

# Financial Results for the First Half of the Fiscal Year Ending March 31, 2019

November 29, 2018

TSE Code: 4617

**CMP** Chugoku Marine Paints, Ltd.



Company mascot  
"Pentaro"

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Note: Figures presented in tables and graphs are expressed in millions of yen unless otherwise indicated.

# 1. Consolidated Earnings Summary

Net sales: **43,170** million yen (+8.3% YoY)

Operating loss: **237** million yen (-2,522 million yen YoY)

- ✓ First increase in 1H net sales in three years

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- ✓ Cost ratio rose significantly on soaring raw material prices

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- ✓ Marked decline in profitability of paints for new ships, main cause of deteriorating earnings in Japan, China, and South Korea

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- Substantially higher sales of container paints covered decline in marine paints, ensuring higher sales
- Inability to pass on rise in raw material costs in selling price drove cost ratio 7.5pp higher
- Expense reductions and other efforts curbed rise in SG&A expenses, causing SG&A-to-sales ratio to decline 1.1pp
- Tax expenses totaled 540 million yen, being impacted by reversal of deferred tax assets at overseas subsidiaries

	1H FY03/18		1H FY03/19		Change	%
Net sales	39,855	100.0%	<b>43,170</b>	100.0%	+3,314	+8.3%
Cost of sales	27,711	69.5%	<b>33,220</b>	77.0%	+5,508	+19.9%
Gross profit	12,144	30.5%	<b>9,950</b>	23.0%	-2,194	-18.1%
SG&A expenses	9,859	24.7%	<b>10,187</b>	23.6%	+328	+3.3%
Operating profit	2,285	5.7%	<b>(237)</b>	-0.6%	-2,522	—
Ordinary profit	2,465	6.2%	<b>(64)</b>	-0.2%	-2,530	—
Profit before income taxes	2,466	6.2%	<b>(46)</b>	-0.1%	-2,513	—
Profit attributable to owners of parent	1,467	3.7%	<b>(505)</b>	-1.2%	-1,973	—

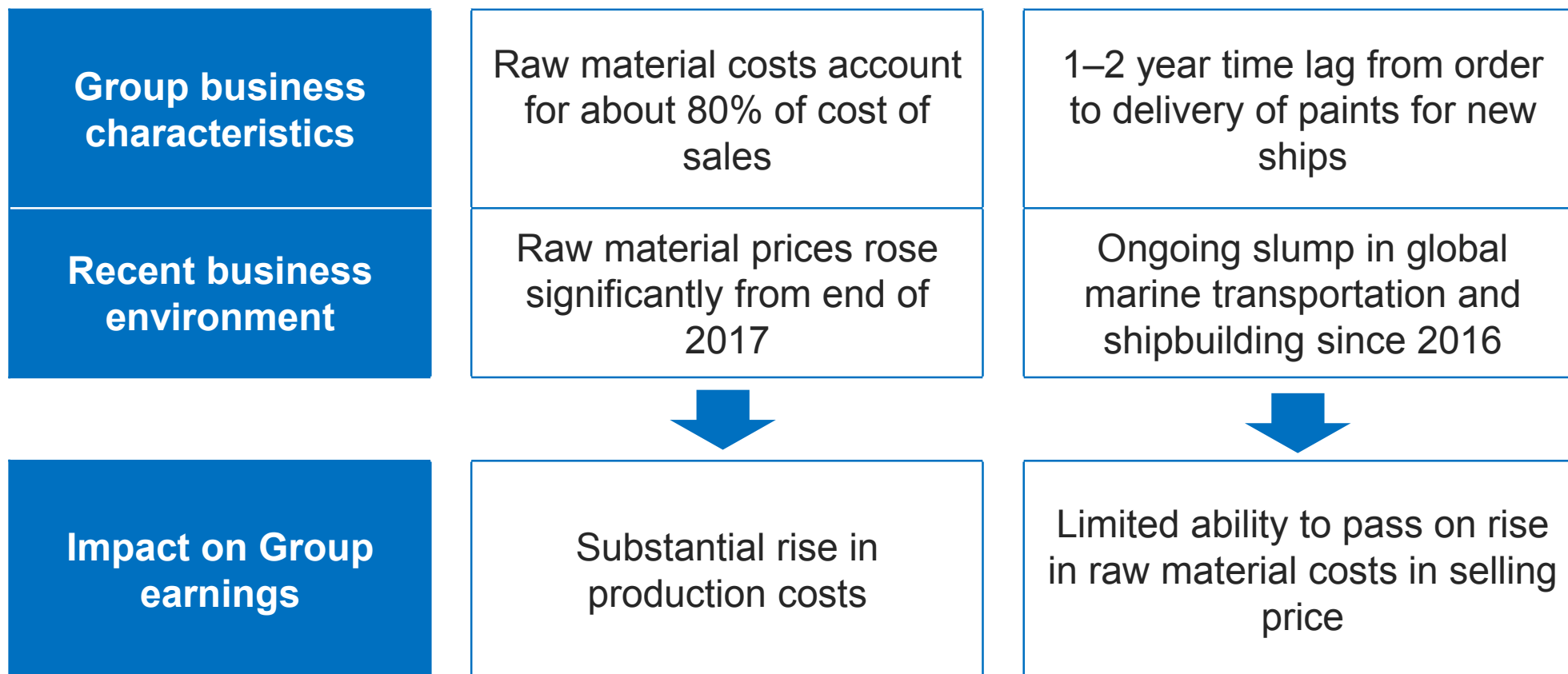
	1H FY03/18	1H FY03/19	Change	%
Depreciation	850	<b>851</b>	+0	+0.0%
R&D expenses	919	<b>924</b>	+4	+0.5%
Domestic naphtha price (JPY/kl)	37,600	<b>51,100</b>	+13,500	+35.9%

◆ Exchange rate (JPY)

USD	112.37	<b>108.68</b>	-3.69	-3.3%
EUR	121.64	<b>131.64</b>	+10.00	+8.2%
CNY	16.39	<b>17.09</b>	+0.70	+4.3%
KRW	0.0987	<b>0.1012</b>	+0.00	+2.5%

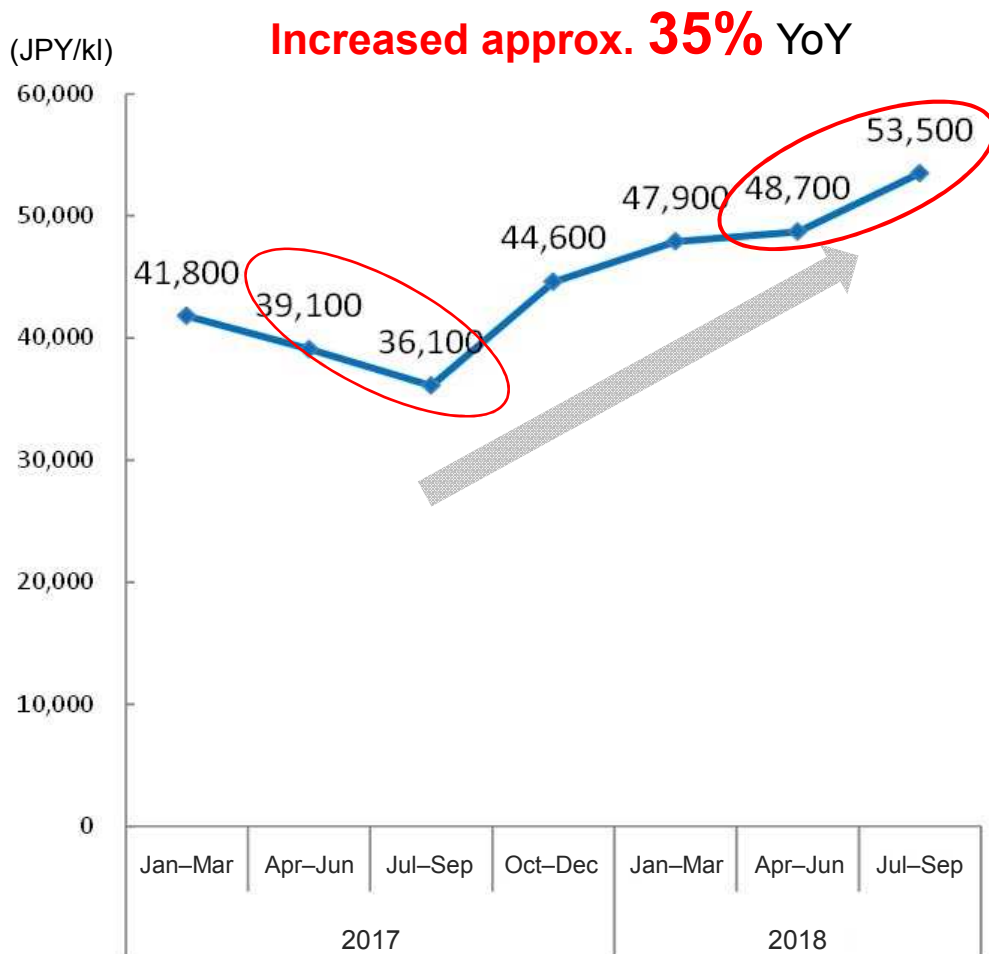
Note: Exchange rates accounted for approximately +0.94 billion yen of the 3.31 billion yen increase in net sales in 1H FY03/19.

# FY03/19 business environment and impacts on earnings



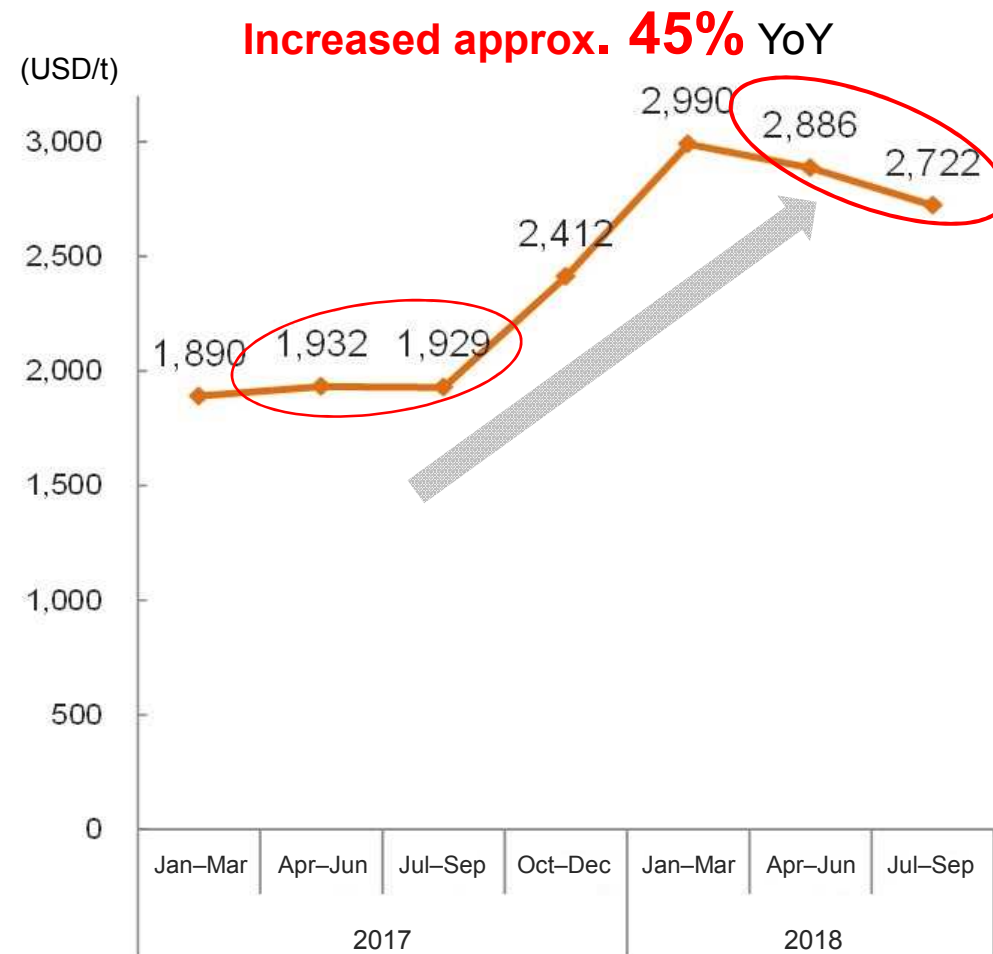
**Cost ratio rise sharply, squeezing earnings**

## Domestic naphtha



Source: Ministry of Finance

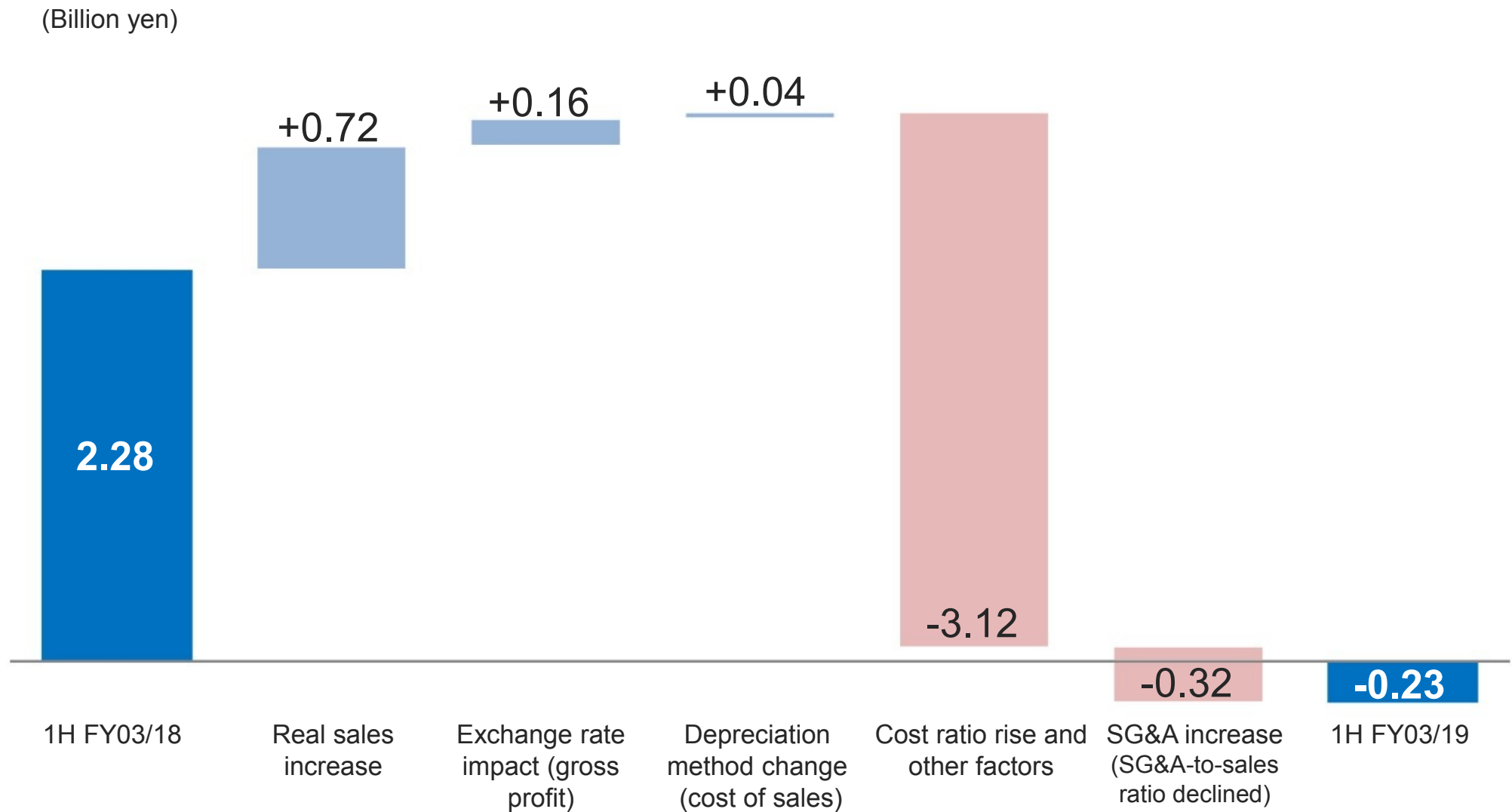
## Epoxy resin



Source: ICIS



# Factors affecting consolidated operating profit (summary)

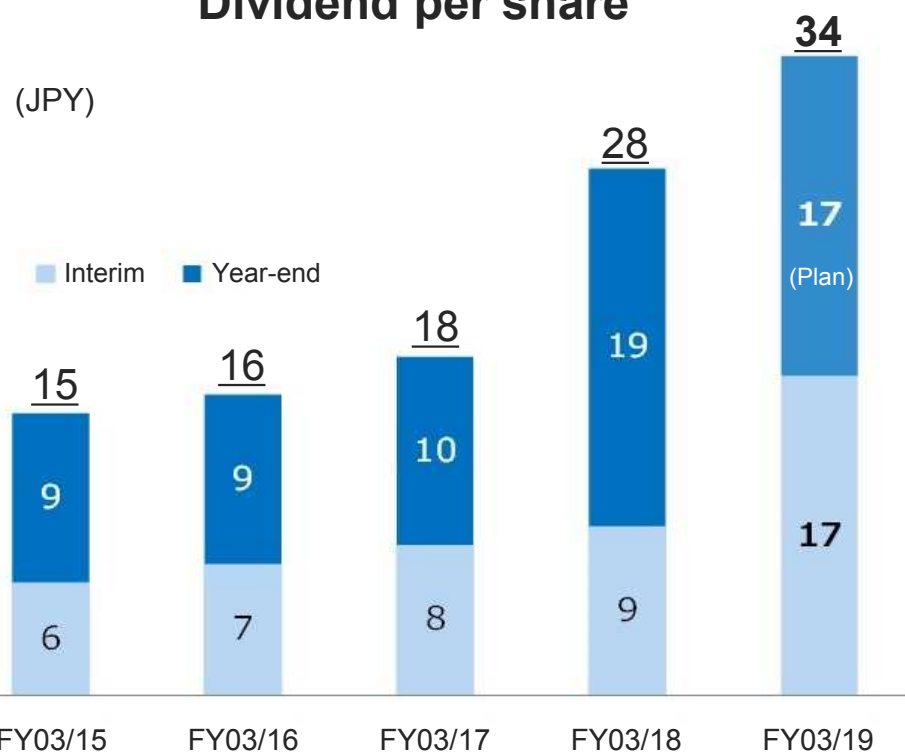


## Shareholder return policy under new medium-term management plan and 1H results

## Dividends

Dividend on equity ratio (DOE) of **3%** or a dividend payout ratio of **30%**, whichever is higher

## Dividend per share



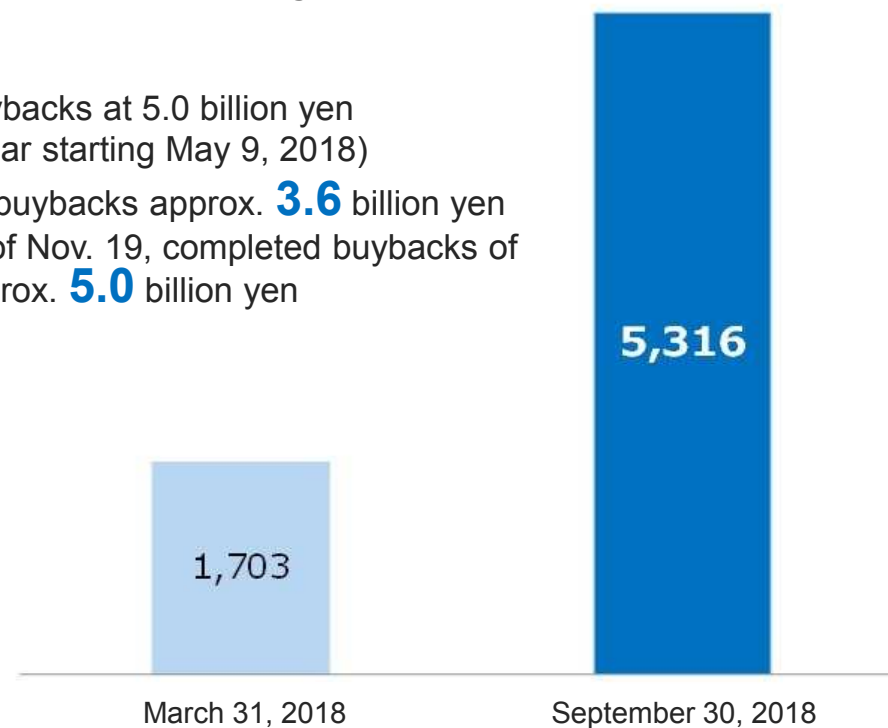
## Share buybacks

Flexible acquisition of treasury shares amounting to **10–15 billion yen** during the three-year period up to FY03/21

## Treasury share balance

Set buybacks at 5.0 billion yen (one year starting May 9, 2018)

- 1H buybacks approx. **3.6** billion yen
- As of Nov. 19, completed buybacks of approx. **5.0** billion yen



# Consolidated balance sheet summary

	End-FY03/18	End-1H FY03/19	Change	Main changes
Current assets	87,252	<b>80,412</b>	-6,839	Cash and deposits: -5,625
Property, plant and equipment	27,049	<b>26,226</b>	-822	Buildings and structures: -504
Intangible assets	1,482	<b>1,438</b>	-43	
Investments and other assets	9,985	<b>10,030</b>	+45	
<b>Total assets</b>	<b>125,769</b>	<b>118,108</b>	-7,661	
Current liabilities	39,292	<b>38,175</b>	-1,117	Short-term and current portion of long-term loans payable: -1,186
Non-current liabilities	5,381	<b>5,990</b>	+609	Long-term loans payable: +693
<b>Total liabilities</b>	<b>44,674</b>	<b>44,166</b>	-508	
<b>Total net assets</b>	<b>81,094</b>	<b>73,942</b>	-7,152	Treasury share (increase): -3,613 Retained earnings: -1,750
Cash and deposits	33,750	<b>28,125</b>	-5,625	
<b>Equity ratio</b>	<b>59.7%</b>	<b>57.9%</b>	-1.8pp	

# Consolidated cash flows statement summary

	1H FY03/18	1H FY03/19	Change	Main changes
Cash flows from operating activities	2,112	<b>1,469</b>	-642	Profit (loss) before income taxes: -2,513 Decrease in income taxes paid: +819
Cash flows from investing activities	(1,832)	<b>(1,271)</b>	+561	Purchase of property, plant and equipment: +322
Cash flows from financing activities	(335)	<b>(5,097)</b>	-4,761	Purchase of treasury shares: -3,627 Net increase (decrease) in short-term loans payable: -649
Effect of exchange rate change on cash and cash equivalents	(417)	<b>(469)</b>	-52	
Net increase (decrease) in cash and cash equivalents	(473)	<b>(5,368)</b>	-4,895	
Cash and cash equivalents at beginning of period	28,403	<b>25,279</b>	-3,123	
Cash and cash equivalents at end of period	27,929	<b>19,911</b>	-8,018	

## **2. Summary by Region and Product**

# Performance by region

Sales increased substantially in China due to higher sales of container paints, but sales declined significantly in South Korea, where main sales come from marine paints for new ships

Profit declined in all regions due to the impact of soaring raw material costs

		Japan	China	South Korea	Southeast Asia	Europe and the US	Adjustment	Total
1H FY03/18	Sales	17,325	7,623	3,152	5,472	6,282	—	39,855
	Segment profit	708	(126)	183	807	(34)	744	2,285
1H FY03/19	Sales	<b>17,353</b>	<b>11,469</b>	<b>2,267</b>	<b>5,947</b>	<b>6,132</b>	—	<b>43,170</b>
	% change	+0.2%	+50.5%	-28.1%	+8.7%	-2.4%	—	+8.3%
	Segment profit	<b>(46)</b>	<b>(571)</b>	<b>(599)</b>	<b>578</b>	<b>(347)</b>	<b>748</b>	<b>(237)</b>
	Change	-755	-445	-783	-229	-313	+3	-2,522

# Sales by region and product

		Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Marine paints	1H FY03/18	13,970	4,729	3,072	3,130	5,985	30,888
	<b>1H FY03/19</b>	<b>13,860</b>	<b>4,877</b>	<b>2,219</b>	<b>3,302</b>	<b>5,828</b>	<b>30,088</b>
	% change	-0.8%	+3.1%	-27.8%	+5.5%	-2.6%	-2.6%
Industrial paints	1H FY03/18	3,190	494	79	2,070	203	6,039
	<b>1H FY03/19</b>	<b>3,328</b>	<b>486</b>	<b>47</b>	<b>2,301</b>	<b>157</b>	<b>6,321</b>
	% change	+4.3%	-1.5%	-40.7%	+11.1%	-22.8%	+4.7%
Container paints	1H FY03/18	-	2,399	-	271	93	2,764
	<b>1H FY03/19</b>	<b>-</b>	<b>6,106</b>	<b>-</b>	<b>343</b>	<b>147</b>	<b>6,596</b>
	% change	-	+154.5%	-	+26.7%	+57.4%	+138.7%
Other	1H FY03/18	164	-	-	-	-	164
	<b>1H FY03/19</b>	<b>164</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>164</b>
	% change	-0.2%	-	-	-	-	-0.2%
Total	1H FY03/18	17,325	7,623	3,152	5,472	6,282	39,855
	<b>1H FY03/19</b>	<b>17,353</b>	<b>11,469</b>	<b>2,267</b>	<b>5,947</b>	<b>6,132</b>	<b>43,170</b>
	% change	+0.2%	+50.5%	-28.1%	+8.7%	-2.4%	+8.3%

		1H FY03/18	1H FY03/19	Change*1
Marine paints	New ships	8,239	8,432	+2.3%
	Ship repair	4,595	4,308	-6.2%
	PBs*2	1,135	1,120	-1.3%
		13,970	<b>13,860</b>	-0.8%
Industrial paints	Construction materials	1,913	2,072	+8.3%
	Heavy anti- corrosion	1,277	1,255	-1.7%
		3,190	<b>3,328</b>	+4.3%
Container paints		—	—	—
Other		164	164	-0.2%
Sales		17,325	<b>17,353</b>	+0.2%
Segment profit		708	<b>(46)</b>	-755

\*1. Sales = % of change, segment profit = amount of change

\*2. Pleasure boats, fishing boats, fishing nets, and others

## Sales

### Marine paints

- ◆ Despite higher sales of paints for new ships, unable to pass on higher raw material costs in selling price
- ◆ Some ship repair projects were shifted to 2H

### Industrial paints

- ◆ Sales increased due to construction materials growth centered on exterior wall materials

## Segment profit

- ◆ Marine paints gross margin declined substantially; despite maintaining profit margin and gross profit increase in industrial paints, profit decreased significantly overall



		1H FY03/18	1H FY03/19	Change*1
Marine paints	New ships	2,654	3,026	+14.0%
	Ship repair	2,075	1,850	-10.8%
	PBs*2	—	—	—
		4,729	<b>4,877</b>	+3.1%
Industrial paints	Construction materials	—	—	—
	Heavy anti- corrosion	494	486	-1.5%
		494	<b>486</b>	-1.5%
Container paints		2,399	<b>6,106</b>	+154%
Other		—	—	—
<b>Sales</b>		7,623	<b>11,469</b>	+50.5%
<b>Segment profit</b>		(126)	<b>(571)</b>	-445

\*1. Sales = % of change, segment profit = amount of change

\*2. Pleasure boats, fishing boats, fishing nets, and others

## Sales

### Marine paints

- ◆ Paints for new ships: Market appears to have bottomed out; although sales grew by double digits, number of low-profit projects increased
- ◆ Paints for ship repair: Dry-dock demand fell due to previous year's demand surge in response to ballast water regulations

### Container paints

- ◆ Sales grew substantially because demand in 1H FY03/18 was sluggish, being the period immediately after transition to water-based paints

## Segment profit

- ◆ Although impacted by rising raw material costs, the effect of higher sales in container paints grew profit at the gross profit level

		1H FY03/18	1H FY03/19	Change*1
Marine paints	New ships	2,510	1,775	-29.3%
	Ship repair	562	444	-20.9%
	PBs*2	—	—	—
		3,072	<b>2,219</b>	-27.8%
Industrial paints	Construction materials	—	—	—
	Heavy anti- corrosion	79	47	-40.7%
		79	<b>47</b>	-40.7%
Container paints		—	—	—
Other		—	—	—
<b>Sales</b>		3,152	<b>2,267</b>	-28.1%
<b>Segment profit</b>		183	<b>(599)</b>	-783

\*1. Sales = % of change, segment profit = amount of change

\*2. Pleasure boats, fishing boats, fishing nets, and others

## Sales

### Marine paints

- ◆ Ongoing contraction in mainstay market of paint for new ships; intensifying competition led to significantly lower sales

## Segment profit

- ◆ In addition to rising raw material costs, SG&A expenses increased on lower amount of reversal of allowance for doubtful accounts, resulting in substantial worsening in earnings
- ◆ Promoted structural reforms in light of challenging business environment in attempt to narrow losses

		1H FY03/18	1H FY03/19	Change*1
Marine paints	New ships	57	87	+52.1%
	Ship repair	3,072	3,214	+4.6%
	PBs*2	—	—	—
		3,130	<b>3,302</b>	+5.5%
Industrial paints	Construction materials	103	212	+106%
	Heavy anti- corrosion	1,967	2,089	+6.2%
		2,070	<b>2,301</b>	+11.1%
Container paints		271	<b>343</b>	+26.7%
Other		—	—	—
<b>Sales</b>		5,472	<b>5,947</b>	+8.7%
<b>Segment profit</b>		807	<b>578</b>	-229

\*1. Sales = % of change, segment profit = amount of change

\*2. Pleasure boats, fishing boats, fishing nets, and others

## Sales

### Marine paints

- ◆ Paints for ship repair were robust due to contribution from large projects; sales grew in Thailand, Indonesia, and Malaysia

### Industrial paints

- ◆ Construction material shipments increased in Indonesia; heavy anti-corrosive paints shipments increased in Thailand and Indonesia

### Container paints

- ◆ Sales grew in Malaysia

## Segment profit

- ◆ Secured profit from high ratio of relatively high-margin products (marine paints for ship repair and industrial paints)

		1H FY03/18	1H FY03/19	Change*1
Marine paints	New ships	167	61	-63.4%
	Ship repair	5,441	5,339	-1.9%
	PBs*2	375	426	+13.5%
		5,985	<b>5,828</b>	-2.6%
Industrial paints	Construction materials	—	—	—
	Heavy anti- corrosion	203	157	-22.8%
		203	<b>157</b>	-22.8%
Container paints		93	<b>147</b>	+57.4%
Other		—	—	—
<b>Sales</b>		6,282	<b>6,132</b>	-2.4%
<b>Segment profit</b>		(34)	<b>(347)</b>	-313

\*1. Sales = % of change, segment profit = amount of change

\*2. Pleasure boats, fishing boats, fishing nets, and others

## Sales

### Marine paints

- ◆ In Europe, sales of paints for new ships and ship repair struggled, but highly profitable pleasure boat sales were favorable
- ◆ Sales of paints for ship repair also struggled in the US

### Industrial paints

### Container paints

- ◆ Industrial paints were lackluster in Europe
- ◆ Sales of industrial and container paints grew in the US

## Segment profit

- ◆ Recorded operating costs of European shipowner projects, whose sales were recorded in other regions, causing losses to increase YoY; absent these costs, the segment would have been profitable

## 3. Full-Year Outlook

# FY03/19 full-year earnings forecast

Revised on October 30 in light of raw material price fluctuation

Gross profit margin expected to bottom out in Q3, improve from Q4

Plan to sell off strategic shareholdings, expect positive profit before income taxes

	FY03/18 results			FY03/19			Full-year changes
	1H	2H	Full year	1H results	2H forecast	Full-year forecast	
Net sales	39,855	43,124	82,980	43,170	<b>44,829</b>	<b>88,000</b>	+5,019
Operating profit	2,285	1,476	3,761	(237)	<b>(262)</b>	<b>(500)</b>	-4,261
Ordinary profit	2,465	1,447	3,912	(64)	<b>(135)</b>	<b>(200)</b>	-4,112
Profit before income taxes	2,466	1,450	3,917	(46)	596	550	-3,367
Profit attributable to owners of parent	1,467	979	2,447	(505)	<b>5</b>	<b>(500)</b>	-2,947
Dividend per share (JPY)	9.0	19.0	28.0	17.0	<b>17.0</b>	<b>34.0</b>	+6.0

# Sales forecast by region and product

Anticipate double-digit sales growth in China driven by ongoing demand for container paints

Also expect to achieve higher sales in marine paints

	FY03/18 full-year results	FY03/19 full-year forecast	Change
Japan	34,295	<b>34,000</b>	-0.9%
China	20,030	<b>24,500</b>	+22.3%
South Korea	5,778	<b>5,000</b>	-13.5%
Southeast Asia	10,909	<b>11,500</b>	+5.4%
Europe and the US	11,967	<b>13,000</b>	+8.6%
Marine paints	60,055	<b>61,600</b>	+2.6%
Industrial paints	12,339	<b>12,500</b>	+1.3%
Container paints	10,255	<b>13,600</b>	+32.6%
Other	330	<b>300</b>	-9.1%

## Ensure profitability

- ✓ Negotiate price hikes (passing on costs)
- ✓ Avoid low-profitability projects

## Shift focus to high-margin fields

- ✓ Focus efforts on paints for ship repair
- ✓ Develop passenger ship (cruise ship) projects
- ✓ Strengthen industrial paints
- ✓ Expand offshore wind power generation and other offshore structure projects

## Reduce costs

- ✓ Revise raw material procurement methods
- ✓ Consolidate and streamline products
- ✓ Revise manufacturing structure





[www.cmp-chugoku.com](http://www.cmp-chugoku.com)

Outlook presented in this material is based on judgements made in accordance with information available to CMP at the time this material was prepared. Actual results may differ materially from forecasts due to various risks and uncertainties.

# 4. Reference Material

# Company outline

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Name	Chugoku Marine Paints, Ltd.
Establishment	May 1917 (101 years ago)
Capital	11,626 million yen
Representative	Masataka Uetake, President and CEO
Stock exchange	First section of the Tokyo Stock Exchange (Code: 4617)
Net sales	82,980 million yen (consolidated net sales for FY03/18)
Employees	2,283 (consolidated, as of September 30, 2018)
Overseas bases (subsidiaries)	Deploying 22 companies in 20 countries, including China, South Korea, Singapore, Malaysia, Indonesia, Thailand, India, Holland, the United Kingdom, Germany, Greece, Italy, and the United States

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# Bases and group companies



## Major group companies

OHTAKE MEISHIN CHEMICAL, LTD.	Japan (Hiroshima)	CHUGOKU SAMHWA PAINTS, Ltd.	South Korea	CHUGOKU PAINTS B.V.	Holland
KOBE PAINTS, LTD.	Japan (Hyogo)	CHUGOKU MARINE PAINTS (Singapore) Pte. Ltd.	Singapore	CHUGOKU PAINTS (UK) Ltd.	UK
CHUGOKU MARINE PAINTS (Shanghai), Ltd.	China (Shanghai)	CHUGOKU PAINTS (Malaysia) Sdn. Bhd.	Malaysia	CHUGOKU PAINTS (Germany) G.M.B.H.	Germany
CHUGOKU MARINE PAINTS (Guangdong), Ltd.	China (Guangdong)	TOA-CHUGOKU PAINTS Co., Ltd.	Thailand	CHUGOKU-BOAT ITALY S.P.A.	Italy
CHUGOKU MARINE PAINTS (Hong Kong), Ltd.	Hong Kong	P.T. CHUGOKU PAINTS INDONESIA	Indonesia	CHUGOKU MARINE PAINTS (Hellas), S.A.	Greece
CHUGOKU MARINE PAINTS (Taiwan), Ltd.	Taiwan	CHUGOKU PAINTS (India) Pvt. Ltd	India	CMP COATINGS, Inc.	USA

# Products (marine paints)

## Marine paints

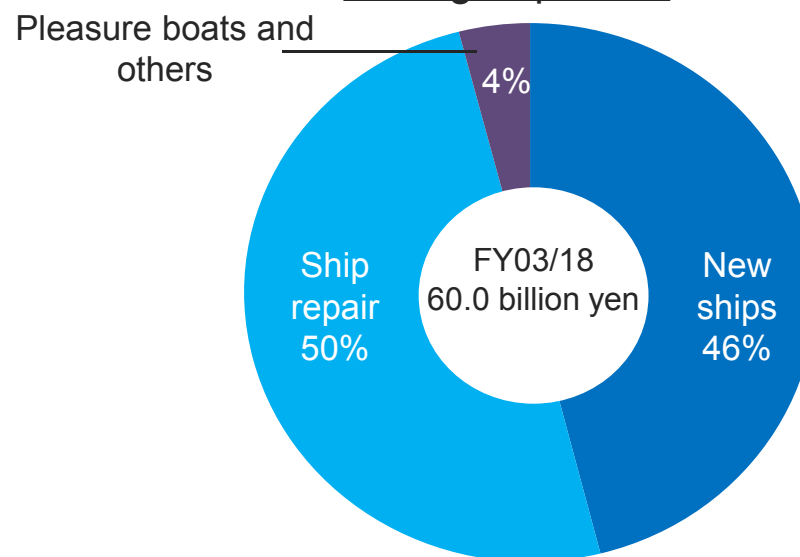
CMP provides antifouling paint that protects ship bottoms from contamination and products for every part of the hull, including anti-corrosive paint protecting a variety of tanks from corrosion.

In addition to Japan, the company has manufacturing bases in China and South Korea, where many new ships are built. CMP has built a network along major shipping lines, from Europe to East Asia, earning a top share in the global market.

In recent years, demand for new ship building has weakened due to oversupply of ships, but demand is expected to increase over the medium- to long-term due to global economic growth and increased marine transportation. More ships will result in greater demand for ship repairs.



CMP group sales

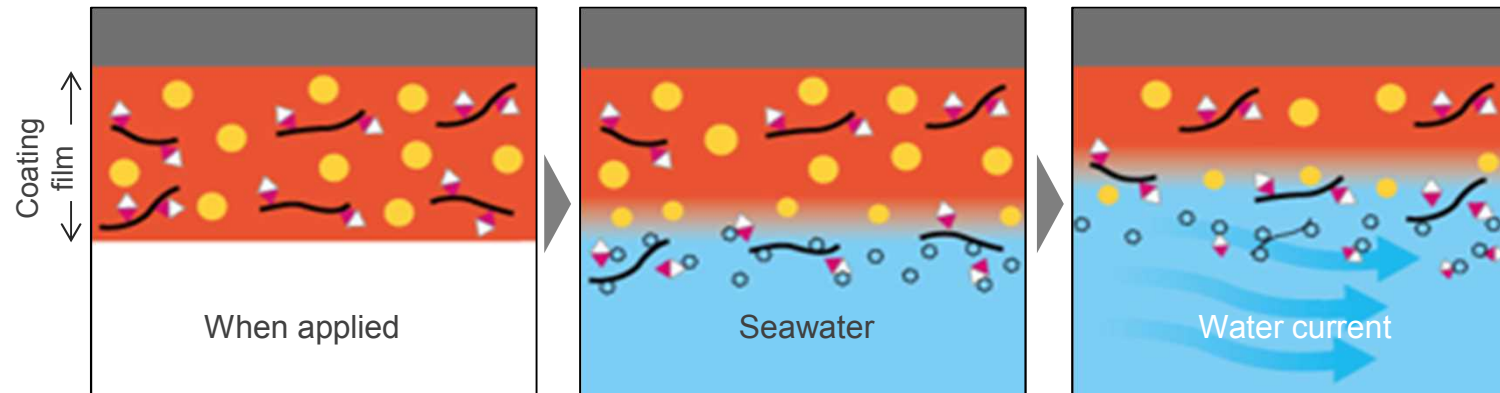


Market scale (global)	300–350 billion yen
Main players and share	Jotun (Norway), Akzo Nobel (Holland), and CMP account for approximately 70% of global market.

# Antifouling (hydrolysis-type) paint mechanisms

## Hydrolysis type

Hydrolysis-type paints have a surface that dissolves like soap and is later renewed, maintaining a smooth surface and stable antifouling functionality. By controlling the thickness of its coating film, it is possible to produce high and long-lasting antifouling performance. This is the main type of bottom paint used today.

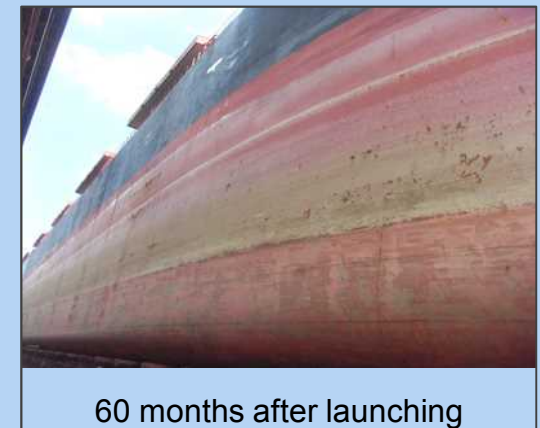


The coating films of antifouling paints contain hydrolytic resin (macromolecular polymers) and antifouling agents.

The paint hydrolyzes in seawater, converting from hydrophobic to hydrophilic, enabling the surface layer of coating film to dissolve and slowly release antifouling components while renewing itself.

Hydrolysis-type paints renew the coating film's surface evenly, allowing for long-term antifouling performance.

● Antifouling agents  
 ~ Macromolecular polymers  
 ● Seawater ions



# Products (industrial and container paints)

## Industrial paints

Utilizing technologies cultivated in marine paints, CMP provides a variety of products including construction materials such as flooring materials and exterior walls, high-function paints for films and plastic products, and heavy anti-corrosive paints for factories, bridges, and other structures.

In addition to Japan, our main market is emerging countries in Southeast Asia, where economic growth is driving robust infrastructure investment.

- UV-curable paints for flooring materials (approx. 49% share in Japan)



- Paints for cooling channels in electrical power plants (approx. 73% share in Japan)



- UV-curable paints for films



- Resin caulking materials for railway tracks



## Container paints

CMP provides container paints mainly in China, the leader in container production, where we have a leading global share.

Container shipping is growing globally, but container production fluctuates sharply in the short-term in line with shipping market conditions.

CMP is promoting technological development of water-based paints in anticipation of tightening environmental regulations in China to lead the market with high quality.





## E: Environment

### Products contributing to the realization of a sustainable society

#### Reducing CO<sub>2</sub> and saving energy

Antifouling paints, the core product of marine paints, improve ship mileage by reducing surface resistance due to presence of barnacles and other marine organisms, leading to a reduction in CO<sub>2</sub> and energy conservation.



SEAFLO NEO Z, low-fuel consumption antifouling ship paint

Heightening coating film smoothness reduces friction resistance in water. Received Japan Environment Minister's Award for Global Warming Prevention Activities.

#### Renewable energy

CMP promotes joint research with universities and research institutions and participates in several offshore wind power generation projects as a paint manufacturer.



#### Saving resources

Paints function to protect material from corrosion and deterioration. CMP's paint products contribute to saving resources by protecting iron, concrete, wood, and other materials from rust and corrosion, reducing losses.



FLUOREX, fluorine resin paint



Titanium foil corrosion prevention system



## S: Society

### Regional contributions

CMP conducts various activities at its offices worldwide.



Zero trash project (Shiga)



Outer premises cleanup activity  
(Kyushu Factory)



School painting donation  
(Thailand)



Factory tour (Malaysia)

### Human resource utilization (Re-employment system)

CMP started a re-employment system in April 2006 enabling employees who reach retirement age (60) to work until age 65. Veteran employees pass on technologies and skills to younger employees in an attempt to utilize accumulated knowledge.

## G: Governance

### Structure

- Organization: Company with auditors
- Director's term: One year
- Officer composition:  
Two of six directors are outside directors. (1/3)  
Two of four auditors are outside auditors.
- Outside officers (All registered with TSE as independent officers)

Position	Name	Profession
Outside director	Koji Ueda	Graduate school professor
Outside director	Motoyoshi Nishikawa	Attorney
Outside auditor	Seiichi Kawakami	Certified public tax accountant
Outside auditor	Shigeru Kajita	Certified public accountant

- Discretionary committee: Considering establishment of Nominating and Remuneration committees

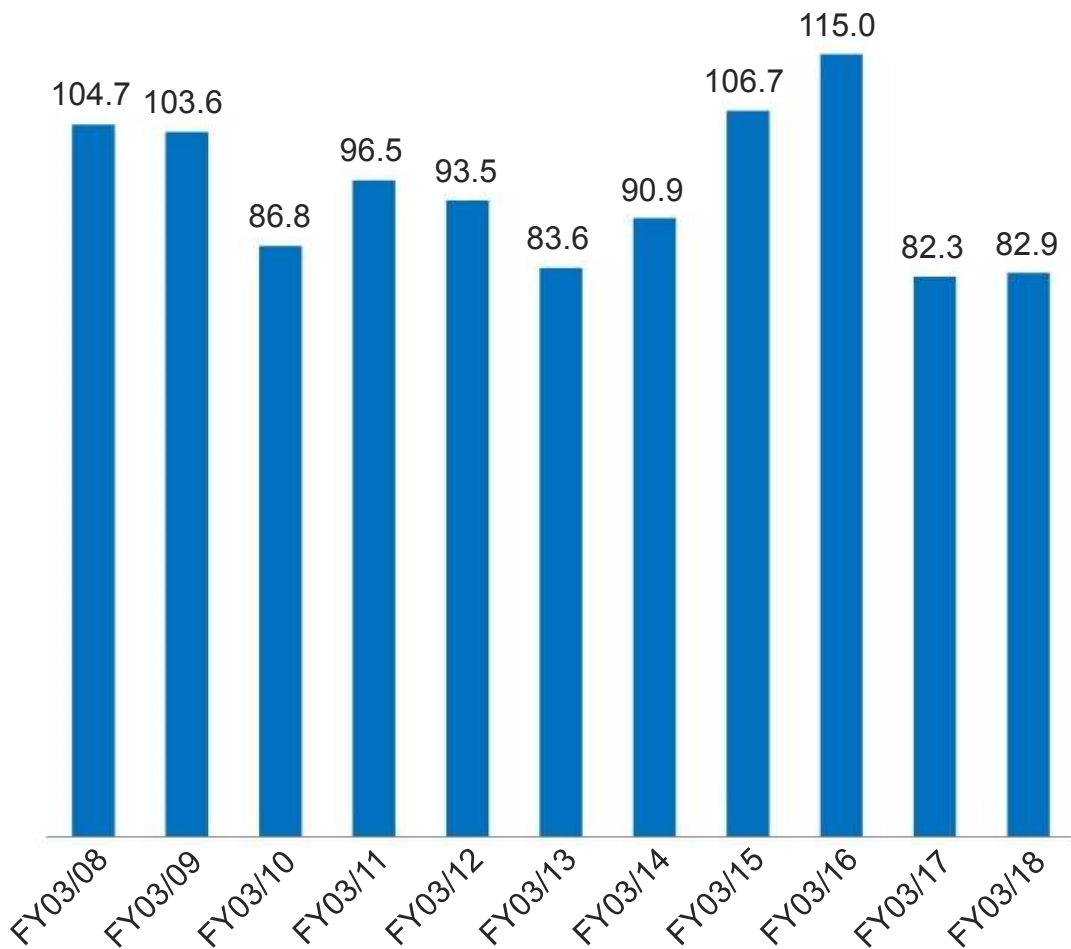
### Strategic shareholdings

CMP's policy is to promote reduction in strategic holdings. In 1H FY03/19, shares in one company was sold, with plans to sell shares in two or more companies in 2H.

# Consolidated performance

## Net Sales

(Billion yen)



## Operating profit

(Billion yen)

## EBITDA

