

FY2024 1Q Financial Results Presentation
Summary of Q&A Session
(August 7, 2024)

Electronics & Innovative Products

Q1: Isn't it true that first-quarter operating income seems to be lagging behind what it should be in light of the first-half target?

A1: Due mainly to recovery in demand for spherical alumina and other semiconductor- and electronics component-related products, most of Denka's mainstay offerings in this segment saw greater-than-expected sales. On the other hand, sales of ceramic substrates fell short of projections. Furthermore, costs grew due to the impact of inventories and an increase in depreciation and amortization. Taking these factors into account, the overall status of operating income can be considered to be almost in line with our forecast.

Q2: Please elaborate on the factors causing spherical alumina sales to exceed your estimate.

A2: Products for xEV applications are being negatively affected by customers' inventory adjustments in response to the slowing pace of expansion in European markets. However, we have seen robust sales of products for semiconductor applications as they provide the superior thermal dissipation performance required for cutting-edge semiconductor packaging, including GDDR. Going forward, we expect sales of spherical alumina to further expand in this area.

Q3: How is acetylene black demand trending? Also, will your new acetylene black manufacturing base in Thailand be launched according to schedule?

A3: Sales of acetylene black for use in high-voltage cables are currently being affected by delays in construction projects in Europe. However, projections have suggested demand growth over the medium to long term, and this outlook remains unchanged. Moreover, although growth in sales of acetylene black for use in xEV-related products is currently decelerating in European markets, we believe that the overall trend toward xEV market expansion will continue. Accordingly, we have no intention to amend our construction plans for the new manufacturing base in Thailand.

Life Innovation

Q4: Please tell us what contributed to the year-on-year growth in sales of rapid antigen test kits recorded in the first quarter as well as your projections for these products.

A4: Over the course of the first quarter, demand associated with influenza testing remained in place at some parts of Japan, while the COVID-19 virus surged once again, marking the "11th wave" of this pandemic. Against this backdrop, Denka's production bases continued operating at full capacity. In the second quarter, distributors will be seeking to secure inventories in preparation for possible pandemics in autumn or later. Therefore, we expect sales to remain strong going forward and in line with our estimates.

Elastomers & Infrastructure Solutions

Q5: Please describe the reasons for the ¥3.6 billion increase in operating income from the fourth quarter of fiscal 2023 to the first quarter of fiscal 2024.

A5: Showings of chloroprene rubber (CR) were buoyed by gradual recovery in demand and the resolution of the impact from the Noto Peninsula Earthquake, which had struck in the fourth quarter of fiscal 2023. In addition, in the previous fiscal year we saw progress in the phased upward revision of cement prices. We have also benefitted from recent downturns in raw material coal prices. Together, these developments positioned us well to improve profitability and served as the primary factors behind the higher operating income.

Q6: The Louisiana Department of Environmental Quality (LDEQ) approved a two-year extension of the grace period for the new regulations. Please tell us about what led to this decision.

A6: The factors leading to this decision are unknown. In response to the LDEQ's approval of the two-year additional grace period, Denka Performance Elastomer (DPE) filed an appeal with the United States Court of Appeals for the Fifth Circuit, which has jurisdiction over the state of Louisiana, requesting that the validity of this decision be confirmed. However, the schedule for court procedures is currently undecided.

Polymer Solutions

Q7: In the first quarter, Denka recorded a turnaround in operating income in this segment, with demand getting on a recovery track. However, the current level of profit remains lower than historical results. What are your plans for achieving profit recovery?

A7: We indeed benefitted from a recovery in demand that began in the first quarter, and expect this recovery to continue, albeit modestly, over the second half. However, it will be hard for us to achieve a profit level equivalent to past operating results unless overall sales volumes return to the levels seen in past fiscal years. With this in mind, we are currently considering a variety of options, such as the optimization of our supply capacity.