

Summary of Consolidated Financial Results

Denka company Limited

1. Summary

1.1 Overview

April 2018, the Denka Group has been pushing ahead with the 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.

In the first nine months of the fiscal year ending March 31, 2020, the Group has continued to enjoy 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 same period of the previous fiscal year. However, the Group had to downwardly revise sales prices of styrene-based products in step with plunges in raw material prices while being affected by the lower sales volume of chloroprene rubber (CR) and semiconductor-related products (highly functional films, spherical fused filler, etc.). Consequently, consolidated net sales totaled ¥288.7 billion, down ¥21.6 billion, or 7.0%, compared with the same period of the previous fiscal year, while operating income decreased ¥0.8 billion, or 3.2%, year on year to ¥24.0 billion. Ordinary income likewise fell 6.4% year on year to ¥22.7 billion. Profit attributable to owners of the parent was ¥16.7 billion, down 9.3%. Thus, Denka saw decreases in all of the aforementioned profit indices.

The US-China trade dispute continues to have negatively affected, moreover the outbreak of the new coronavirus is rapidly expanding, therefore the outlook of the global economy for the future is becoming even more uncertain. Taking these factors into account, Denka expects that recovery in demand for CR and other offerings will take some time, and overall there is a concern that the situation will remain sluggish, but on the other hand, our specialty businesses such as Electronics and Innovative Products and Life Innovation are growing, and Denka group will continue to manage to secure the expected profit for the current term.

Furthermore, in order to achieve the above-mentioned "Denka Value-Up" targets, we will actively promote our growth strategy.

1.2 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 improving spreads of styrene-based resin produced by Denka Singapore Pte. Ltd. However, the Group saw a decrease in segment income due to such factors as the lower CR sales volume.

For the fourth quarter, the Group expects the downward trend in CR sales volume to continue, leading to a significant decline in terms of the full-year operating results. Accordingly, the Group believes that segment income will

Infrastructure & Social Solutions

In terms of nine-month segment results, the Group achieved a turnaround from the operating loss recorded in the same period of the previous fiscal year to operating income, buoyed mainly by improving profitability due to upwardly revised product prices.

The Group also anticipates recording operating income for the full-year as it believes that the positive impact of the revised product prices will continue to prevail through the fourth quarter.

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 same period of the previous fiscal year.

For the fourth quarter, the Group expects sales in EV-related fields to remain robust while believing that sales of semiconductor-related products will begin to see modest growth. Therefore, in terms of full-year operating results, the Group anticipates a year-on-year increase in segment income.

Living & Environment Products

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

For the fourth quarter, sales of industrial tapes are expected to stay robust and surpass those recorded in the same period of the previous fiscal year. However, with regard to full-year operating results, segment income will show a 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.

For the fourth quarter, the Group believes that sales of diagnostic reagents will rise year on year. Accordingly, the Group expects segment income to grow in the full-year operating results.

2. Consolidated Financial Results and Forecast

Billions of Yen

	FY2019 Apr to Dec	FY2018 Apr to Dec	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Net Sales	288.7	310.3	△ 21.6	400.0	413.1
Operating Income	24.0	24.8	△ 0.8	35.0	34.2
Ordinary Income	22.7	24.3	△ 1.5	32.0	32.8
Net Income	16.7	18.4	△ 1.7	24.0	25.0

3. Net Sales and Operating Income by segments

		FY2019 Apr to Dec	FY2018 Apr to Dec	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Elastomers & Performance Plastics	Sales	112.1	134.0	△ 21.8	160.0	179.2
	Operating Income	8.2	10.2	△ 2.1	12.5	14.2
Infrastructure & Social Solutions	Sales	41.3	41.3	△ 0.1	56.0	54.8
	Operating Income	0.4	△ 0.0	0.4	1.0	△ 0.3
Electronics & Innovative Products	Sales	49.9	49.0	0.9	71.0	67.1
	Operating Income	8.5	8.4	0.1	13.0	11.8
Living & Environment Products	Sales	28.1	30.0	△ 1.9	38.0	39.0
	Operating Income	0.0	0.8	△ 0.8	0.5	0.9
Life innovation	Sales	28.7	26.8	1.9	37.0	34.1
	Operating Income	6.3	4.4	1.9	7.0	6.3
Others/ Companywide	Sales	28.5	29.2	△ 0.7	38.0	38.8
	Operating Income	0.7	1.0	△ 0.3	1.0	1.3
Total	Sales	288.7	310.3	△ 21.6	400.0	413.1
	Operating Income	24.0	24.8	△ 0.8	35.0	34.2

4.1 Sales by segments

	Sales				
	FY2019 Apr to Dec	FY2018 Apr to Dec	Incr. △Decr.	Sales price	Sales volume
Elastomers & Performance Plastics	112.1	134.0	△ 21.8	△ 12.8	△ 9.0
Infrastructure & Social Solutions	41.3	41.3	△ 0.1	1.3	△ 1.3
Electronics & Innovative Products	49.9	49.0	0.9	0.7	0.3
Living & Environment Products	28.1	30.0	△ 1.9	△ 0.5	△ 1.4
Life innovation	28.7	26.8	1.9	△ 0.4	2.3
Others	28.5	29.2	△ 0.7	-	△ 0.7
Total	288.7	310.3	△ 21.6	△ 11.8	△ 9.8

4.2 Operating income by segments

	Operating income					
	FY2019 Apr to Dec	FY2018 Apr to Dec	Incr. △Decr.	Sales price	Sales volume	Operating cost & others
Elastomers & Performance Plastics	8.2	10.2	△ 2.1	△ 12.8	△ 4.8	15.5
Infrastructure & Social Solutions	0.4	△ 0.0	0.4	1.3	△ 0.5	△ 0.4
Electronics & Innovative Products	8.5	8.4	0.1	0.7	0.4	△ 1.0
Living & Environment Products	0.0	0.8	△ 0.8	△ 0.5	△ 0.6	0.4
Life innovation	6.3	4.4	1.9	△ 0.4	1.7	0.7
Others	0.7	1.0	△ 0.3	-	0.0	△ 0.3
Total	24.0	24.8	△ 0.8	△ 11.8	△ 3.9	14.9

5. Key operating factors

		FY2019 Apr to Dec	FY2018 Apr to Dec	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Investment	Capital expenditure	23.8	22.9	0.9	43.0	32.7
	M&A etc.	2.7	0.1	2.6		
		26.5	23.0	3.5		
Depreciation		16.6	17.2	△ 0.6	23.0	22.9
Research and Development		11.2	11.4	△ 0.2	16.0	14.6
Interest-bearing debt		126.8	123.5	3.3	120.0	112.1
Yen / USD exchange rate		109.1	110.8		109.1	110.7
Naphtha price (yen/ KI)		42,600	51,500		43,500	49,500