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On **May 15, 2019**, DIC Corporation (DIC) announced earnings results for Q1 FY12/19.

Quarterly performance (JPYmn)	FY12/17				FY12/18				FY12/19		FY12/17	FY12/18	FY12/19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	FY	FY	Est.
Sales	189,010	193,730	200,570	206,117	196,197	202,591	201,960	204,750	190,708		789,427	805,498	850,000
YoY	0.4%	2.2%	10.3%	7.4%	3.8%	4.6%	0.7%	-0.7%	-2.8%		5.1%	2.0%	5.5%
Gross profit	44,338	44,810	46,528	47,942	43,205	45,670	44,166	42,607	39,592		183,618	175,648	-
YoY	-0.8%	-2.1%	6.3%	5.8%	-2.6%	1.9%	-5.1%	-11.1%	-8.4%		2.3%	-4.3%	-
GPM	23.5%	23.1%	23.2%	23.3%	22.0%	22.5%	21.9%	20.8%	20.8%		23.3%	21.8%	-
SG&A expenses	31,208	31,902	32,011	32,014	32,181	32,376	32,072	30,634	31,506		127,135	127,263	-
YoY	-3.5%	-0.4%	8.4%	1.7%	3.1%	1.5%	0.2%	-4.3%	-2.1%		1.4%	0.1%	-
SG&A ratio	16.5%	16.5%	16.0%	15.5%	16.4%	16.0%	15.9%	15.0%	16.5%		16.1%	15.8%	-
Operating profit	13,130	12,908	14,517	15,928	11,024	13,294	12,094	11,973	8,086		56,483	48,385	52,000
YoY	6.4%	-6.0%	1.8%	15.0%	-16.0%	3.0%	-16.7%	-24.8%	-26.7%		4.2%	-14.3%	7.5%
OPM	6.9%	6.7%	7.2%	7.7%	5.6%	6.6%	6.0%	5.8%	4.2%		7.2%	6.0%	6.1%
Recurring profit	13,250	12,819	14,607	16,284	11,032	13,441	11,968	12,261	8,134		56,960	48,702	52,000
YoY	9.7%	-12.2%	-2.9%	15.8%	-16.7%	4.9%	-18.1%	-24.7%	-26.3%		2.1%	-14.5%	6.8%
RPM	7.0%	6.6%	7.3%	7.9%	5.6%	6.6%	5.9%	6.0%	4.3%		7.2%	6.0%	6.1%
Net income	8,839	8,601	17,679	3,484	7,410	7,495	7,537	5,586	5,302		38,603	32,028	35,000
YoY	28.7%	-14.9%	112.8%	-63.3%	-16.2%	-12.9%	-57.4%	175.1%	-28.4%		11.0%	-17.0%	9.3%
Net margin	4.7%	4.4%	8.8%	1.7%	3.8%	3.7%	3.7%	4.7%	2.8%		4.9%	4.0%	4.1%
Segments (JPYmn)	FY12/17				FY12/18				FY12/19		FY12/17	FY12/18	FY12/19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	FY	FY	Est.
Sales	189,010	193,730	200,570	206,117	196,197	202,591	201,960	204,750	190,708		789,427	805,498	850,000
Packaging & Graphic									105,319				4,600
Color & Display									32,603				1,296
Functional Products									67,222				2,969
(old seg) Printing Inks	89,900	91,581	94,429	97,756	92,902	95,147	95,766	96,743	-		373,666	380,558	-
(old seg) Fine Chemicals	34,273	33,183	34,653	33,311	33,850	33,476	31,830	33,111	-		135,420	132,267	-
(old seg) Polymers	46,919	48,255	50,211	52,498	49,372	51,417	51,338	53,691	-		197,883	205,818	-
(old seg) Compounds	15,038	16,095	16,754	16,793	15,666	16,481	16,386	16,689	-		64,680	65,222	-
(old seg) Application Materials	12,768	13,901	14,173	15,235	13,097	14,699	15,029	15,654	-		56,077	58,479	-
Other	65	183	158	204	141	131	108	132	106		610	512	-
Eliminations	-9,953	-9,468	-9,808	-9,680	-8,831	-8,760	-8,497	-11,270	-		-38,909	-37,358	-
External sales													
Packaging & Graphic									103,317				
Color & Display									23,051				
Functional Products									64,234				
(old seg) Printing Inks	89,900	91,581	94,429	97,756	92,902	95,147	95,766	96,743	-		373,666	380,558	-
(old seg) Fine Chemicals	25,321	24,805	25,956	24,796	26,084	25,956	24,587	23,032	-		100,878	99,659	-
(old seg) Polymers	45,936	47,197	49,135	51,381	48,358	50,229	50,120	52,524	-		193,649	201,231	-
(old seg) Compounds	15,033	16,077	16,733	16,762	15,626	16,442	16,364	16,679	-		64,605	65,111	-
(old seg) Application Materials	12,755	13,887	14,159	15,218	13,086	14,686	15,015	15,640	-		56,019	58,427	-
Other	65	183	158	204	141	131	108	132	106		610	512	-
Operating profit	13,130	12,908	14,517	15,928	11,024	13,294	12,094	11,973	8,086		56,483	48,385	52,000
Packaging & Graphic									3,230				
Color & Display									2,882				
Functional Products									3,562				
(old seg) Printing Inks	4,015	3,823	4,255	5,354	2,547	3,941	3,914	3,381	-		17,447	13,783	-
(old seg) Fine Chemicals	4,208	4,246	4,596	4,305	4,208	4,805	3,444	3,952	-		17,355	16,409	-
(old seg) Polymers	4,497	4,481	4,866	5,764	4,014	4,189	4,127	5,202	-		19,608	17,532	-
(old seg) Compounds	804	1,258	1,439	1,488	841	822	947	611	-		4,989	3,221	-
(old seg) Application Materials	754	375	707	762	513	983	1,049	651	-		2,598	3,196	-
Other	2	48	8	-	24	63	82	-74	42		58	95	-
Company-wide	-1,150	-1,323	-1,354	-1,745	-1,123	-1,509	-1,469	-1,750	-1,630		-5,572	-	-
OPM	6.9%	6.7%	7.2%	7.7%	5.6%	6.6%	6.0%	5.8%	4.2%		7.2%	6.0%	6.1%
Packaging & Graphic									3.1%				
Color & Display									8.8%				
Functional Products									5.3%				
Other	3.1%	26.2%	5.1%	-	17.0%	48.1%	75.9%	-56.1%	39.6%		9.5%	18.6%	-

Source: Shared Research based on company data

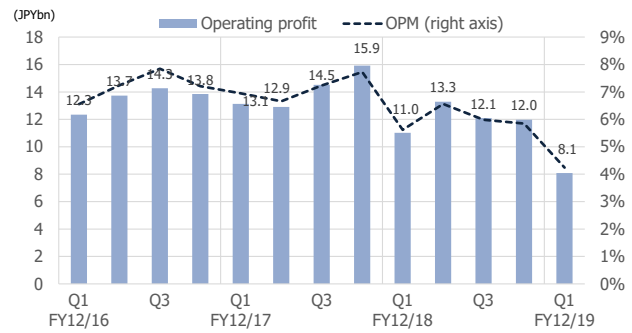
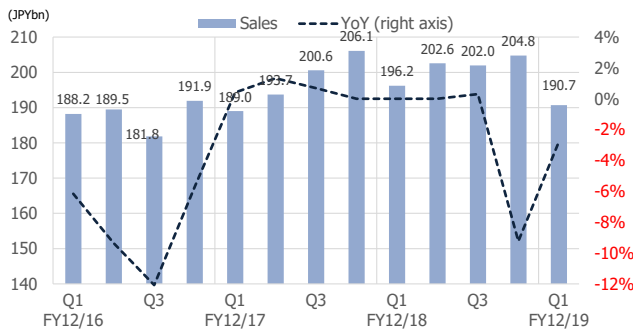
Note: Figures may differ from company materials due to differences in rounding methods.

## Q1 FY12/19 results

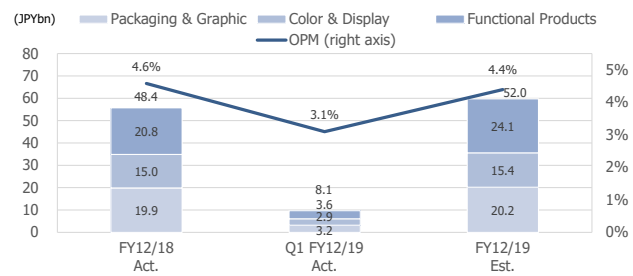
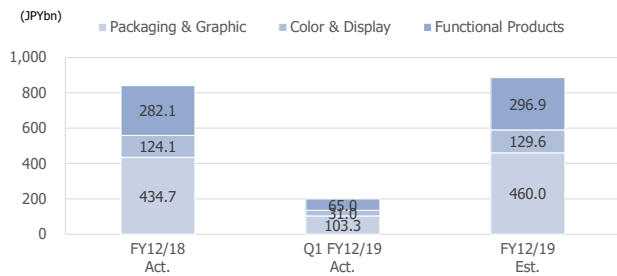
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- ▷ Q1 FY12/19: Sales down JPY5.5bn or -2.8% YoY (-0.4% YoY on local currency basis). Operating profit down JPY2.9bn or -26.7% YoY (-24.9% on local currency basis).
- ▷ Sales: Shipments declined broadly in sectors such as electrical, electronics, and automotive due to the effect of economic slowdown in China.
- ▷ Operating profit: As initially expected, the ongoing negative impact of higher raw material costs and weak shipments of high value-added products accelerated the profit decline. Operating profit was JPY8.1bn (-26.7% YoY), recurring profit was JPY8.1bn (-26.3% YoY), and net income was JPY5.3bn (-28.4% YoY). However, EBITDA (net income + income taxes + interest paid – interest received + depreciation + goodwill amortization) was down only 15.8% YoY to JPY15.3bn. The Functional Products segment posted the largest OP decline of 31.1% YoY.
- ▷ Raw material costs: The company had anticipated the delayed effect of stabilizing crude oil prices on Q1 earnings, but the effect of rising pigment intermediate prices has continued amid tightened Chinese environmental regulations. Higher distribution costs, opportunity loss and difficulty sourcing raw materials related to shutdowns following tightening of Chinese environmental regulations, natural disasters in Japan and the US, and conversion loss on weakness of European and emerging economy currencies also eroded profits.
- ▷ FY12/19 forecasts: The company has not changed its outlook, but sees potential downside risk and plans to factor in results in Q2 when demand for its products turns up, and any changes in the operating environment. Under its medium-term management plan DIC111, the company seeks sales and OP growth by progressing qualitative business reforms and creating new businesses, revising product prices, and expanding sales of value-added products. The company forecasts sales of JPY850bn (+5.5% YoY) and operating profit of JPY52.0bn (+7.5% YoY) in FY12/19.
- ▷ Packaging and Graphic: Operating profit was JPY3.2bn, down JPY11.7% YoY. Although the company made progress with price revisions, profit declined due to high raw material costs.
- ▷ Color and Display: Operating profit was JPY2.9bn, down 22.3% YoY. Falling prices of TFT LCD products and weak sales of general pigments hurt profits.
- ▷ Functional Products: Operating profit was JPY3.6bn, down 31.1% YoY. Shipments of high value-added profits declined and distribution costs went up.

**Performance**



**Earnings by segment (left: sales, right: operating profit)**



Source: Shared Research based on company data

**Business environment and results**

In Q1 FY12/19, the effect of the slowdown of the Chinese economy was felt worldwide, resulting in a shipment decline in many areas. The effect of US-China trade frictions on the global automobile and electronics businesses is also a cause for concern.

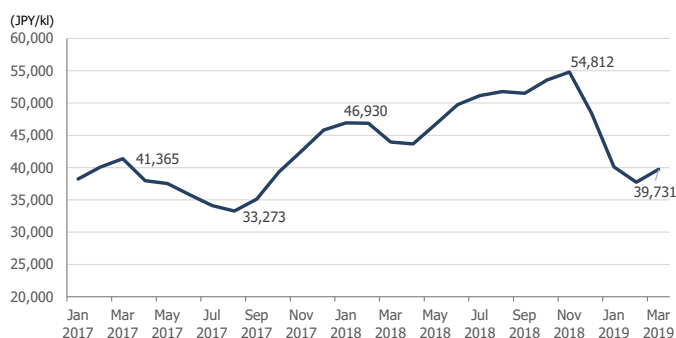
**Sales: Effect of Chinese economic slowdown spreads across industry sectors**

Shipments declined broadly in sectors such as electrical, electronics, and automotive due to the effect of economic slowdown in China. In Q1 FY12/19, sales were JPY190.7bn, down 2.8% YoY (-JPY5.5bn, -0.4% YoY on local currency basis), falling in both yen and local currency terms. Only local currency sales of the Packaging and Graphic segment increased YoY (+1.4%) due to brisk sales of packaging inks. The Color and Graphic segment posted the largest sales decline of 5.1% YoY (-3.6% YoY on local currency basis).

**Operating profit: Crude oil price remained high due to time lag; weak shipments of high value-added products**

Operating profit fell 26.7% YoY to JPY8.1bn, recurring profit was down 26.3% YoY to JPY8.1bn, and net income fell 28.4% to JPY5.3bn. The rise in ink raw material costs, falling TFT LCD prices amid intensifying competition, and the effect of tightened environmental regulations in China all had a negative impact on profits. The slump in previously stable shipments of high value-added products in the Functional Products segment and rising distribution costs also weighed on profits.

**Naphtha price in Japan (monthly price)**

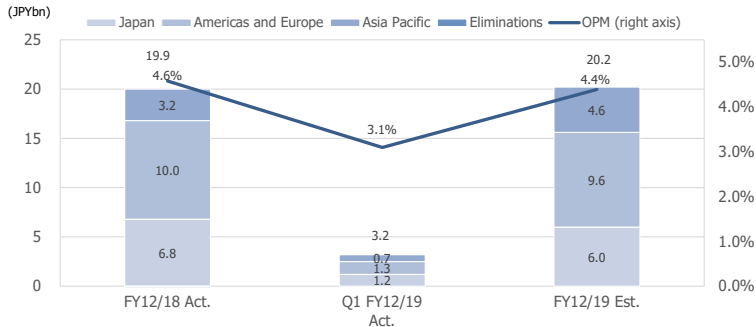


Source: Shared Research, based on Ministry of Finance trade statistics

## Packaging and Graphic

### Performance trends

Packaging & Graphic (JPYbn)	FY12/18	Q1 FY12/19	FY12/19			FY12/18	Q1 FY12/19	FY12/19			
	Act.	Act.	Est.	YoY	YoY (L/C)		Act.	Act.	Est.	YoY	YoY (L/C)
Sales	434.7	103.3	460.0	-1.9%	1.4%	Operating profit	19.9	3.2	20.2	-11.8%	-10.5%
Japan	120.3	27.9	121.7	-2.7%	-2.7%	Japan	6.8	1.2	6.0	-8.8%	-8.8%
Americas and Europe	255.3	61.4	271.7	-2.0%	2.6%	Americas and Europe	10.0	1.3	9.6	-27.5%	-24.7%
Asia Pacific	71.1	16.8	79.0	-1.9%	2.7%	Asia Pacific	3.2	0.7	4.6	19.5%	22.7%
Eliminations	-12.0	-2.9	-12.4	-	-	Eliminations	-0.1	-	-	-	-
Change			25.3			Change			0.3		
Japan			1.4			Japan			-0.8		
Americas and Europe			16.4			Americas and Europe			-0.4		
Asia Pacific			7.9			Asia Pacific			1.4		
Eliminations			-0.4			Eliminations			0.1		



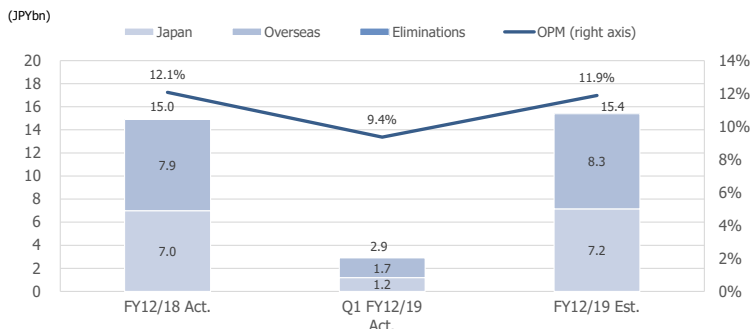
Source: Shared Research based on company data

- ▷ FY12/18 sales mix: Package Solutions under 70%, specialty (jet ink, security ink) approximately 5%, publication ink 25% (of which newspaper ink 25%)
- ▷ Market overview: Growth in packaging ink market; publishing and newspaper ink shrinking in developed nations, expanding in certain regions in Asia
- ▷ Growth strategy: Restructure production facilities, and advance growth (4% annually, expected) and gain market share in packaging ink to compensate for drop in demand for publishing and newspaper inks (roughly 5%)
- ▷ M&A: Subsidiary Sun Chemical is continuing its strategy of acquiring companies with technological strength
- ▷ Q1 FY12/19: Operating profit down 11.7% YoY to JPY3.2bn. Profit declined despite product price revisions due to rising raw material prices, mainly of publication inks.

## Color and Display

### Performance trends

Color & Display (JPYbn)	FY12/18	Q1 FY12/19	FY12/19			FY12/18	Q1 FY12/19	FY12/19			
	Act.	Act.	Est.	YoY	YoY (L/C)		Act.	Act.	Est.	YoY	YoY (L/C)
Sales	124.2	31.0	129.6	-5.1%	-3.6%	Operating profit	15.0	2.9	15.4	-22.3%	-19.7%
Japan	34.5	7.7	34.5	-8.0%	-8.0%	Japan	7.0	1.2	7.2	-17.6%	-17.6%
Overseas	101.4	26.2	106.6	-4.5%	-2.6%	Overseas	7.9	1.7	8.3	-24.6%	-20.3%
Eliminations	-11.7	-3.0	-11.5	-	-	Eliminations	0.1	-	-	-	-
Change			5.4			Change			0.4		
Japan			-			Japan			0.2		
Overseas			5.2			Overseas			0.4		
Eliminations			0.2			Eliminations			-0.1		



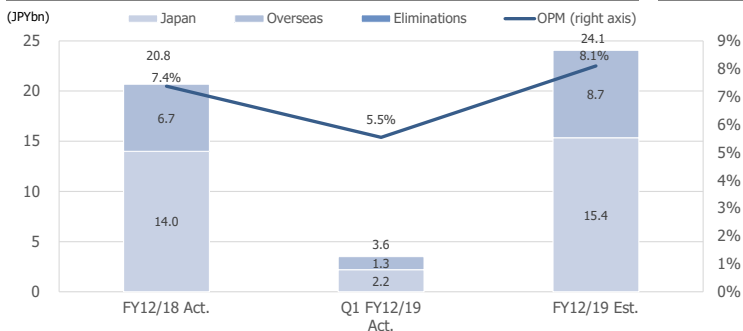
Source: Shared Research based on company data

- ▷ FY12/18 sales mix: Packaging solutions just below 70%, specialty inks (jet inks, security inks) roughly 5%, and publishing inks roughly 25%, of which newspaper inks represent one quarter Market overview: Largest share in green and blue color filters (under functional pigments). Cosmetics sales growing in Asia
- Chemical supplies down due to stricter environmental regulations in China. Titanium oxide supplies tighten due to deteriorating operating conditions at some manufacturers
- ▷ Growth strategy: Sales promotions of high performance materials, sustain (green color filters) and expand (blue color filters, TFT liquid crystals) market share. Maintain firm hold on top market share for color filters
- ▷ Q1 FY12/19: Operating profit was down 22.3% YoY to JPY2.9bn. Profit declined due to falling prices of TFT LCD products and weak shipments of general pigments. Tightened environmental regulations in China also weighed on profits.

## Functional Products

### Performance trends

Functional Products (JPYbn)	FY12/18		Q1 FY12/19		FY12/19		FY12/18		Q1 FY12/19		FY12/19	
	Act.	Est.	Act.	Est.	YoY	YoY (L/C)	Act.	Est.	YoY	YoY (L/C)	Act.	Est.
Sales	282.1	296.9	65.0	212.0	-3.3%	-2.2%						
Japan	208.3	212.0	48.3		-2.0%	-2.2%						
Overseas	100.4	112.3	22.6		-7.4%	-4.6%						
Eliminations	-26.6	-27.4	-5.9		-	-						
Change		14.8										
Japan		3.7										
Overseas		11.9										
Eliminations		-0.8										
Operating profit	20.8	24.1	3.6	15.4	-31.1%	-30.4%						
Japan	14.0	15.4	2.2		-37.7%	-37.7%						
Overseas	6.7	8.7	1.3		-20.9%	-18.2%						
Eliminations	0.1	-	-		-	-						
Change		3.3										
Japan		1.4										
Overseas		2.0										
Eliminations		-0.1										



Source: Shared Research based on company data

- ▷ FY12/18 sales mix: Strategic products (aqueous resins, UV-curable resins, acrylic resins, polyester resins, PPS compounds) just above 40%, high-margin products (such as epoxy resins, modifiers, fluorochemicals, phenolic resins, hollow fiber membrane modules, and industrial adhesive tape) just below 30%, and efficiency-gearred products (such as unsaturated polyester resins, colorants, functional compounds, printing processing, and laminate processing) just below 30%
- ▷ Market overview: Among general-use products, polystyrene (PS) usage showed signs of increasing for food packaging. In Japan, sales of polymers for ink and paint are declining, but sales are increasing in the electrical and electronics sectors, with a shift toward more high value-added products. The company noted progress in the overall shift to high value-added products.
- ▷ Growth strategy: Seeking to increase weighting of high value-added products such as epoxy resins and UV cured resins. Greater compliance with environmental regulations also a positive factor.
- ▷ Q1 FY02/19: Operating profit was JPY3.6bn (-31.1% YoY). Profit fell sharply despite the effect of price revisions started in FY12/18 materializing because of a drop in shipments of high value-added products like epoxy resins and increased distribution and utility costs.

Shared Research plans to update the report after interviews with the company.

This note is the most recent addition to the [full report](#).

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