

Summary of Consolidated Financial Results

Denka company Limited

1. Summary

1.1 Overview

Since April 2018, the Denka Group has been pushing ahead with Denka Value-Up, a management plan spanning a period of five years, to realize the corporate philosophy enshrined in The Denka Value. Under the plan's threefold growth vision designed to create a "Specialty-Fusion Company" capable of achieving "Sustained Growth" and "Sound Growth," the Group has been promoting two growth strategies, namely, the business portfolio shift and the introduction of innovative processes, aiming to expand its operations and enhance profitability.

As a result, the Group's operating results for the fiscal year ended March 31, 2020 (fiscal 2019), included persistently robust sales of products for use in electric vehicles (EVs), such as spherical alumina and acetylene black. At the same time, sales of diagnostic reagents and influenza vaccines produced by Denka Seiken Co., Ltd., were up compared with the previous fiscal year. However, sales of chloroprene rubber (CR) and other key products were sluggish due to such factors as U.S.-China trade tension. Moreover, the spread of the novel coronavirus caused overall sales to decline from January 2020. Consequently, consolidated net sales totaled ¥380.8 billion, down ¥32.3 billion, or 7.8%, compared with the previous fiscal year.

On the earnings front, the Group was affected by a number of negative factors, such as spending on forward-looking investment and growth in fixed costs associated with the implementation of management plan initiatives in addition to the lower sales volume of CR and other products. These factors largely outpaced positive effects arising from the absence of periodic shutdown maintenance of styrene monomer production facilities and other factors, leading to decreases in profit indices. Consequently, operating income was ¥31.6 billion, down 7.7%, ordinary income was ¥30.0 billion, down 8.5%, and profit attributable to owners of the parent was ¥22.7 billion, down 9.4% from the previous fiscal year.

1.2 Fiscal 2020 Operating Results Forecasts

In the fiscal year ending March 31, 2021 (fiscal 2020), the economic environment is expected to remain harsh due to U.S.-China trade tension as well as restrictions currently being placed on economic activities to counter the spread of the novel coronavirus in countries around the globe. However, in line with Denka Value-Up, the Group is determined to implement initiatives to accelerate the expansion of specialty businesses, including EV- and healthcare-related operations, while stabilizing its profitability by expanding sales of its offerings in priority fields and reducing manufacturing costs. Taking these factors into account, Denka's operating results forecasts for fiscal 2020 include consolidated net sales of ¥360.0 billion, operating income of ¥31.0 billion, ordinary income of ¥29.0 billion and profit attributable to owners of parent of ¥21.0 billion.

The above forecasts are formulated based on the assumption that the effect of the novel coronavirus pandemic will gradually taper off from the second quarter onward and economic activity will be largely normalized some time in the third quarter. However, we are refraining from disclosing operating results forecasts for the first six months of FY2020 as the magnitude of the fallout from the pandemic may significantly differ from our projections.

1.3 Results by Segment

Elastomers & Performance Plastics

In addition to the full utilization of styrene monomer plants that underwent periodic shutdown maintenance in the previous fiscal year, the Group has benefitted from an improvement in the market spread of styrene-based resin produced by Denka Singapore Pte. Ltd. However, the Group saw a decrease in segment income due mainly to a year-on-year decrease in CR sales volume reflecting an overall decline in demand.

Infrastructure & Social Solutions

In terms of the full-year segment results, the Group achieved a turnaround from the previous fiscal year's operating loss, recording operating income buoyed mainly by improving profitability due to upwardly revised product prices

Electronics & Innovative Products

The Group has been enjoying higher sales of EV-related products, including spherical alumina and ultra-high purity electro-conductive carbon black. A related need for measures to strengthen production systems, however, engendered higher fixed costs. Moreover, sales of highly functional films and spherical fused filler for use in electronic components and semiconductors were down year on year. Nevertheless, segment income was up compared with the previous fiscal year.

Living & Environment Products

Sales of plastic rain gutters and industrial tapes were firm, while sales of food packaging sheets and processed products based on such sheets remained virtually unchanged from the previous fiscal year. However, sales of TOYOKALON synthetic wig fibers were down year on year, causing segment income to decline.

Life Innovation

Sales of diagnostic reagents and influenza vaccines produced by Denka Seiken Co., Ltd. grew year on year, causing segment income to increase.

2. Consolidated Financial Results and Forecast

Billions of Yen

	FY2019 Apr to Mar	FY2018 Apr to Mar	Incr. △Decr.	FY2020 Forecast Apr to Mar	Incr. △Decr.
Net Sales	380.8	413.1	△ 32.3	360.0	△ 20.8
Operating Income	31.6	34.2	△ 2.6	31.0	△ 0.6
Ordinary Income	30.0	32.8	△ 2.7	29.0	△ 1.0
Net Income	22.7	25.0	△ 2.3	21.0	△ 1.7

3. Net Sales and Operating Income by segments

		FY2019 Apr to Mar	FY2018 Apr to Mar	Incr. △Decr.	FY2020 Forecast Apr to Mar	Incr. △Decr.
Elastomers & Performance Plastics	Sales	149.3	179.2	△ 29.9	125.0	△ 24.3
	Operating Income	10.9	14.2	△ 3.3	7.5	△ 3.4
Infrastructure & Social Solutions	Sales	54.8	54.8	△ 0.0	55.0	0.2
	Operating Income	0.3	△ 0.3	0.5	2.0	1.7
Electronics & Innovative Products	Sales	68.0	67.1	0.9	73.0	5.0
	Operating Income	12.4	11.8	0.6	13.5	1.1
Living & Environment Products	Sales	37.0	39.0	△ 2.1	33.0	△ 4.0
	Operating Income	0.1	0.9	△ 0.8	0.5	0.4
Life innovation	Sales	35.5	34.1	1.4	38.0	2.5
	Operating Income	7.0	6.3	0.7	7.0	0.0
Others/ Companywide	Sales	36.2	38.8	△ 2.6	36.0	△ 0.2
	Operating Income	0.9	1.3	△ 0.4	0.5	△ 0.4
Total	Sales	380.8	413.1	△ 32.3	360.0	△ 20.8
	Operating Income	31.6	34.2	△ 2.6	31.0	△ 0.6

4.1 Sales by segments

	Sales				
	FY2019 Apr to Mar	FY2018 Apr to Mar	Incr. △Decr.	Sales price	Sales volume
Elastomers & Performance Plastics	149.3	179.2	△ 29.9	△ 17.5	△ 12.4
Infrastructure & Social Solutions	54.8	54.8	△ 0.0	1.5	△ 1.6
Electronics & Innovative Products	68.0	67.1	0.9	1.1	△ 0.1
Living & Environment Products	37.0	39.0	△ 2.1	△ 0.9	△ 1.1
Life innovation	35.5	34.1	1.4	△ 0.4	1.8
Others	36.2	38.8	△ 2.6	-	△ 2.6
Total	380.8	413.1	△ 32.3	△ 16.3	△ 16.1

4.2 Operating income by segments

	Operating income					
	FY2019 Apr to Mar	FY2018 Apr to Mar	Incr. △Decr.	Sales price	Sales volume	Operating cost & others
Elastomers & Performance Plastics	10.9	14.2	△ 3.3	△ 17.5	△ 6.2	20.4
Infrastructure & Social Solutions	0.3	△ 0.3	0.5	1.5	△ 0.5	△ 0.5
Electronics & Innovative Products	12.4	11.8	0.6	1.1	0.4	△ 0.8
Living & Environment Products	0.1	0.9	△ 0.8	△ 0.9	△ 0.7	0.8
Life innovation	7.0	6.3	0.7	△ 0.4	1.0	0.0
Others	0.9	1.3	△ 0.4	-	0.0	△ 0.5
Total	31.6	34.2	△ 2.6	△ 16.3	△ 5.9	19.5

5. Key operating factors

		FY2019 Apr to Mar	FY2018 Apr to Mar	Incr. △Decr.	FY2020 Forecast Apr to Mar	Incr. △Decr.
Investment	Capital expenditure	34.2	32.7	1.5	47.0	10.1
	M&A etc.	2.7	0.1	2.6		
		36.9	32.8	4.1	47.0	10.1
Depreciation		22.5	22.9	△ 0.4	24.0	1.5
Research and Development		15.0	14.6	0.5	16.0	1.0
Interest-bearing debt		134.3	112.1	22.2	152.0	17.7
Yen / USD exchange rate		109.1	110.7		108.0	
Naphtha price (yen/ KI)		42,650	49,500		32,000	