Summary of Results Briefing for the Three-Month Period Ended June 30, 2020 (August 4, 2020)

Presenters

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Operating Environment

In the three-month period ended June 30, 2020, Sojitz initially expected that the movement of people and commodities would be restricted by the global COVID-19 pandemic for only three months. However, the economic impacts of the pandemic were felt differently by each region and segment in terms of degree of impact on performance and progress toward ending the pandemic. The pandemic was brought under control relatively quickly in China and certain parts of Southeast Asia, and economic activities are resuming in these areas. Conversely, ongoing vigilance is required on the west coast of the United States as well as in Central and South America and Japan. Based on these conditions and on performance in the three-month period ended June 30, 2020, slight revisions have been made to the full-year forecasts for the year ending March 31, 2021, that were announced at the financial results briefing for the year ended March 31, 2020.

Consolidated Statements of Profit or Loss

Revenue was down ¥88.1 billion year on year, or 20%, to ¥349.3 billion. Factors behind this decline included a decrease in the revenue of the Automotive Division of 60%, to ¥24.6 billion, due to a massive reduction in automotive sales as a result of lockdowns enacted in countries around the world. Other divisions experiencing decreases in revenue included the Chemicals Division, which was adversely impacted by falling methanol prices as well as by declining plastic resin transaction volumes centered on Southeast Asia, and the Metals & Mineral Resources Division, which was heavily affected by lower coal prices.

Gross profit decreased ¥15.9 billion year on year, to ¥39.0 billion, largely as a result of reduced profit in the Automotive Division, the Chemicals Division, and the Metals & Mineral Resources Division.

Selling, general and administrative (SG&A) expenses decreased ¥4.0 year on year, to ¥38.8 billion.

Net other income of ¥1.6 billion was posted following the recording of a gain on partial sale of a natural gas-fired power project company.

Net financial costs were up ¥0.3 billion year on year, to ¥0.9 billion, as net interest costs were in line with the previous fiscal year, at ¥2.0 billion, while dividends received were down.

Share of profit loss of investments accounted for using the equity method was down ¥5.1 billion year on year, to ¥1.7 billion, primarily as a result of a massive decrease in profit from a steel product operating company, which was one of the reasons behind the aforementioned revision of full-year forecasts.

Profit before tax was ¥2.6 billion and net profit for the period after taking into account income tax expenses was ¥2.7 billion.

Profit attributable to owners of the Company decreased ¥11.9 billion year on year, to ¥2.4 billion. This figured represented progress of 8% toward the revised full-year forecast of ¥30.0 billion.

Consolidated Statements of Financial Position
Total assets on June 30, 2020, stood at ¥2,208.0 billion, down ¥22.3 billion from March 31, 2020.

Total liabilities at June 30, 2020, amounted to ¥1,602.6 billion, down ¥5.8 billion from March 31, 2020, as a result of declines in trade and other payables in the Chemicals Division and the Automotive Division that stemmed from reductions in transaction volumes.

Total equity attributable to owners of the Company was ¥567.1 billion on June 30, 2020, down ¥12.0 billion from March 31, 2020. This decrease was primarily due to purchase of stock acquisitions and dividend payments.

The net debt equity ratio was 1.08 times on June 30, 2020, an increase of 0.02 times and thus relatively unchanged from the previous fiscal year-end.

Consolidated Statements of Cash Flows
Net cash provided by operating activities was ¥15.7 billion. Net cash provided by investing activities was ¥2.9 billion following asset replacement activities conducted early in the fiscal year. Free cash flow was a positive ¥18.6 billion. Core operating cash flow was a positive ¥10.9 billion. Core cash flow was a positive ¥3.5 billion due to purchase of treasury stock and dividends paid.

Performance by Divisions
Explanations are only provided for those divisions that experienced significant year-on-year changes in performance.

In the Automotive Division, loss attributable to owners of the Company of ¥1.8 billion was recorded, compared with profit for the profit attributable to owners of the Company of ¥1.5 billion in the previous equivalent period. This division was impacted by closures of dealerships in locations around the world. However, there was an upturn in performance in comparison to prior forecasts due to favorable performance in online sales at BMW dealerships on the west coast of the United States. From July 1, 2020, forward, we expect recovery based on trends in contract acquisition at the Bangkok International Motor Show and the reopening of stores in Puerto Rico. It is therefore entirely possible to achieve the full-year forecast of ¥1.0 billion for profit attributable to owners of the Company in this segment.

In the Aerospace & Transportation Project Division, loss attributable to owners of the Company of ¥0.5 billion was recorded, compared with profit for the profit attributable to owners of the Company of ¥0.2 billion in the previous equivalent period. This progress is in line with initial forecasts, and the likelihood is rising that large-scale projects for which negotiations have been ongoing since the previous fiscal year will be received. Accordingly, the Company has chosen not to revise its full-year forecasts.

In the Energy & Social Infrastructure Division, profit attributable to owners of the Company increased ¥1.5 billion year on year, to ¥1.8 billion. This strong progress was a result of asset replacement activities conducted in the three-month period ended June 30, 2020, and progress will thus be returning to a normal pace going forward.

In the Metals & Mineral Resources Division, loss attributable to owners of the Company of ¥2.0 billion was recorded, in comparison to profit for the profit attributable to owners of the Company of ¥7.1 billion in the previous equivalent period. Factors behind this outcome included sluggish coal market conditions and expectation-exceeding declines in sales prices and sales volumes in the steel product business.

In the Chemicals Division, profit attributable to owners of the Company decreased ¥2.3 billion year on year, to ¥0.0 billion. Although methanol prices were consistently low, some recovery was achieved due to an increase in plastic resin transactions stemming from the swift resumption of economic activities in China. This performance was favorable in comparison to the initially projected loss attributable to owners of the Company. There are currently no concerns with regard to the possibility of this division achieving its full-year forecast for profit attributable to owners of the Company of ¥5.0 billion as methanol prices are recovering and growth is anticipated in transactions for rare earths and green plastic-related products.

In the Foods & Agriculture Business Division, profit attributable to owners of the Company of ¥2.0 billion was recorded, an increase of ¥1.3 billion year on year, representing strong progress of 67% toward the full-year forecast. This impressive performance was a result of sales volumes in overseas fertilizer businesses that coincided with initial forecasts as well as consistently low prices of raw materials.

In the Retail & Lifestyle Business Division, profit attributable to owners of the Company was down ¥0.5 billion year on year, to ¥0.6 billion, representing progress of 11% toward the full-year forecast. The major factors behind this decrease include reductions in the profit of textile operations, which were impacted by sluggish consumer spending, and in rent revenue as commercial facility tenants refrained from opening their stores. It is still possible to accomplish the full-year forecast of ¥5.5 billion, which accounts for projected asset replacement activities.

Revisions to Full-Year Forecasts for the Year Ending March 31, 2021

The full-year forecast for profit attributable to owners of the Company was lowered from the figure of ¥40.0 billion, announced on April 30, 2020, to ¥30.0 billion. This revision reflects the fact that the impacts of the global COVID-19 pandemic, namely reductions in steel product demand and fluctuations in coal and other resource prices, are greater than the initial expectations and are projected to persist going forward. A major component of the reduction to the consolidated performance forecast was a downward revision to the forecast for profit attributable to owners of the Company in the Metals & Mineral Resources Division. The forecast for this division was lowered by ¥10.0 billion from the previous forecast of ¥13.0 billion, to ¥3.0 billion. Of this reduction, ¥5.0 billion represents the anticipated results of decreases in steel product demand while the remaining ¥5.0 billion accounts for the sluggish markets for coal and other resources. Overall performance in other segments is generally as expected, although the impacts of the global COVID-19 pandemic on specific regions and businesses is differing slightly from initial anticipations. The Company will continue to pursue cost reductions going forward with the goal of accomplishing the revised forecast.

Dividend Forecast

Based on performance in the three-month period ended June 30, 2020, and the revised forecast for full-year performance, the Company intends to issue annual dividend payments of ¥10 per share for the year ending March 31, 2021. This figure is projected to make for a consolidated payout ratio of 40%. This amount was judged to be appropriate based on comprehensive consideration for factors including the Company’s policy of paying stable and continuous dividends, the fact that the low performance level resulted from the impacts of the global COVID-19 pandemic is not permanent, and the tentative full-year forecast for profit attributable to owners of the Company of ¥40.0 billion announced the beginning of the fiscal year.