

Summary of Consolidated Financial Results

Denka company Limited

1. Summary

1.1 Overview

In April 2018, the Denka Group launched Denka Value-Up, a new management plan spanning a period of five years, to realize its 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 secure greater profit.

In the first six months of the fiscal year ending March 31, 2020, the Group has seen 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 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 ¥192.0 billion, down ¥6.4 billion, or 3.2%, compared with the same period of the previous fiscal year.

On the earnings front, operating income rose ¥0.7 billion, or 5.1%, year on year to ¥15.3 billion. However, ordinary income decreased 2.9% to ¥14.5 billion, while profit attributable to owners of the parent was ¥10.9 billion, down 4.7%.

Looking ahead, Denka expects sales of EV-related products to remain robust in the third quarter of the fiscal year and beyond. On the other hand, at the beginning of the fiscal year, Denka had expected semiconductor demand to begin recovering in the third quarter, but that recovery is no longer expected to take place until the end of 2019. In addition, CR sales are expected to remain stagnant.

Taking the aforementioned factors into account, the Company downwardly revised its full-year forecast for operating income from ¥38.0 billion, which had been estimated at the beginning of the fiscal year, to ¥35.0 billion. Nevertheless, the Denka Group will continue striving to achieve record-high profit for the third consecutive fiscal year. Sparing no efforts, the Group will remain active in executing the initiatives of the Denka Value-Up management plan.

1.2 Results by Segment

Elastomers & Performance Plastics

With 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 profit due to such factors as lower sales volume of CR.

For the third quarter onward, CR sales volume is expected to decrease year on year. Accordingly, Denka believes that segment income will decrease even in terms of full-year operating results.

Infrastructure & Social Solutions

Segment income grew year on year thanks mainly to progress in the Group's efforts to upwardly revise product prices.

The Group also anticipates that its performance will be buoyed by upwardly revised product prices in the third quarter onward, expecting its full-year operating results to include growth in segment income.

Electronics & Innovative Products

The Group has enjoyed higher sales of EV-related products, including spherical alumina and ultra-high purity electro-conductive carbon black. The related need for measures to strengthen production systems, however, caused the Group to bear 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. Therefore, segment income was down compared with the same period of the previous fiscal year.

For the third quarter onward, the Group expects sales in EV-related fields to continue to grow while anticipating that, from January 2020 onward, demand for semiconductor-related products will begin to recover gradually. Therefore, the Group believes that segment income will grow year on year in its full-year operating results.

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. Although sales of industrial tapes are expected to increase year on year for the third quarter onward, segment income will decrease in the full-year operating results.

Life Innovation

Sales of diagnostic reagents grew consistently, and influenza vaccine shipments were earlier than previous year. These factors caused segment income to increase. In terms of full-year operating results, the Group expects segment income to grow as it believes that sales of influenza vaccines and diagnostic reagents will rise year on year.

2. Consolidated Financial Results and Forecast

Billions of Yen

	FY2019 Apr to Sep	FY2018 Apr to sep	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Net Sales	192.0	198.3	△ 6.4	400.0	413.1
Operating Income	15.3	14.6	0.7	35.0	34.2
Ordinary Income	14.5	15.0	△ 0.4	32.0	32.8
Net Income	10.9	11.4	△ 0.5	24.0	25.0

3. Net Sales and Operating Income by segments

Billions of Yen Billions of Yen

		FY2019 Apr to Sep	FY2018 Apr to sep	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Elastomers & Performance Plastics	Sales	78.7	89.0	△ 10.4	160.0	179.2
	Operating Income	6.9	7.4	△ 0.6	12.5	14.2
Infrastructure & Social Solutions	Sales	26.9	26.1	0.9	56.0	54.8
	Operating Income	0.3	△ 0.1	0.4	1.0	△ 0.3
Electronics & Innovative Products	Sales	33.5	32.9	0.6	71.0	67.1
	Operating Income	5.8	5.9	△ 0.1	13.0	11.8
Living & Environment Products	Sales	18.6	19.6	△ 1.0	38.0	39.0
	Operating Income	△ 0.2	0.2	△ 0.4	0.5	0.9
Life innovation	Sales	15.0	12.4	2.6	37.0	34.1
	Operating Income	2.5	0.5	2.0	7.0	6.3
Others/ Companywide	Sales	19.2	18.3	0.9	38.0	38.8
	Operating Income	0.2	0.7	△ 0.6	1.0	1.3
Total	Sales	192.0	198.3	△ 6.4	400.0	413.1
	Operating Income	15.3	14.6	0.7	35.0	34.2

4.1 Sales by segments

Billions of Yen Billions of Yen

	FY2019 Apr to Sep	FY2018 Apr to sep	Incr. △Decr.	Sales price	
				Sales price	Sales volume
Elastomers & Performance Plastics	78.7	89.0	△ 10.4	△ 7.0	△ 3.4
Infrastructure & Social Solutions	26.9	26.1	0.9	1.1	△ 0.2
Electronics & Innovative Products	33.5	32.9	0.6	0.4	0.2
Living & Environment Products	18.6	19.6	△ 1.0	△ 0.1	△ 0.9
Life innovation	15.0	12.4	2.6	△ 0.2	2.7
Others	19.2	18.3	0.9	-	0.9
Total	192.0	198.3	△ 6.4	△ 5.9	△ 0.5

4.2 Operating income by segments

Billions of Yen

	Operating income					
	FY2019 Apr to Sep	FY2018 Apr to sep	Incr. △Decr.	Sales price	Sales volume	Operating cost & others
Elastomers & Performance Plastics	6.9	7.4	△ 0.6	△ 7.0	△ 2.2	8.6
Infrastructure & Social Solutions	0.3	△ 0.1	0.4	1.1	△ 0.2	△ 0.5
Electronics & Innovative Products	5.8	5.9	△ 0.1	0.4	0.1	△ 0.7
Living & Environment Products	△ 0.2	0.2	△ 0.4	△ 0.1	△ 0.4	0.1
Life innovation	2.5	0.5	2.0	△ 0.2	1.9	0.3
Others	0.2	0.7	△ 0.6	-	0.0	△ 0.6
Total	15.3	14.6	0.7	△ 5.9	△ 0.6	7.3

5. Key operating factors

Billions of Yen Billions of Yen

		FY2019 Apr to Sep	FY2018 Apr to sep	Incr. △Decr.	FY2019 Forecast Apr to Mar	FY2018 Actual Apr to Mar
Investment	Capital expenditure	16.2	14.3	1.9	45.0	32.7
	M&A etc.	2.7	0.1	2.6		
		18.9	14.4	4.5	45.0	32.8
Depreciation		11.0	11.3	△ 0.3	23.0	22.9
Research and Development		7.3	7.8	△ 0.5	16.0	14.6
Interest-bearing debt		123.3	121.5	1.8	120.0	112.1
Yen / USD exchange rate		109.2	109.5			
Naphtha price (yen/ KI)		42,900	50,550			