Report of Operations

Consolidated results of operations

Progress and outcomes of operations

We are pleased to report results of the operations for the 50th term (the period from April 1st in 2019 to March 31st in 2020)

During the period the global economies tended to lose momentum due to US-China trade friction and uncertainties to come up from BREXIT. In the latter half of the period although the friction was eased, which helped economic activities show gradual recovery symptoms, COVID-19 makes it again difficult to predict outlook of the global economies.
Looking at Asia where we are in operations, although annual China's GDP growth kept 6% range, since COVID-19 came out it went down rapidly. Afterwards China resumed economic activities but a significant decline in its growth rate will not be avoidable. Growing concern about recession in each of ASEAN counties is seen based on the supply chain structure having China heavily involved especially in the manufacturing industry. India's GDP growth went down to 5% range through dramatical economy changes such as financial crisis due to bad debt and reduction of household consumption. As for South Korea its GDP growth was 2%, which was lower than expectations.

Japan was in a gradual recovery mode even being at the mercy of the trade friction between the US and China, however the consumption tax rate increase negatively impacted and a strong concern about serious recession came up due to COVID-19, which nobody knows when it would cease.

Under such a circumstance, having reached our 70th anniversary, our group of companies comprised of 2 in Japan and 4 overseas, have been working together to maximize our values by sharing information on the markets, the products and the raw materials as well as taking an expertise cross-border approach.
The group's consolidated Sales were JPY11,323 million which was 1.1% decrease vs. last fiscal year due to the slowdown in China economies. The consolidated Operating Income was JPY603 million which was 31.1% decrease. This was due to proactive workforce increase in order to achieve the group's middle to long term business objectives and investment in IT infrastructure to improve productivities. Ordinary Income became JPY565 million after re-evaluation on inventories and investment assets, which was 33.0% decrease.
Non-consolidated basis FY2019 financials were JPY9,995 million in sales which was 0.5% decrease due to decline in export to China in Electronics Material business, despite Fine Chemicals and Test & Measurement businesses grew. Operating Income and Ordinary Income were JPY310 million and JPY414 million respectively which were 18.2% and 11.0% decreases due to strategic investment made around key businesses and IT infrastructure.

The upcoming 51st term should be tough due to a significant slowdown in the global economies, but in line with the Management Philosophy that AR Brown group should contribute to new value creation leading to a step change, AR Brown group is committed to making firm progress by enhancing expertise.

Overview of each of the businesses in this period
—— Consolidated basis ——

Electronics Materials Business

The consolidated financials resulted in a negative growth of 8.4% in sales and of 13.6% in profit respectively. Japan, ASEAN, South Korea grew, and India started Coating business, while China declined by 28% and RMB depreciation versus JPY also gave additional negative impact to profit. As for Automotive Electronics segment, although China declined slightly, rest of the regions grew nicely so that the segment showed a growth in both sales and profit. Especially increase in number of customers and number of new applications served by Coatings and Thermal Management materials contributed. As to Home Appliance & IT segment, ASEAN grew continuously but China, that is the largest marketplace, struggled so that the segment resulted in a considerable negative growth. Regarding Electronics Chemical segment, various Thermally Conductive fillers increased number of customers who started to use for mass production purposes. Furthermore, many other potential customers moved into middle volume evaluation phase. Equipment business associated with the materials supplied took a great shape helping the customers overcome challenges coming from labor shortages.

Performance Chemical Business

Sales and profit increased by 8.7% and 23.0% respectively. Biocide segment which increased India sourced product offerings on the top of Chinese ones, Adhesive segment and Paint & Ink segment grew nicely. In addition, Personal Care segment, which had started to focus on since several years ago, grew significantly so that business domain diversification became visible despite its business scale is not significant enough. As for Tire segment, China grew, Japan was flat and ASEAN declined so that the segment was finally flat. From June Aviation & Aerospace segment was transferred from Fine Chemicals, which showed a negative growth due to decline in number of aerospace launched in this period. By deploying dedicated salespeople in Thailand and China, this business also became ready to do synergistic works between Japan, China, ASEAN, India, and Korea so that cross border strategies across Asia can be developed and executed in an organic manner.

Fine Chemical Business

Sales and profit grew by 4.9% and 15.3% respectively despite Aviation & Aerospace segment was transferred. Both New Medicine segment and Generic Medicine segments grew nicely, and Bio-Medicine segment took off delivering Drug Linker to a large Pharmaceutical company. As for New Medicine segment grew significantly with a few intermediates supplied to a few large Pharmaceutical companies. In Generic Medicine segment, driver was API (Active Pharmaceutical Ingredient) sourced from Taiwan, its imported from India and its made by Japanese company exported to Korea. Food Inspection segment struggled due to necessity for change management based on specification change of a raw material used in relevant testing kits and an order cancelation from the Ministry of Health in Indonesia due to COVID-19. Livestock food inspection kit business was steady. Development of a new offering to Livestock market reached the point that the development would complete within the first half of the next fiscal year.

Life Science Business

The business showed 0.9% of negative growth in sales and 1.9% of growth in profit. Bioresearch segment grew in the second half which was not able to offset a decline made in the first half due to a project completion done at a bulk customer. Sterilization segment for Pharmaceutical firms & Medical Instrument companies was flat and Livestock Breeding segment declined due to delay in relevant license acquisition.
On the other hand Nano-membrane business took a good shape based on steadiness of incumbent businesses as well as additional revenues came from several new customers identified. Business with PGT (Preimplantation Genetic Testing) equipment for IVF (In Vitro Fertilization) grew significantly thanks to a new equipment offering which was technically competitive and promotion through workshops that were recognized as highly professional by 3rd parties.

Test & Measurement Business

Consolidated sales and profit grew at 9.2% and 16.9% respectively. As for Automotive segment, ADAS (Advanced Driver Assistance System) related testing system business grew continuously. Under collaboration with partners, maintenance centers were established in China and Japan respectively in order to enhance service capabilities where capabilities for rental and maintenance business were put in place simultaneously. Having said that due to COVID-19 import from Europe into China became very challenging which resulted in delivery delay to the next fiscal year. In Japan, Pressure Mapping equipment business took a good shape, in addition Tire sector succeeded in a couple of new product sales taking a step by step approach. Aerospace & Aviation segment grew nicely driven by acceleration sensor business. Electronics segment struggled where unfortunately Thermal Test Partner, newly developed offering did not take off despite effort was made. Furthermore, a significant time was consumed with Shock Test equipment imported in order to do adjustment work before shipment. As to Automated Medicine Packaging Machine segment, the second delivery was done to the large hospital but since COVID-19 started, sales activities were obliged to stop.