forecasts for mainstay functional pigments and compounds?

Ino:

In the area of functional pigments, demand for effect pigments remains relatively stable but the situation for pigments for cosmetics is urgent. In the PRC, we have seen a relatively gentle recovery since Chinese New Year, which is encouraging, but unfortunately the need to wear masks has shifted consumer interest away from lipstick and toward other products. Moreover, even if the Chinese market recovers, many of our customers are focused on Europe and North America. So while we expect demand to improve toward year-end, an overall upsurge is likely to take a bit longer.

By "compounds," I'm assuming that you mean PPS compounds. The outlook here varies depending on which company you talk to, but according to sources in the automotive sector the automobile industry as a whole is expected to start up again gradually from July to September, having bottomed out between April and June.

That said, the president of BMW points out that there are grounds for both caution and optimism. The CEO of materials giant BASF also wavers between hope and concern, but says that he cannot imagine operating income from July to September improving significantly from the April-to-June level.

Looking at the current operating environment, we can see that, for example, sales of PPS compounds were basically strong until around mid-May, but fell off after that due to a steady stream of order cancellations, as a consequence of which overall results from April to June sank. My sense is that we will see an incremental easing of this trend from July to September and for that reason I am somewhat optimistic about our results in the fourth quarter.

To summarize, then, in answer to both parts off your question, we do not anticipate a major recovery between July and September, but the general opinion appears to be that we will begin to see improvement from the latter half of September through the fourth quarter and that a full-fledged recovery can be expected next year. Based on intermediate inventories, the observations of dealers and other factors, I think I can say that this is a view we share.

Questioner 1:

In other words, your inventories have risen considerably, but even taking that into account you feel that while sluggishness will persist from July to September, you will see a gradual improvement from October to December?

Ino:

Yes, exactly.

Raw materials prices in the second half

Questioner 2:

I would like to ask you to confirm the factors influencing operating income. In the first half, the positive impact of lower raw materials prices was ¥8.4 billion. You estimate the impact of this factor for the full term will be ¥15.8 billion, meaning ¥7.4 billion in the second half, so slight weaker than in the first half. However, the price of naphtha fell sharply in the second quarter, to ¥25,000 per kiloliter, so considering the time lag and other factors one would assume that any benefits from this decline would be felt in the second half. Given this situation, what is your outlook for raw materials prices in the second half compared with the first half?

Ino:

As you rightly said, we do expect the positive impact of this factor to edge down in the second half. The price of naphtha in the second quarter was indeed ¥25,000 per kiloliter. In the second half, we expect the price of crude oil to be approximately $40 per barrel and that of naphtha to be anywhere from ¥30,000 to ¥32,000 per kiloliter. Our estimate reflects the difference between the positive impact of lower prices in the first half, which we expect to manifest further in the second half, and the negative impact of differences compared with last year's prices. This accounts for the slightly unbalanced estimate of ¥8.4 billion in the first half and ¥7.4 billion in the second.

Questioner 2:

Is your assumption of $40 for crude oil and between ¥30,000 and ¥32,000 for naphtha for the second half or the full term?

Ino:

They are for the second half.

Questioner 2:

So we can assume that there has been no major change in your view regarding the sensitivity of WTI prices* since the first quarter?

Ino:

Yes.

*Sensitivity: DIC estimates a $4 million impact on profits for every $1.00 fall in the price of West Texas Intermediate (WTI).

Backdrop to operating income declines in the Packaging & Graphic segment

Questioner 2:

You stated that operating income in the Packaging & Graphic segment in the second half will be essentially level with the first half, but on a regional basis you are forecasting a decline in the Americas and Europe from ¥4.6 billion in the first half to ¥3.7 billion in the second half. So while regional net sales are expected to be up, you expect operating income to be down.

I recognize that special procurement orders may have played a part in buoying first-half results, but can you explain why you expect operating income in the second half to decline, despite higher sales?

Furuta:

We see operating income weakening slightly in the Americas and Europe. We will likely benefit from an increase in printing accompanying the start of the Christmas shopping season, but there is concern in regional markets that product mix–related issues and the absence of special procurement demand, which as I explained benefited results in the first half, will cause operating income to drop in the second half. I share this bearish view. In contrast, my forecast for Asia is somewhat more bullish, so with one region balancing out the other we should be able to essentially maintain operating income.

Structural reforms in the Packaging & Graphic segment in Japan

Questioner 2:

How are you progressing with efforts to implement structural reforms in the Packaging & Graphic segment in Japan?

Furuta:

As you know, we closed our Kansai Plant in the current fiscal year. Looking ahead, I think that we must explore the creation of a supply framework that is global in nature, not just limited to Japan.

Efforts to reduce costs

Questioner 3:

Cutting travel expenses and the like is generally what comes to mind when you think of reducing costs. However, today you mentioned subsidies for suspending operations and exemptions from social insurance payments. Was that because they were particularly large, or because they will continue to be considered in cost reductions in the second half and beyond?

Furuta:

As I mentioned earlier, certain countries have been offering various subsidies. We collected several hundred million yen in such subsidies in the first half. However, the status of such subsidies in the second half is unclear, so we do not expect them to be particularly large going forward.

Questioner 3:

So you do not anticipate collecting such subsidies in the second half?

Furuta:

Correct.

Breakdown of extraordinary loss

Questioner 4:

Acquisition-related expenses added ¥1.9 billion to extraordinary loss in the first half. Does this mostly represent fees paid to lawyers?

Furuta:

The bulk was accounted for by fees paid to attorneys, who were instrumental in ensuring that the transaction satisfied antitrust laws in pertinent countries. These expenses also included outlays for the creation of personnel and accounting systems.

Questioner 4:

You reported acquisition-related expenses in both the first and second quarters. Do you expect to do so in the second half as well?

Furuta:

Essentially, yes.

Questioner 4:

Do you expect the closing to result in significant one-time costs not directly related to the acquisition itself?

Furuta:

Yes. We expect such costs to be twice as high as in the first half, or perhaps somewhat more than that.

Questioner 4:

In the first half, sales of packaging inks were also down. My understanding was that packaging inks are used mainly for food packaging and other items that people would actually consume more of if they were confined at home. Does the fact that there was an overall decline mean that there are also many applications that would be considered nonessential?

Furuta:

As you say, with more people working from home we would normally expect consumption of such products to increase, but there were also negative factors, including fewer people going out for entertainment or engaging in leisure pursuits, coupled with falling tourist numbers. For example, because fewer people are going out, the volume of film used in PET bottles has fallen. Accordingly, I expect that we will see a slight dip in total sales of this type of film.

Questioner 4: So unless consumer spending recovers, you think it is unlikely that sales of packaging inks will return to a normal level?

Mr. Furuta: I think it depends on how you look at it—there are always peaks and troughs in demand. From the end of February until the end of March, restrictions on going out led to increased demand as households stockpiled supplies. However, significant growth will not result unless there is an increase in overall demand.