

# Presentation of Financial Results for the Third Quarter of FY2014

**Teiji Koge**

Director

Senior Managing Executive Officer

Head of Corporate Communication Department

SEKISUI CHEMICAL CO., LTD.

29 January, 2015

## Summary of Profit and Loss

(Billions of yen)

	First 9 months of FY2013	First 9 months of FY2014	Difference
Net Sales	802.7	812.0	+9.2
Operating Income	54.7	57.9	+3.2
Ordinary Income	58.3	65.6	+7.3
Net Income	33.6	43.9	+10.3

**Net Sales and Operating Income by Company**

(Billions of yen)

	3Q of FY2014				First 9 months of FY2014			
	Net Sales	Difference	Operating Income	Difference	Net Sales	Difference	Operating Income	Difference
Housing	109.9	-11.2	5.4	-3.3	359.2	-5.9	26.1	-2.9
UIEP*1	55.5	+0.5	-1.4	-1.1	161.9	-2.9	-1.2	-1.9
HPP*2	95.9	+7.3	12.9	+3.7	278.2	+17.8	35.1	+9.1
Others	9.5	-0.9	-0.7	-0.2	27.5	-2.8	-1.6	-0.5
Eliminations or Unallocatable Accounts	-4.8	+0.7	-0.2	-0.1	-14.9	+3.0	-0.5	-0.5
<b>Total</b>	<b>266.0</b>	<b>-3.6</b>	<b>16.1</b>	<b>-1.0</b>	<b>812.0</b>	<b>+9.2</b>	<b>57.9</b>	<b>+3.2</b>

\*1 Urban Infrastructure &amp; Environmental Products Company, \*2 High Performance Plastics Company

**Overview for the 3Q**

**Housing:** Sales and profit fell due to the 3Q decline in sales that resulted from the 1H drop in new housing construction orders in reaction to the consumption tax hike

**UIEP:** Sales rose on increased public demand and higher sales prices, but profits fell due to the lump write-off of a consolidated subsidiary accounting impropriety (reducing operating income by 1.1 billion yen), production reorganization costs

**HPP:** Substantial sales and profit growth from a favorable yen rate, increased volume in the 4 strategic businesses fields, and improved product mix

**Earnings Plan for FY2014**

(Billions of yen)

	FY2013	FY2014 (Revised Plan)	Difference	FY2014 (Original Plan) *1
Net Sales	1,110.9	1,129.0	+18.1	1,132.0
Operating Income	82.5	89.0	+6.5	89.0
Ordinary Income	83.3	91.0	+7.7	89.0
Net Income	41.2	53.0	+11.8	51.0

\*1 Plan announced at the 2Q FY2014 results presentation meeting

\*2 The 4Q FY2014 forex assumptions are ¥111/US\$ and ¥138/€. (The previous assumptions for 2H forecasts were ¥102/US\$ and ¥138/€)

## Net Sales and Operating Income by Company

(Billions of yen)

	1H of FY2014		2H of FY2014 (Forecasts)				FY2014 (Forecasts)				FY2014 (Original Plan) *	
	Net Sales	Operating Income	Net Sales	Difference	Operating Income	Difference	Net Sales	Difference	Operating Income	Difference	Net Sales	Operating Income
Housing	249.3	20.7	250.7	-2.1	20.8	0	500.0	+3.2	41.5	+0.4	506.0	41.5
UIEP*1	106.4	0.2	130.6	+0.4	5.3	-0.1	237.0	-2.9	5.5	-1.0	240.0	7.0
HPP*2	182.3	22.2	193.7	+11.7	23.8	+4.5	376.0	+22.2	46.0	+9.9	370.0	44.5
Others	18.0	-0.9	22.0	-1.9	-2.1	-1.9	40.0	-3.8	-3.0	-2.2	40.0	-3.0
Eliminations or Unallocatable Accounts	-10.1	-0.4	-13.9	-2.8	-0.6	-0.3	-24.0	-0.5	-1.0	-0.7	-24.0	-1.0
<b>Total</b>	<b>545.9</b>	<b>41.8</b>	<b>583.1</b>	<b>+5.3</b>	<b>47.2</b>	<b>+2.2</b>	<b>1,129.0</b>	<b>+18.1</b>	<b>89.0</b>	<b>+6.5</b>	<b>1,132.0</b>	<b>89.0</b>

\* Plan announced at the 2Q FY2014 results presentation meeting

### Reasons for the revisions to the original plan

**Housing:** The 4Q sales target was lowered because of the refurbishment order target shortfall in 3Q. The operating income target is unchanged based on controlled fixed costs.

**UIEP:** The downward revision reflects the lump write-off of a consolidated subsidiary accounting impropriety, the slump in public works projects, and postponed orders.

**HPP:** Target raised on the favorable yen rate and steady business in the 4 strategic businesses fields.

### Global business: steady expansion

- Favorable yen rate, increasing volume, and improving the product mix in the HPP Company's 4 strategic business fields
- Strategic investment aimed at further growth

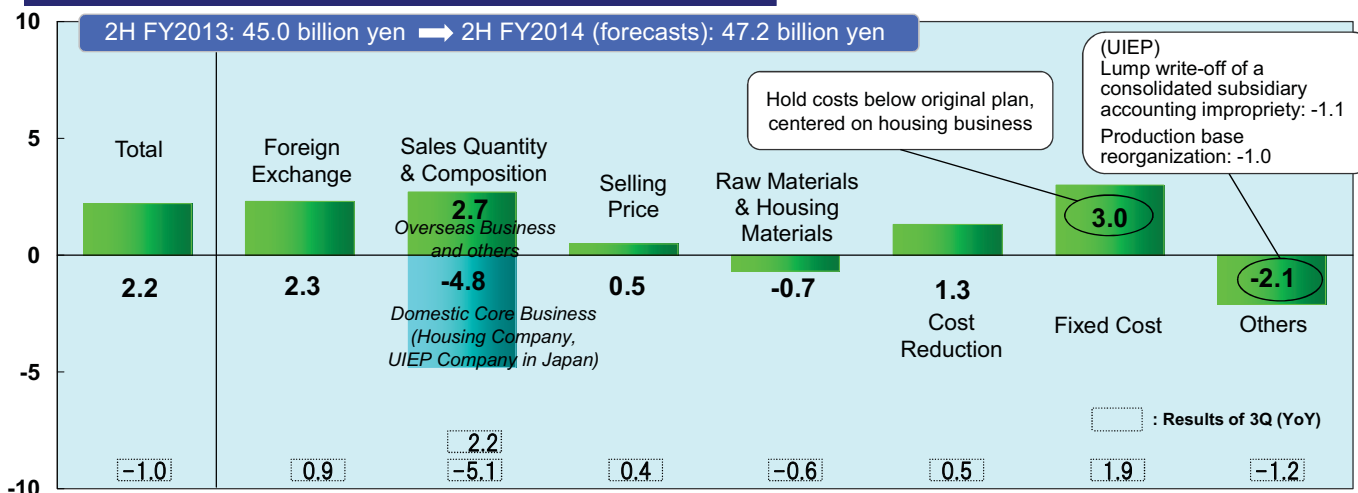
### Domestic business: slower-than-expected market recovery

- Focus on developing the stock business amid budget increases for infrastructure renewal and rehabilitation
- Lead the smart house market as energy risk rises
- Improve business efficiency to strengthen competitiveness

### Strategies to prepare for next fiscal year

<b>Housing</b>	•Factory Efficiency and Presentation Upgrade Plan
<b>UIEP</b>	•Reorganize general PVC products production and distribution
<b>HPP</b>	•Increase production of double-faced tape for mobile applications •Start high-performance product production in China •Start up new CPVC plant in Thailand

### Analysis of Operating Income for the 2H of FY2014 (YoY)

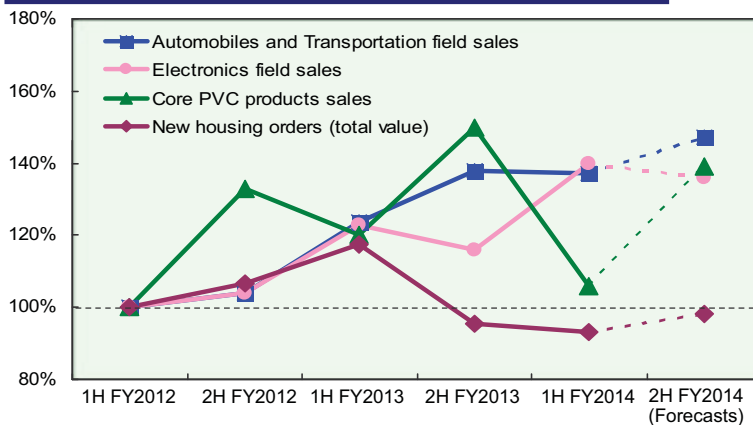


Note: Includes selling price of Housing Company within the sales quantity and composition

## Main Businesses Progress

	Business Field	3Q of FY2014	4Q of FY2014 (forecasts)
Global	<b>Electronics</b>	Smartphone-related demand played out	Holding at the 3Q level
	<b>Automobiles and Transportation</b>	Strong in the U.S. and China, some stagnation in Europe	High-performance product demand also growing in emerging country
	<b>Building and Infrastructure</b>	Steady CPVC demand growth in India and the Middle East	
	<b>Life Science</b>	Growing demand for the diagnostic agents in Japan	
Domestic	<b>Housing</b>	Customer wait-and-see stance led to 3Q order shortfall	Support measures lead to improving market
	<b>Water Infrastructure</b>	Slumping public works projects and postponed orders	

## Main Business Sales and Orders (Index with 1H FY2012=100)



## Points for attaining the 2H targets

### Electronics

Expand sales centered on competitive mobile materials

### Automobiles and Transportation

Further expand global high-performance product sales

### Housing

Strongly highlight the appeal of "energy self sufficient" homes

### Water Infrastructure

Focus more effort on the stock fields

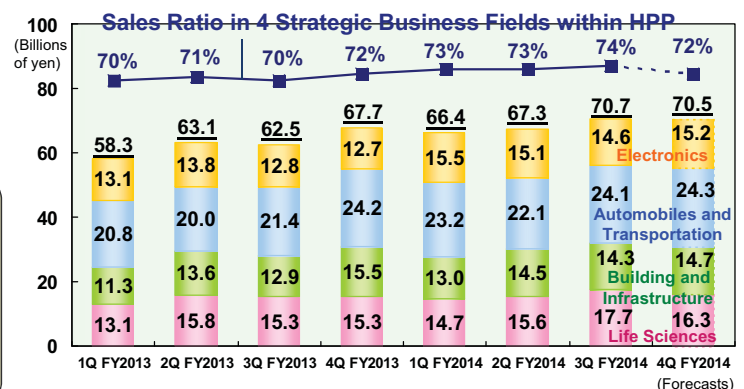
## Progress for 2H Plan

- FPD material demand grow less than expected but better than in 2H FY2013
- Sales rose led by high-performance products largely due to strong automobile demand in the U.S. and China

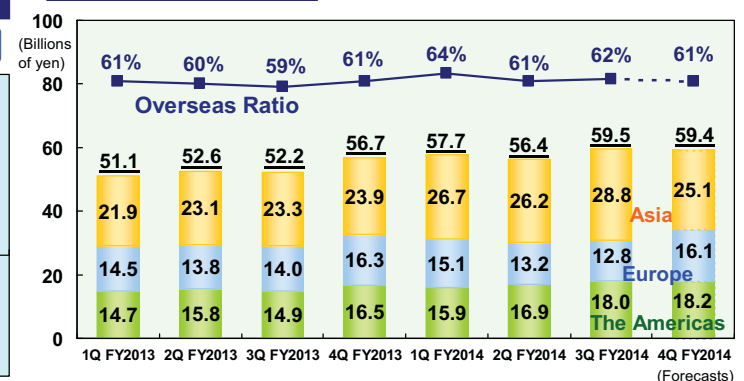
## Priority Measures in 4Q

- Electronics :**  
Expand production capacity for double-faced tape for mobile applications
- Automobiles and Transportation :**  
Begin China high-performance product production in April 2015
- Building and Infrastructure :**  
Start up new CPVC plant in Thailand
- Life Science :**  
Use the equipment business as a foundation to expand the diagnostic drug business globally

## Sales in Strategic Business Fields

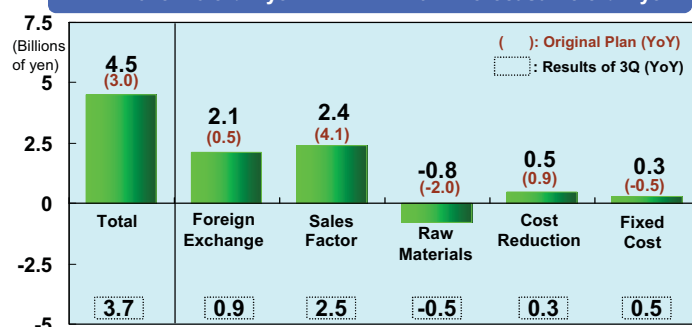


## Overseas Sales



## Analysis of Operating Income for the 2H FY2014 Forecast (YoY)

2H FY2013: 19.3 bn. yen → 2H FY2014 Forecast: 23.8 bn. yen



## Progress for 2H Plan

- Domestic public demand-related business sales declining in 4Q FY2014 due to slumping projects and postponed orders
- Domestic private demand-related business unable to cover dropping in general product sales with stock-related products
- Overseas business progressing generally as planned with delays at some properties

## Priority Measures in 4Q

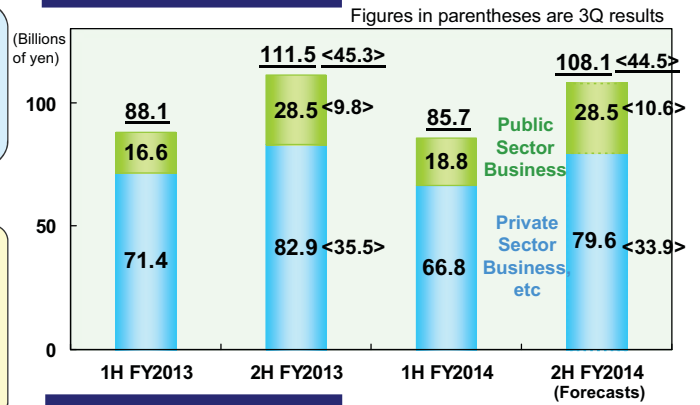
### Domestic Business

- Accelerate the distribution reform, complete production base reorganization (Tokyo Plant)
- Forcefully advance the shift to stock business in all fields

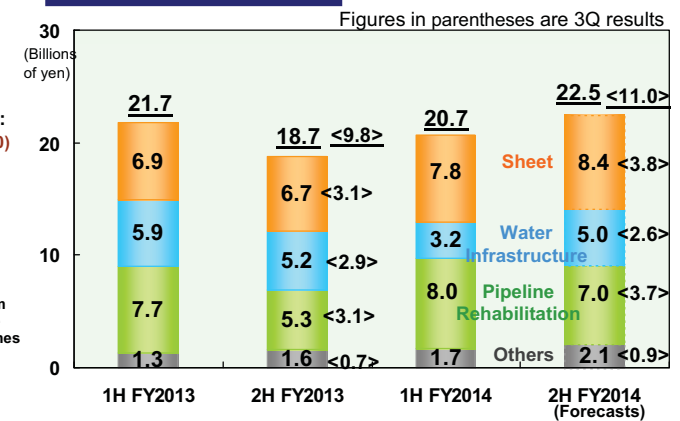
### Overseas Business

- **Sheet Business**: capture the strong aircraft-related demand
- **Pipeline rehabilitation business**: steadily bring order projects to completion

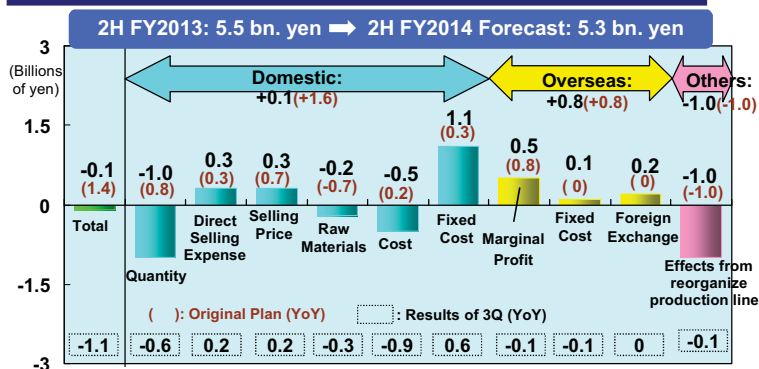
## Domestic Sales



## Overseas Sales



## Analysis of Operating Income for the 2H FY2014 Forecast (YoY)



## 3Q FY2014 Stronger-than-expected wait-and-see stance by customers

- New construction orders fell short of plan but housing-related lead indicators improved
- Living Environment business sales were generally on track

## 4Q FY2014 Housing purchase support policies start nudging customers to decide

- Secure orders in 4Q FY2014 to ensure continuing profit growth in FY2015

- Strongly highlight the appeal of “energy self sufficient” Smart Heim
- Increase built-for-sale housing sales (50% increase in marketable land use in 4Q from 3Q)
- Strengthen refurbishment orders

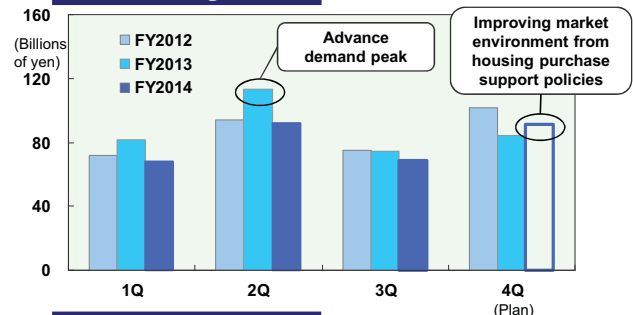
### New Housing Order (units base)

3Q: -7% (YoY), 4Q plan: +13% (YoY, original plan: +16%), 2H plan: +3% (YoY, original plan: +11%)

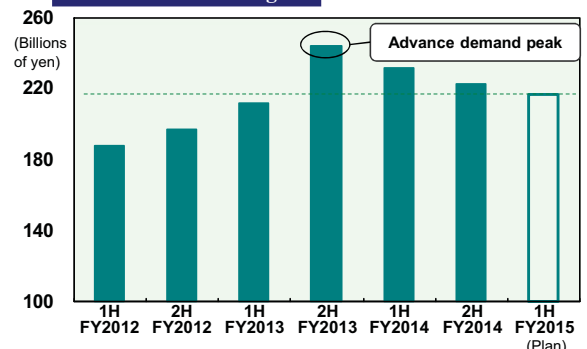
Living Environment business (renovation for Sekisui Heim Owners, interior and exterior, and real estate) sales

3Q: -2% (YoY), 4Q plan: +5% (YoY), 2H: +1% (YoY, original plan: +7%)

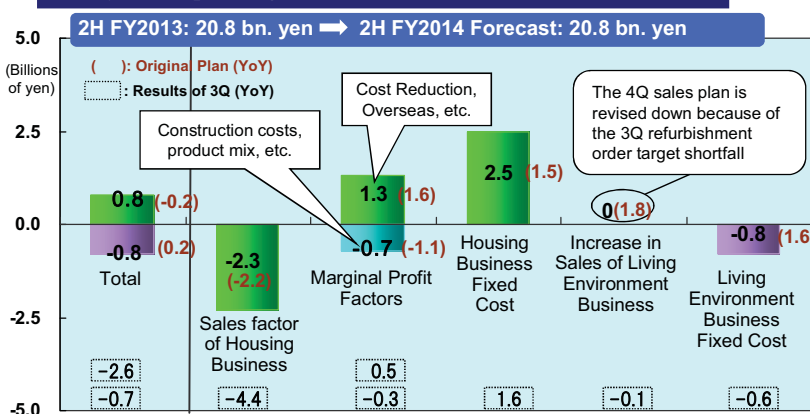
### New Housing Order



### Year-start Backlog



## Analysis of Operating Income for the 2H FY2014 Forecast (YoY)



# Financial Results

## for the Third Quarter of FY2014

**Hajime Kubo**  
 Director  
 Senior Managing Executive Officer  
 Responsible for Corporate Finance & Accounting Department

### Number of Consolidated Companies

	March 31, 2014	December 31, 2014	Difference
<b>Consolidated Subsidiaries</b>	<b>167</b>	<b>167</b>	<b>Increased: 4 Subsidiaries Decreased: 4 Subsidiaries</b>
<b>Affiliates (Equity Method)</b>	<b>8</b>	<b>8</b>	-

\* Consolidated subsidiaries result fluctuations had minimal affect on overall performance

**Summary of Profit and Loss**

(Billions of yen)

	First 9 months of FY2013	First 9 months of FY2014	Difference
Net Sales	802.7	812.0	9.2
Gross Profit	242.5	246.1	3.6
Gross Profit Rate	30.2%	30.3%	0.1%
Selling, Gen. and Admin. Expenses	187.8	188.2	0.4
Operating Income	54.7	57.9	3.2
Equity in Earnings of Affiliates	1.1	1.1	0.1
Other Non-operating Income and Expenses	2.6	6.6	4.0
Ordinary Income	58.3	65.6	7.3
Extraordinary Income	-	5.1	5.1
Extraordinary Loss	1.5	0.6	-0.9
Income before Income Taxes	56.7	70.0	13.3
Corporate Income Tax, etc.	22.2	25.2	3.0
Income for Minority Shareholders	0.9	1.0	0.1
Net Income	33.6	43.9	10.3

Foreign Exchange (Avg. rate)	1US\$	99 yen	107 yen	7 yen
	1€	132 yen	140 yen	8 yen

Foreign exchange gain and loss: +3.5

Gain on sales of securities: +5.1

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**Consolidated Cash Flows**

(Billions of yen)

	First 9 months of FY2013	First 9 months of FY2014
Operating Activities Cash Flows	60.2	22.2
Investing Activities Cash Flows	-46.6* <sup>1</sup>	30.0* <sup>2</sup>
Financing Activities Cash Flows	-16.3	-48.3
Net Increase in Cash and Cash Equivalents	1.3	8.5
Cash and Cash Equivalents at the End of Term	62.5	59.8
Free Cash Flow =Operating Activities Cash Flows +Investing Activities Cash Flows -Dividends Paid	1.9	39.1

<sup>\*1</sup> Includes ¥20.9 billion in (net) payments into time deposits

<sup>\*2</sup> Includes ¥45.1 billion in (net) proceeds from withdrawal of time deposits

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## Balance Sheets (Assets)

(Billions of yen)

	March 31, 2014	December 31, 2014	Difference
Cash and Deposits	107.7	71.2	-36.5
Account Receivable on Sales	192.2	187.7	-4.6
Inventories	156.3	171.6	15.3
Other Current Assets	38.4	48.6	10.2
Tangible Non-Current Assets	252.1	264.5	12.4
Intangible Non-Current Assets	39.8	39.7	-0.1
Investments in Securities	151.7	167.5	15.8
Investments & Other Assets	22.7	21.2	-1.6
<b>Total Assets</b>	<b>961.0</b>	<b>972.0</b>	<b>11.0</b>

 At fair value: +20.6  
 Sales of securities:  
 -11.6

 Foreign exchange:  
 +28.8

## Balance Sheets (Liabilities &amp; Net Assets)

(Billions of yen)

	March 31, 2014	December 31, 2014	Difference
Non-Interest-Bearing Liabilities	393.4	372.7	-20.8
Interest-Bearing Liabilities	94.0	78.8	-15.2
<b>Total Liabilities</b>	<b>487.5</b>	<b>451.5</b>	<b>-36.0</b>
Capital Stock etc.	209.2	209.2	0
Retained Earning	240.2	256.1	15.9
Treasury Stock	-20.3	-22.0	-1.6
Unrealized Holding Loss on Securities	19.0	33.0	14.0
Minority Interests	16.5	18.6	2.2
Other Net Assets	9.0	25.5	16.5
<b>Total Net Assets</b>	<b>473.6</b>	<b>520.5</b>	<b>46.9</b>
<b>Total Liabilities, Net Assets</b>	<b>961.0</b>	<b>972.0</b>	<b>11.0</b>

Bonds: -10.0

 Purchases  
 of treasury stock: -15.0  
 Retirement of treasury  
 stock: +12.6

 Foreign currency translation  
 adjustment: +17.1



**Depreciation and Capital Expenditures**

(Billions of yen)

	FY2013		FY2014		Difference	
	First 9 Months	Full Year	First 9 Months	Full Year (Forecasts)	First 9 Months	Full year
<b>Depreciation</b>	25.2	34.4	23.5*	33.0*	-1.7	-1.4
<b>Capital Expenditures</b>	30.6	41.8	31.0	42.0	0.4	0.2

\*Depreciation method changed from the declining-balance method to the straight-line method for the Company and its domestic consolidated subsidiaries beginning in FY2014.

**Earnings Plan for FY2014**

(Billions of yen)

	FY2013	FY2014 (Forecasts)	Difference	FY2014 (Original Plan)
<b>Net Sales</b>	1,110.9	1,129.0	18.1	1,132.0
<b>Operating Income</b>	82.5	89.0	6.5	89.0
<b>Ordinary Income</b>	83.3	91.0	7.7	89.0
<b>Net Income</b>	41.2	53.0* <sup>1</sup>	11.8	51.0
<b>Dividend per Share (Yen)</b>	23	26	3	26

\*<sup>1</sup> Amount includes reduced deferred tax assets due to the lower tax rate based on the forecast for a lower corporate tax rate in fiscal year 2015.

\*<sup>2</sup> Forex rate assumptions for the 4Q FY2014 forecasts are ¥111/US\$ and ¥138/€.

This slide presentation may contain forward-looking statements. Such forward-looking statements are based on current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements due to changes in global economic, business, competitive market and regulatory factors.

## Housing Company Results and Plan

### 1. Main data in Housing business

		FY2014				FY2013				FY2012 Annual
		1 H	FY2014		Annual (Plan)	1 H	FY2013		Annual	
			3Q	2 H(Plan)			3Q	2 H		
<b>CONSOLIDATED</b>	Net Sales (Billions of yen)	249.3	109.9	250.7	500.0	243.9	121.1	252.9	496.8	469.0
	Housing	173.0	73.2	174.1	347.1	171.3	83.8	177.2	348.5	333.7
	Houses	162.8	67.8	162.3	325.1	161.8	78.5	167.1	328.8	315.5
	Land	9.0	4.5	10.2	19.2	9.5	5.4	10.1	19.7	18.2
	Living environment	76.3	36.6	76.6	152.9	72.6	37.3	75.6	148.3	135.4
	Refurbishing	53.9	25.5	52.8	106.7	51.6	26.9	54.1	105.7	95.8
	Interior-Exterior	2.8	1.3	2.9	5.7	3.0	1.2	2.8	5.8	5.6
	Real estate	18.8	9.4	20.2	39.0	18.1	9.2	18.7	36.8	34.0
<b>OTHERS</b>	1.Number of houses sold (Housing units)	7,170	2,860	7,340	14,510	7,110	3,200	7,400	14,510	13,860
	Detached houses	5,210	2,190	5,000	10,210	5,420	2,630	5,400	10,820	10,610
	Heim	4,110	1,760	3,960	8,070	4,150	2,050	4,100	8,250	8,230
	Two-U	1,100	430	1,040	2,140	1,270	580	1,300	2,570	2,380
	Apartments	1,960	670	2,340	4,300	1,690	570	2,000	3,690	3,250
	2. Main data									
	Prices<Sales subsidiaries : Detached houses>/ Unit (Millions of yen)	30.2	30.6	-	-	30.7	30.6	30.4	30.6	30.0
	Prices<Sales subsidiaries : Detached houses>/ Tsubo (3.3 Square meter) (Thousands of yen)	792	798	-	-	791	791	794	793	772
	Floor space (Square meter)	125.8	126.6	-	-	128.0	127.7	126.4	126.9	128.2
	Exhibition places (Units)	429	425	-	425	425	430	-	423	407
	Sales staff (Number of person)	2,549	2,466	-	2,416	2,518	2,423	-	2,376	2,259
	Rebuilding ratio (%)	29%	28%	30%	30%	34%	30%	30%	32%	34%
	Referral sales ratio (%)	37%	38%	38%	38%	38%	39%	39%	39%	41%

\* Rebuilding ratio and Referral ratio are based on time of orders- received.

### 2. Housing orders

(Millions of yen)

	FY2014				FY2013				FY2012		
	1 H	FY2014		Annual (Plan)	1 H	FY2013		Annual	1 H	2 H	Annual
		3Q	2 H(Plan)			3Q	2 H				
Year-start Backlog	232,000	222,400	222,400	-	211,900	244,000	244,000	-	187,800	197,000	-
Growth Rate	+10%	-9%	-9%	-	+13%	+24%	+30%	-	+9%	+4%	-
New Orders	209,943	95,037	212,757	422,700	248,426	102,859	211,995	460,421	214,657	226,314	440,971
Growth Rate	-15%	-8%	±0%	-8%	+16%	+3%	-6%	+4%	+2%	+11%	+6%
Sales of houses	219,543	94,637	217,957	437,500	216,326	106,559	223,995	440,321	205,457	211,414	416,871
Growth Rate	+2%	-11%	-3%	-1%	+5%	+9%	+6%	+6%	+6%	+3%	+4%
Balance at the end	222,400	222,800	217,200	-	244,000	240,300	232,000	-	197,000	211,900	-
Growth Rate	-9%	-7%	-6%	-	+24%	+21%	+10%	-	+4%	+13%	-

### 3. Housing starts

(in number of unit)

	FY2014				FY2013				FY2012 Annual
	1 H	FY2014		Annual (Plan)	1 H	FY2013		Annual	
		3Q	2 H(Plan)			3Q	2 H		
Housing starts*	441,367	235,485	410,000	850,000	499,032	265,201	488,222	987,254	893,002
Privately-owned houses* (included in above)=A	143,342	71,307	157,000	300,000	182,940	100,547	169,901	352,841	316,532
Sales by our company	7,170	2,860	7,340	14,510	7,110	3,200	7,400	14,510	13,860
Detached house sales by our company=B	5,210	2,190	5,000	10,210	5,420	2,630	5,400	10,820	10,610
Our share in Detached houses=B/A	3.6%	3.1%	3.2%	3.4%	3.0%	2.6%	3.2%	3.1%	3.4%

\*"The housing starts" and "Privately-owned houses" after 3Q of FY2014 are based on a forecast.

### 4. The ratio of the houses equipped with the high-performance specifications

	FY2014				FY2013				FY2012 Annual
	1 H	FY2014		Annual (Plan)	1 H	FY2013		Annual	
		3Q	2 H(Plan)			3Q	2 H		
Solar power generation systems installed	85%	79%	84%	84%	83%	81%	83%	83%	85%
Tiled exterior wall (Heim type JX)	65%	62%	66%	65%	70%	66%	64%	67%	70%
All-electric housing	87%	87%	88%	88%	88%	87%	88%	88%	89%
Comfortable Air System	66%	66%	68%	67%	66%	63%	68%	67%	68%