

FY2023 Financial Results Presentation
Summary of Q&A Session
(May 10, 2024)

Electronics & Innovative Products

Q1 : Profit improved from the third quarter through the fourth quarter. Could you describe the status of recovery in demand you have seen thus far for spherical fused silica and spherical alumina, both of which are Denka's mainstay products?

A1 : Having bottomed out, demand for spherical fused silica, which is used as semiconductor encapsulant fillers, is already on a recovery track. We expect this demand to fully recover from the second half of fiscal 2024 onward. Spherical alumina is used mainly as a thermal interface material for xEV-related products, semiconductors and electronic components, but it is also used as a semiconductor encapsulant filler. Boasting higher thermal conductivity than spherical fused silica, spherical alumina is increasingly being sought out for applications involving high-voltage electrical current, such as those for generative AI.

Q2 : In Europe and the United States, demand for xEV-related products looks like it will be weak in 2024. Please share your forecast on demand for acetylene black.

A2 : Growth in EV sales has been decelerating in Europe and the United States, and sales in these regions account for a large proportion of Denka's overall sales of acetylene black for use in xEV-related products. Also, we have seen the expansion of xEV markets tapering off in some regions. Nevertheless, we believe that the overarching trend toward expansion will persist in EV markets. Therefore, we expect demand for acetylene black to recover in the second half of 2024 or later.

Q3 : Please share your expectations for SNECTON and TBM, both of which are set to be released in fiscal 2024.

A3 : SNECTON is already in the process of certification by major substrate manufacturers, including those based in Taiwan. Accordingly, we expect that this product will contribute to profit in fiscal 2025. As for TBM, it has been shown to be particularly beneficial when used as an SiC semiconductor material. Moreover, TBM demonstrates robust functions when used in advanced semiconductor packages. We therefore expect this product to be adopted by a growing number of manufacturers.

Life Innovation

Q4 : With regard to rapid antigen test kits, combo kits capable of simultaneously testing for COVID-19 and influenza are considered to become the mainstream of sales going forward. However, fiscal 2024 sales forecasts for the combo kits fall short of sales recorded in fiscal 2023. Why is that?

A4 : The first half of fiscal 2023 saw a rapid and widespread rise in influenza virus infection. Reflecting the unusual circumstances, the sales volume of combo kits constituted a majority of rapid antigen test kit sales volumes throughout the fiscal year. On the other hand, for fiscal 2024 we anticipate a return to normal in the annual pattern of influenza infection. Based on a projection that the spread of influenza virus will begin in the second half, we thus expect that COVID-19 antigen test kits will account for the majority of these sales volumes in the first half, and the combo kits will account for the majority in the second half. Taking these factors into account, we forecast that the sales volume of combo kits will fall short of the sales volume in the previous fiscal year.

Elastomers & Infrastructure Solutions

Q5 : In fiscal 2024, global demand for chloroprene rubber (CR) is expected to recover from the stagnation seen in fiscal 2023 and amount to 230,000 tons. Please provide your forecast on fiscal 2024 profit and loss associated with CR.

A5 : In fiscal 2023, our CR business recorded valuation losses on inventories, reflecting higher fixed costs per product. This was attributable to higher costs recorded by the U.S.-based DPE* and lower facility utilization rates due to fallout from the Noto Peninsula Earthquake and stagnant global demand. For fiscal 2024, we expect CR sales prices to decline due to the intensification of competition with products manufactured by other companies. However, we also anticipate recovery in demand and resulting reductions in valuation losses on inventories. Accordingly, the volume of CR-related losses is likely to decrease.

* Denka Performance Elastomer LLC, a U.S. chloroprene rubber manufacturing subsidiary

Portfolio Shift

Q6 : The U.S. Environmental Protection Agency announced new regulations on April 9, 2024 (local time). Will this move affect Denka's decisions regarding drastic portfolio-shift measures for the chloroprene rubber business?

A6 : It is undeniable that these regulations are extremely stringent. However, the Denka Group will make decisions on measures for its CR business based on a close assessment of future demand for this product and a determination of the optimal production capacity it needs to maintain. These measures will thus be decided in light of the possibilities for this business. This is our basic stance.

Q7 : As part of the portfolio shift, Denka has said it is considering the optimization of sales and production systems for its styrene-related operations. Could you please elaborate on these topics?

A7 : Denka's styrene monomer plant, which supports the upstream of the styrene chain, is based in the Kanto area, the domestic region where demand is highest. We believe that this plant is competitive thanks to this placement. Moreover, it is our only styrene monomer plant. In addition, downsizing this plant would not be an easy task as it is our only styrene monomer plant. On the other hand, we run multiple manufacturing lines for downstream products. Although we have several options in mind, we intend to determine the optimal direction to be taken for these operations even as we pay close attention to developments regarding the reorganization of naphtha crackers in the Keiyo area.

Cash Flows

Q8 : The projected dividend payout ratio for fiscal 2024 amounts to 96%. While it's already high enough, the dividend payout ratio could surpass 100% due to, for example, the possible recording of impairment losses in connection with the drastic portfolio-shift measures for the chloroprene rubber business. Even if this scenario comes into play, will Denka maintain the volume of dividends, provided that the recording of said losses involve no cash outflows?

A8 : We have formulated the dividend forecast of ¥100 per share after taking into account the financial impact of the drastic portfolio-shift measures for the chloroprene rubber business. Our forecast also factors in expected cash flow improvement from fiscal 2025 onward. For fiscal 2024, we will therefore maintain dividends per share at this volume unless an unexpected incident emerges and affects our operating results to an extent that significantly exceeds our assumptions.