

Summary of Consolidated Financial Results

Denka company Limited

1. Summary

1.1 Overview

The Denka Group set up the plan's threefold growth vision designed to create a "Specialty-Fusion Company", "Sustained Growth" and "Sound Growth", to realize the corporate philosophy enshrined in The Denka Value. Under Denka Value-Up, a management plan spanning a period of five years since April 2018, 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 three months of the fiscal year ending March 31, 2021, the Group recorded robust shipment volumes for semiconductor-related products (such as highly functional films for use as embossed carrier tape for electronic components and semiconductors, and fused silica fillers for use as semiconductor encapsulant fillers), thanks to growing demand associated with the introduction of the 5G infrastructure as well as an increase in data center-related product needs worldwide. However, the fallout from the novel coronavirus pandemic caused shipments for some of our main products, including chloroprene rubber, to decline. Furthermore, sales prices of the Group's styrene-based products have been downwardly revised in step with plunges in raw material prices. Consequently, consolidated net sales totaled ¥76.2 billion, down ¥14.7 billion, or 16.1%, compared with the same period of the previous fiscal year.

On the earnings front, The Group affected the impact of a significant decline in demand reflecting the fallout from the novel coronavirus pandemic. On the other hand, the Group has benefitted from improving spreads and thoroughly reviewed administrative expenses as well as fixed costs associated with its plants. As a result, operating income was ¥4.4 billion, down ¥2.3 billion, or 34.8%, year on year, while ordinary income was ¥5.0 billion, down 21.3%. Profit attributable to owners of the parent was ¥4.2 billion, down 16.5% from the same period of the previous fiscal year.

From the second quarter onward, although the future outlook remains extremely unclear due to such factors as the novel coronavirus pandemic, the Denka Group will vigorously promote the growth strategy of Denka Value-Up and aim to achieve the initial forecast focusing on the specialty business of Electronics & Innovative Products and Life Innovation.

1.2 Results by Segment

Elastomers & Performance Plastics

Due to a general stagnation in production activities, especially in the automotive industry, which was greatly affected by the fallout from the novel coronavirus pandemic, the Group saw a year-on-year decrease in the sales volume of chloroprene rubber. As a result, segment income decreased significantly.

Although the Group has seen some positive signs suggesting that demand for chloroprene rubber may recover from the second quarter onward, it expects segment income to decrease year on year in terms of full-year operating results.

Infrastructure & Social Solutions

The Group successfully maintained product prices that have recently been upwardly revised while promoting cost reductions. Despite the positive effects of these efforts, segment income declined due to decreases in the sales volume of calcium cyanamide, AZUMIN and other agri-products as well as that of fire-resistant and steel materials.

Nevertheless, the Group will continue to strive to maintain product prices while promoting ongoing cost reductions in the second quarter and beyond, with the aim of achieving year-on-year growth in segment income in terms of full-year operating results.

Electronics & Innovative Products

Segment income grew despite a decline in demand for HITPLATE aluminum substrate and other products targeting the automotive industry. Benefitting from growth in 5G-related demand and an increase in data center-related product needs worldwide, the increase was due mainly to solid sales of highly functional films for use as embossed carrier tape for electronic components and semiconductors and robust showings of fused silica fillers for use as semiconductor encapsulant fillers. Other factors contributing to segment income included year-on-year growth in sales of spherical alumina for EV-related applications.

In terms of full-year operating results, the Group expects segment income to increase year on year as it anticipates that shipment volumes of semiconductor- and EV-related products will remain firm in the second quarter and beyond.

Living & Environment Products

The sales volume of industrial tapes was down year on year due to the fallout from the novel coronavirus pandemic and other factors. However, segment income increased thanks mainly to lower raw material prices and a reduction in fixed costs.

With regard to full-year operating results, the Group expects segment income to increase year on year by continuing to improve costs.

Life Innovation

The fallout from the novel coronavirus pandemic led to decreases in the number of diagnostic examinations associated with health checkups or diseases other than the novel coronavirus, causing sales of the Group's diagnostic reagents to decline year on year. On the other hand, the Group carried out the shipment of diethyl malonate, the raw material for Avigan® anti-influenza virus drug, in response to a government request. Consequently, segment income for the first three months remained virtually unchanged from the same period of the previous fiscal year.

Looking ahead, the Group will continuously endeavor to maintain a stable supply of Life Innovation products in the second quarter and beyond, with the aim of meeting the needs of society.

* Avigan is a registered trade name of FUJIFILM Toyama Chemical Co., Ltd.

2. Consolidated Financial Results and Forecast

Billions of Yen

	FY2020 Apr to Jun	FY2019 Apr to Jun	Incr. △Decr.	FY2020 Forecast Apr to Sep	FY2020 Forecast Apr to Mar
Net Sales	76.2	90.9	△ 14.7	160.0	360.0
Operating Income	4.4	6.7	△ 2.3	12.0	31.0
Ordinary Income	5.0	6.4	△ 1.4	12.0	29.0
Net Income	4.2	5.0	△ 0.8	10.0	21.0

3. Net Sales and Operating Income by segments

Billions of Yen

		FY2020 Apr to Jun	FY2019 Apr to Jun	Incr. △Decr.	FY2020 Forecast Apr to Sep	FY2020 Forecast Apr to Mar
Elastomers & Performance Plastics	Sales	27.1	39.4	△ 12.3	55.0	125.0
	Operating Income	1.3	3.8	△ 2.5	3.0	7.5
Infrastructure & Social Solutions	Sales	11.7	12.9	△ 1.2	25.0	55.0
	Operating Income	0.2	0.3	△ 0.1	1.0	2.0
Electronics & Innovative Products	Sales	15.6	15.5	0.0	33.0	73.0
	Operating Income	2.8	2.6	0.2	6.5	13.5
Living & Environment Products	Sales	7.9	8.8	△ 1.0	16.0	33.0
	Operating Income	0.1	△ 0.2	0.3	0.5	0.5
Life innovation	Sales	5.3	5.1	0.1	15.0	38.0
	Operating Income	0.0	0.1	△ 0.0	1.0	7.0
Others/ Companywide	Sales	8.7	9.1	△ 0.4	16.0	36.0
	Operating Income	0.0	0.2	△ 0.2	0.0	0.5
Total	Sales	76.2	90.9	△ 14.7	160.0	360.0
	Operating Income	4.4	6.7	△ 2.3	12.0	31.0

4.1 Sales by segments

Billions of Yen

	FY2020 Apr to Jun	FY2019 Apr to Jun	Incr. △Decr.	Sales price		Sales volume	
Elastomers & Performance Plastics	27.1	39.4	△ 12.3	△ 5.5	△ 6.8		
Infrastructure & Social Solutions	11.7	12.9	△ 1.2	0.1	△ 1.3		
Electronics & Innovative Products	15.6	15.5	0.0	△ 0.1	0.2		
Living & Environment Products	7.9	8.8	△ 1.0	△ 0.2	△ 0.8		
Life innovation	5.3	5.1	0.1	△ 0.0	0.2		
Others	8.7	9.1	△ 0.4	-	△ 0.4		
Total	76.2	90.9	△ 14.7	△ 5.6	△ 9.0		

4.2 Operating income by segments

Billions of Yen

	Operating income					
	FY2020 Apr to Jun	FY2019 Apr to Jun	Incr. △Decr.	Sales price	Sales volume	Operating cost & others
Elastomers & Performance Plastics	1.3	3.8	△ 2.5	△ 5.5	△ 3.4	6.3
Infrastructure & Social Solutions	0.2	0.3	△ 0.1	0.1	△ 0.4	0.2
Electronics & Innovative Products	2.8	2.6	0.2	△ 0.1	0.4	△ 0.0
Living & Environment Products	0.1	△ 0.2	0.3	△ 0.2	△ 0.2	0.7
Life innovation	0.0	0.1	△ 0.0	△ 0.0	0.2	△ 0.2
Others	0.0	0.2	△ 0.2	-	△ 0.0	△ 0.2
Total	4.4	6.7	△ 2.3	△ 5.6	△ 3.4	6.7

5. Key operating factors

Billions of Yen

	FY2020 Apr to Jun	FY2019 Apr to Jun	Incr. △Decr.	FY2020 Forecast Apr to Sep	FY2020 Forecast Apr to Mar
Investment	7.1	5.3	1.8	23.0	47.0
Depreciation	5.7	5.5	0.2	12.0	24.0
Research and Development	3.8	3.5	0.3	8.0	16.0
Interest-bearing debt	142.2	115.8	26.4	142.0	152.0
Yen / USD exchange rate	107.7	110.8			
Naphtha price (yen/ Kl)	26,000	45,800			