

**Denka**

Possibility  
of  
chemistry

# Results Presentation of FY2020 3Q

**Denka Co.,Ltd**

February 2021

## 1 FY2020 Q3 Results

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## 2 FY2020 Earnings Forecast

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## 3 Environmental Management (Carbon-Neutral Initiatives)

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(¥ billions)	FY2020 Apr-Dec Actual	FY2019 Apr-Dec Actual	Incr. Decr.	
Sales	262.0	288.7	- 26.7	
Operating Income	28.0	24.0	+ 4.0	Elastomer & Performance Plastics - 5.9 Infrastructure & Social Solutions - 0.2 Electronics & Innovative Products + 1.6 Living & Environment Products + 1.1 Life Innovation + 7.5 Others + 0.0 ← +4.0
Operating Margin	10.7%	8.3%	+ 2.4%	
Ordinary Income	27.3	22.7	+ 4.6	Interest rates, non-operating income, etc. + 0.6 ← +4.6
Net income attributable to owners of parent	18.9	16.7	+ 2.2	Extraordinary gains and losses and corporate tax etc. - 2.4 ← +2.2

YoY (¥ billions)

Sales

**262.0** billion**- 26.7**

- |             |   |        |
|-------------|---|--------|
| 1. Volume:  | Difference due to the impact of the novel coronavirus pandemic  | - 7.0  |
| 2. Pricing: | Difference due to styrene-based product price revisions in connection with the raw materials market decline | - 19.7 |

YoY (¥ billions)

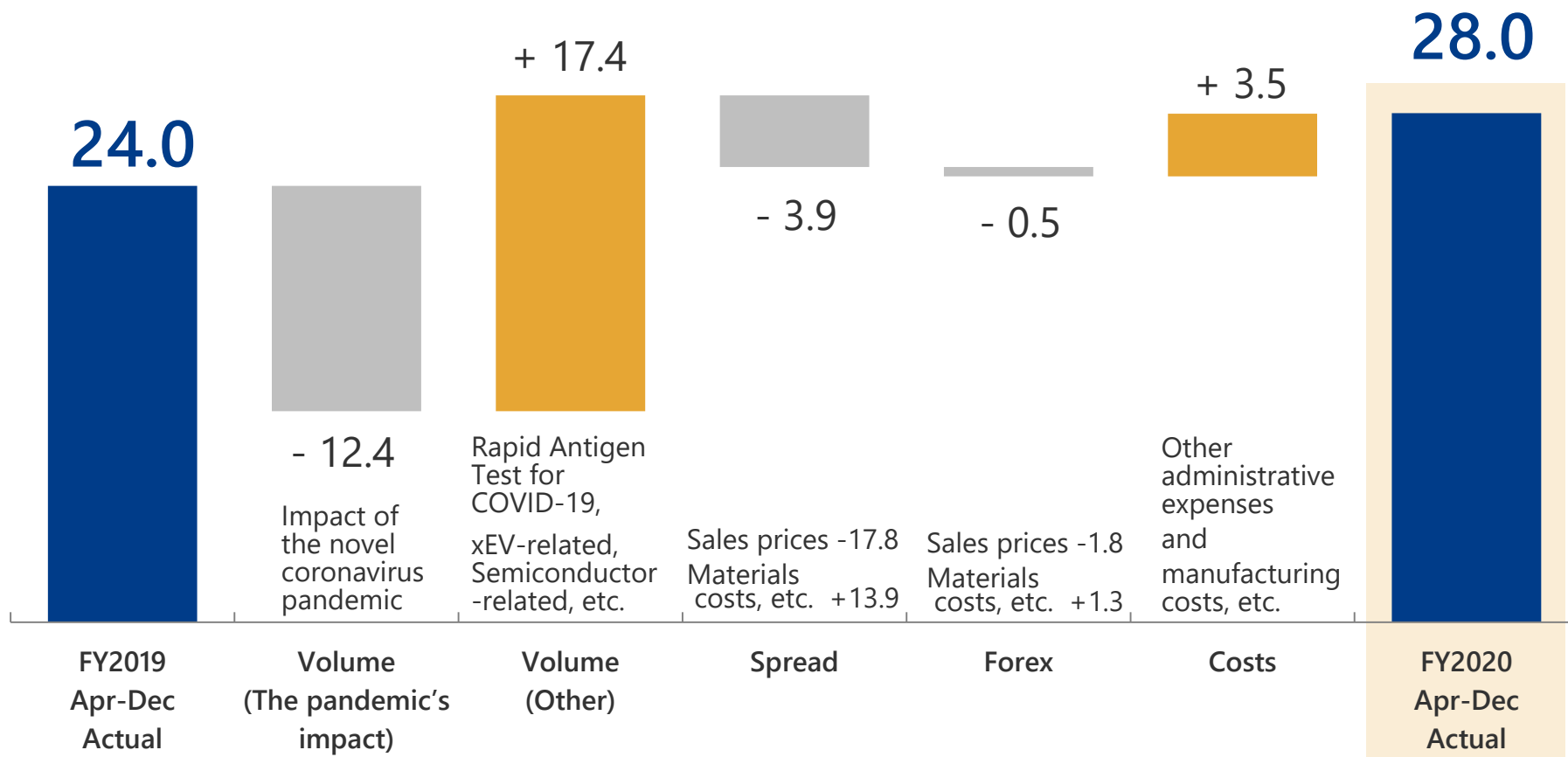
Operating Income

**28.0** billion**+ 4.0**

- |           |   |       |   |     |
|-----------|---|-------|---|-----|
| 1. Volume | : Impact of the novel coronavirus pandemic  | -12.4 |   |     |
|           | Other (Rapid Antigen Test for COVID-19, xEV-related, semiconductor-related, etc.) | +17.4 | + | 5.0 |
| 2. Spread | : Sales prices -17.8 > Materials costs, etc.                                      | +13.9 | - | 3.9 |
| 3. Forex  | : Sales prices -1.8 > Materials costs, etc.                                       | +1.3  | - | 0.5 |
| 4. Costs  | : Other administrative expenses and manufacturing costs, etc.                     |       | + | 3.5 |

### Operating Income Change factors

(¥ billions)



## c) by Segment (Year-on-Year Comparison)

Sales (¥ billions)	FY2020 Apr-Dec Actual	FY2019 Apr-Dec Actual	Incr. Decr.	Pricing		Volume	
Elastomers & Performance Plastics	86.4	112.1	- 25.7	- 17.6	- 8.1		
Infrastructure & Social Solutions	38.4	41.3	- 2.9	+ 0.3	- 3.2		
Electronic & Innovative Products	51.5	49.9	+ 1.6	- 1.2	+ 2.8		
Living & Environment Products	25.6	28.1	- 2.5	- 1.1	- 1.5		
Life Innovation	36.6	28.7	+ 7.9	- 0.1	+ 8.0		
Others	23.5	28.5	- 5.0	—	- 5.0		
<b>Total</b>	<b>262.0</b>	<b>288.7</b>	<b>- 26.7</b>	<b>- 19.7</b>	<b>- 7.0</b>		

Operating Income (¥ billions)	FY2020 Apr-Dec Actual	FY2019 Apr-Dec Actual	Incr. Decr.	Pricing		Volume		Cost & Others
Elastomers & Performance Plastics	2.2	8.2	- 5.9	- 17.6	- 4.0	+ 15.7		
Infrastructure & Social Solutions	0.1	0.4	- 0.2	+ 0.3	- 1.0	+ 0.4		
Electronic & Innovative Products	10.1	8.5	+ 1.6	- 1.2	+ 2.0	+ 0.8		
Living & Environment Products	1.1	0.0	+ 1.1	- 1.1	- 0.8	+ 3.0		
Life Innovation	13.8	6.3	+ 7.5	- 0.1	+ 8.6	- 1.0		
Others	0.7	0.7	+ 0.0	—	+ 0.1	- 0.1		
<b>Total</b>	<b>28.0</b>	<b>24.0</b>	<b>+ 4.0</b>	<b>- 19.7</b>	<b>+ 5.0</b>	<b>+ 18.7</b>		

(¥ billions)	FY2020 Forecast	FY2019 Actual	Incr. Decr.		
Sales	350.0	380.8	- 30.8		
Operating Income	33.0	31.6	+ 1.4	Elastomer & Performance Plastics	- 7.9
				Infrastructure & Social Solutions	- 0.3
				Electronics & Innovative Products	+ 0.6
				Living & Environment Products	+ 0.9
				Life Innovation	+ 8.5
				Others	- 0.4
				←	+ 1.4
Operating Margin	9.4%	8.3%	+ 1.1%		
Ordinary Income	30.0	30.0	- 0.0	Interest rates, non-operating income, etc.	- 1.4
				←	- 0.0
Net income attributable to owners of parent	22.0	22.7	- 0.7	Extraordinary gains and losses and corporate tax etc.	- 0.7
				←	- 0.7

## b) Assumptions Used to Formulate Forecast

Assumptions	FY2020 Forecast	Apr-Dec Actual	Jan-Mar Forecast	FY2019 Actual	Apr-Dec Actual	Jan-Mar Actual
Forex (¥/\$)	106.1	106.1	106.0	109.1	109.1	109.3
Japan Naphtha (¥/kl)	30,150	29,360	32,500	42,650	42,600	43,700

Reference ¥ billions	FY2020 Forecast	Apr-Dec Actual	Jan-Mar Forecast	FY2019 Actual	Apr-Dec Actual	Jan-Mar Actual
Investment	45.0	31.7	13.3	36.9	26.5	10.4
Depreciation	23.0	17.2	5.8	22.5	11.6	10.9
R&D	16.0	11.1	4.9	15.0	11.2	3.8
Interest-Bearing Debt	141.0	140.0	141.0	134.3	126.8	134.3



## c) by Segment (Year-on-Year Comparison)

Sales (¥ billions)	FY2020 Forecast	FY2019 Actual	Incr. Decr.	Pricing		Volume	
Elastomers & Performance Plastics	115.0	149.3	- 34.3	- 22.4	- 11.9		
Infrastructure & Social Solutions	52.0	54.8	- 2.8	+ 0.4	- 3.2		
Electronic & Innovative Products	70.0	68.0	+ 2.0	- 1.8	+ 3.8		
Living & Environment Products	33.0	37.0	- 4.0	- 1.4	- 2.5		
Life Innovation	46.0	35.5	+ 10.5	- 0.0	+ 10.5		
Others	34.0	36.2	- 2.2	—	- 2.2		
<b>Total</b>	<b>350.0</b>	<b>380.8</b>	<b>- 30.8</b>	<b>- 25.3</b>	<b>- 5.5</b>		

Operating Income (¥ billions)	FY2020 Forecast	FY2019 Actual	Incr. Decr.	Pricing		Volume		Cost & Others
Elastomers & Performance Plastics	3.0	10.9	- 7.9	- 22.4	- 5.1	+ 19.6		
Infrastructure & Social Solutions	0.5	0.3	- 0.2	+ 0.4	- 0.8	+ 0.7		
Electronic & Innovative Products	13.0	12.4	+ 0.6	- 1.8	+ 2.4	- 0.0		
Living & Environment Products	1.0	0.1	+ 0.9	- 1.4	- 1.1	+ 3.4		
Life Innovation	15.0	7.0	+ 8.0	- 0.0	+ 9.8	- 1.7		
Others	0.5	0.9	- 0.4	—	- 0.1	- 0.3		
<b>Total</b>	<b>33.0</b>	<b>31.6</b>	<b>+ 1.4</b>	<b>- 25.3</b>	<b>+ 5.1</b>	<b>+ 21.6</b>		

Initial  
ForecastQ1  
AnnouncementQ2  
AnnouncementQ3  
AnnouncementProjected Full-Year Operating Income **31.0** billion

COVID-19 Infection (assumption)

- Gradual subsidence beginning in Q2; normal conditions beginning in Q3

Projected Full-Year Operating Income **31.0** billion (unchanged)

Lower Upside Potential

- Increase in data center-related demand; contribution of Rapid Antigen Test for COVID-19 not incorporated

Downside Risk

- Impact of pandemic on certain mainstay products (chloroprene rubber, etc.) exceeds expectations.

Projected Full-Year Operating Income **33.0** billion (upward revision)

Upside Factors

- Commenced sales of Rapid Antigen Test for COVID-19; revised head office and factory fixed costs

Downside Factors

- Impact of pandemic on certain mainstay products (chloroprene rubber, etc.) greater than expected.

Projected Full-Year Operating Income **33.0** billion (unchanged)

- Recovery in demand for chloroprene rubber
- Demand growth in environment and energy fields (faster move to vehicle electrification, increase in semiconductor demand, spread of 5G)

Previous forecast unchanged due to uncertainties caused by the re-emergence of COVID-19

		FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Full- Year Forecast
<b>Net income</b>	(¥ billions)	18.1	23.0	25.0	22.7	<b>22.0</b>
<b>Dividends per share*</b>	(¥/share)	70.0	105.0	120.0	125.0	<b>125.0</b>
<b>Total dividend</b>	(¥ billions)	6.2	9.2	10.5	10.8	<b>10.8</b>
<b>Payout ratio</b>		34%	40%	42%	48%	<b>49%</b>
<b>Share buybacks</b>	(¥ billions)	2.9	2.3	2.1	-	-
<b>Total shareholder return</b>	(¥ billions)	9.1	11.5	12.6	10.8	<b>10.8</b>
<b>Total return ratio</b>		50%	50%	50%	48%	<b>49%</b>
<b>Depreciation</b>	(¥ billions)	24.4	24.6	22.9	22.5	<b>23.0</b>
<b>Capital investment</b>	(¥ billions)	26.9	27.0	32.8	36.9	<b>45.0</b>
<b>ROE</b>		8.3%	10.0%	10.3%	9.1%	

\*The company executed a one-for-five reverse stock split for common shares on October 1, 2017. Dividends per share have been recalculated to reflect this reverse split for comparison.

# f) Growth of Specialty Businesses

FY2017 Actual		FY2018 Actual		FY2019 Actual		FY2020 Forecast	
Operating Income	<b>33.7B</b>	Operating Income	<b>34.2B</b>	Operating Income	<b>31.6B</b>	Operating Income	<b>33.0B</b>
Operating Margin	<b>8.5 %</b>	Operating Margin	<b>8.3 %</b>	Operating Margin	<b>8.3 %</b>	Operating Margin	<b>9.4 %</b>



Revise the “Denka Value-Up” Management Plan to be announced in May 2021

## 1 Expand use of clean energy and adopt high-efficiency gas turbine power generation

- Approximately 40% of total Denka electricity consumption is provided by 15 hydroelectric facilities
- New Omigawa Power Plant (16th power plant) is now in operation
- New Himekawa Power Plant No. 6 (in cooperation with Kurobegawa Electric Power Company; 17th power plant) is under construction

## 2 Environmentally friendly products and technologies to reduce environmental impact

- Pursue EV-related products and CO<sub>2</sub>-absorbing concrete (carbonating admixture "LEAF")

## 3 Development and implementation of CCUS\*

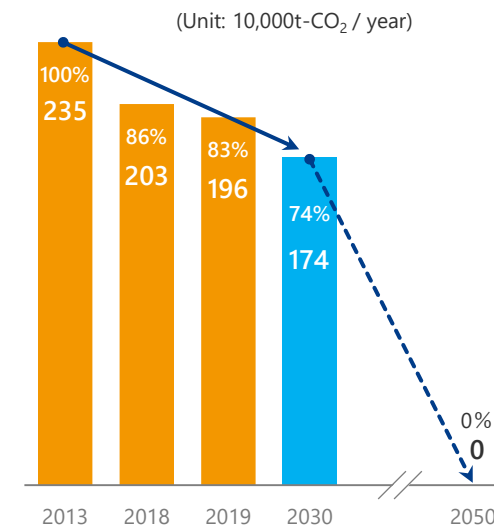
\* Carbon Dioxide Capture, Utilization and Storage

## 4 Chemical recycling technologies

- Commercialization of chemical recycling of PS resin
- First proof-of-concept facility in Japan (aiming for operations in 2022)

## 5 Portfolio reform (restructure commodity business)

Medium- to long-range targets for greenhouse gas emission reductions (Scope 1 + Scope 2)



**TCFD** TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD 賛同表明

Declaration of Support for the Task Force on Climate-Related Financial Disclosures (TCFD)

**CDP**  
DISCLOSURE INSIGHT ACTION

CDP2020:

Scored A- for Climate Change, B for Water Security Evaluation

## Environmental Management at Denka Performance Elastomer (DPE)

### News Release List ( Denka's website)

- 
- June 19, 2019      **“Statement regarding NATA’s Toxicity Assessments on the Areas Surrounding Denka’s U.S. Subsidiary and Initiatives Being Undertaken to Reduce Environmental Burden”**  
[https://www.denka.co.jp/eng/storage/news/pdf/238/20190619\\_statement\\_en.pdf](https://www.denka.co.jp/eng/storage/news/pdf/238/20190619_statement_en.pdf)
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- February 14, 2020      **“Notice Regarding Litigation Against US Subsidiary”**  
[https://www.denka.co.jp/eng/storage/news/pdf/265/20200214\\_denka\\_dpe\\_litigation\\_en.pdf](https://www.denka.co.jp/eng/storage/news/pdf/265/20200214_denka_dpe_litigation_en.pdf)
- “Review of Chloroprene Monomer Toxicity Assessment Performed by the U.S. Environmental Protection Agency”**  
[https://www.denka.co.jp/eng/storage/news/pdf/266/20200214\\_denka\\_statement\\_en.pdf](https://www.denka.co.jp/eng/storage/news/pdf/266/20200214_denka_statement_en.pdf)
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- December 17, 2020      **“Latest Epidemiological Study of Chloroprene Monomer Workers in the US”**  
[https://www.denka.co.jp/eng/storage/news/pdf/317/20201217\\_denka\\_dpe\\_en.pdf](https://www.denka.co.jp/eng/storage/news/pdf/317/20201217_denka_dpe_en.pdf)
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- Review toxicity assessment based on the latest science
- Engage epidemiological and statistical studies (epidemiological studies by outside experts, Louisiana Tumor Registry)
- Reduce environmental impact substance emissions by 85% through capital investment

## Cautionary statement regarding forward-looking information

Target figures in this material are not forecasts of business results. In addition, any description relating to the future in this material is subject to known or unknown risks and uncertainties, although it is based on management's current assumptions and beliefs in light of the information currently available to it.

Please be cautioned that a number of important factors could cause actual results to differ significantly from the description in the material.

Such risks and uncertainties include adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launch, pricing, and product initiatives of competitors, the inability of the Company to market existing and new products effectively, interruptions in production, infringements of the company's intellectual property rights and the adverse outcome of material litigation.

Possibility of chemistry

**Denka**