

FY2023 1Q Financial Results Presentation
Summary of Q&A Session
(August 7, 2023)

Electronics & Innovative Products

Q1: According to Slide 7, the volume of spherical alumina and spherical fused silica shipped during the first quarter decreased year on year due to a decline in demand for consumer electronics. Could you describe the trend in sales of products for use in server components and vehicle-mount devices?

A1: Demand for consumer electronics is indeed in a significant decline, but the volume of shipments was relatively steady for highly functional products, such as those for use in server components. Market demand for products for use in vehicle-mount devices is on a recovery trend in Europe and elsewhere.

Q2: What is your projected timeline for recovery in sales of spherical fused silica, highly functional films and other semiconductor-related products?

A2: The consumption of inventories of spherical fused silica and highly functional films for semiconductor use at user companies is currently progressing and sales are expected to catch up with actual demand going forward. In addition, we expect demand for highly functional films for use in electronic parts to recover earlier than demand for semiconductor-use products, as the consumption of inventories at user companies has already been progressing in the first quarter.

Life Innovation

Q3: Denka has upwardly revised its first-half operating income forecast for Life Innovation. Is that due to robust demand for test kits currently in excess of the forecast at the beginning of the fiscal year?

A3: We anticipate that the COVID-19 antigen test kits shipment volume will fall short of our earlier forecast. On the other hand, due in part to the ongoing spread of influenza infections over a prolonged period that began in the 2022 season, we believe that demand for influenza virus test kits will exceed our estimate as will demand for simultaneous test kits for COVID 19 and influenza. Testing demand for RS virus and A group hemolytic streptococcus is similarly growing. Accordingly, we expect the shipment volume of other test kits to grow.

Q4: The spread of influenza infections has been ongoing from the 2022 season. Is Denka able to ship 11 million rounds of influenza vaccines in line with its shipment forecast at the beginning of the fiscal year?

A4: The production of these vaccines is steadily under way, with shipments expected to begin in September 2023 as initially estimated. Considering that public calls for earlier vaccinations are stronger than ever, we are developing our structure to maximize the volume of products shipped during the September–October 2023 period.

Elastomers & Infrastructure Solutions

Q5: Has the production and shipment of chloroprene rubber (CR) been affected by the accident at the Omi Plant?

A5: Due to the impact of the accident, the volume of CR production is currently down to 70% of usual output. However, as CR demand has been more stagnant than expected, there has been no impact on shipments to date and we have been able to meet what demand there is by, for example, releasing inventories. Once safety is confirmed by the accident investigation committee, the facilities currently in suspension will resume operations. Taking these factors into account, we believe that, going forward, CR production and shipment will remain unaffected by this accident.

Q6: Please elaborate on the factors behind the growth in repair and labor costs recorded at DPE, a CR manufacturing subsidiary in the United States, as presented in Slide 5.

A6: While inflation has led to increases in repair, labor and other fixed costs, the aging of DPE's plant facilities has called for the implementation of repair and other countermeasures, which, in turn, resulted in growing expenses in relevant cost items.

Polymer Solutions

Q7: Denka has been confronting a deterioration in profitability since fiscal 2022. What countermeasures do you intend to implement to improve the situation?

A7: Two years ago, we doubled our MS resin production capacity. While this move resulted in higher depreciation costs, the MS resin facility utilization rate has yet to grow robust as the timing of the facility expansion coincided with demand stagnation. In addition, a larger proportion of Denka's functional resins are used in consumer electronics and general-merchandise products than for automotive applications. Because of this, a decline in demand for consumer electronics and general-merchandise products would have a significant immediate impact on functional resin sales. However, we believe that profitability will improve in step with recovery in demand going forward.

Shareholder Returns

Q8: Denka has revised its first-half operating results forecasts downward while announcing that it is putting its full-year operating results forecast under close examination. However, the likelihood of drastic improvement is believed to be low given the harsh environment surrounding the industry. If Denka's full-year operating results fall short of its forecasts, would you consider decreasing dividends to align with the target total shareholder return ratio of 50%?

A8: Once we have renewed our forecasts for full-year operating results and taken a comprehensive look at projections of Denka's operating results for fiscal 2024 and later as well as its market ratings and other factors, we will make a fresh announcement of our full-year dividend forecasts.

As for interim dividends, we plan to pay ¥60 per share in line with the forecast at the beginning of the fiscal year, unless first-half operating results radically deviate from the forecasts we have just disclosed.