

Summary of Consolidated Financial Results

Denka Company Limited

1. Summary

1.1 Overview

To realize the corporate philosophy enshrined in The Denka Value, the Denka Group set up threefold growth vision designed to create a “Specialty-Fusion Company,” “Sustained Growth” and “Sound Growth” through the execution of Denka Value-Up, a management plan spanning a period of five years beginning in April 2018. To this end, the Group has been promoting the plan’s 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 six months of the fiscal year ending March 31, 2021, the shipping volume of some mainstay products was sluggish, reflecting the significant impact of the novel coronavirus pandemic, while the showings of styrene-based products were stagnant and their sales prices were downwardly revised in step with plunges in raw material prices. Consequently, consolidated net sales totaled ¥160.3 billion, down ¥31.7 billion, or 16.5%, compared with the same period of the previous fiscal year.

On the earnings front, due to the fallout from the infectious disease, chloroprene rubber (CR), diagnostic reagents and other mainstay products have been subject to greater negative impact than originally anticipated. On the other hand, the shipping volume of spherical alumina for EV-related applications was robust. Moreover, growing demand associated with the introduction of 5G infrastructure as well as an increase in data center-related product needs caused the shipping volume of semiconductor-related products (e.g. highly functional films for use as embossed carrier tapes for electronic components and semiconductors, and fused silica fillers for use as semiconductor encapsulant fillers) to exceed the level recorded in the same period of the previous fiscal year. Also, the earlier-than-usual shipping of influenza vaccines contributed to first-half operating results.

In addition, the Group launched sales of QuickNavi™-COVID19 Ag, a rapid diagnostic testing kit for detecting novel coronavirus antigen, in August 2020. And, administrative expenses as well as fixed costs associated with its plants reduced.

As a result, operating income fell ¥3.3 billion, or 21.4%, year on year to ¥12.1 billion. Ordinary income was ¥12.3 billion, down 15.4% year on year, while net income attributable to owners of the parent was ¥10.0 billion, down 7.8% year on year.

From the third quarter onward, the Denka Group expects sales to be lower than its initial forecast for the full year, despite improving demand for some mainstay products, such as CR, which was affected by the novel coronavirus pandemic. On the other hand, as the Group anticipates growth in demand for QuickNavi™-COVID19 Ag, a rapid testing kit for detecting novel coronavirus antigen, and other specialty products, as well as a recovery in demand and the positive effect of cost reductions, the full-year operating income forecast is expected to exceed the previous year’s figure of ¥33.0 billion.

1.2 Results by Segment

Elastomers & Performance Plastics

Sales of MS resin for use in light guiding substrates for televisions and monitors and other applications was firm. However, the novel coronavirus pandemic severely impacted overall production activities, including those undertaken in the automotive industry, causing them to fall into stagnation. This, in turn, resulted in a year-on-year decline in CR sales volume, leading to a significant decrease in segment income.

From the third quarter onward, demand for CR remains on a recovery track. However, the Group expects full-year segment income to show a year-on-year decrease.

Infrastructure & Social Solutions

Despite the positive effects of the Group’s efforts to maintain product prices after the recent upward revisions, segment income declined due mainly to lower sales volumes for cement, special cement additives, fertilizers, fire-resistant materials and steelmaking materials compared with results seen in the same period of the previous fiscal year due to the pandemic.

The Group will nevertheless continue to maintain the product prices in the third quarter and beyond while striving to achieve a year-on-year increase in segment income in terms of full-year operating results.

Electronics & Innovative Products

As the Group was buoyed by growing demand associated with the global introduction of 5G infrastructure and an increase in data center-related product needs worldwide, robust sales of highly functional films for use as embossed carrier tapes for electronic components and semiconductors exceeded results recorded in the same period of the previous fiscal year, as did sales of fused silica fillers for use as semiconductor encapsulant fillers. Similarly, sales of spherical alumina for use in EV-related applications were up year on year. Thanks to these factors, segment income increased.

As the Group anticipates that demand for EV-related products will grow in the third quarter and beyond, segment income is expected to increase year on year in terms of full-year operating results.

Living & Environment Products

Due to the fallout from the pandemic and other factors, the sales volumes of plastic rain gutters, TOYOKALON synthetic wig fibers and industrial tapes were down year on year. However, thanks to growing demand for takeaway food services, overall sales of food packaging sheets and processed products using such sheets largely remained firm. Moreover, plunges in raw material prices and a reduction in fixed costs contributed to segment results. Taking these and other factors into account, segment income rose from the same period of the previous fiscal year.

Based on the Group’s projection that the circumstances discussed above will largely remain unchanged in the third quarter and beyond, segment income is expected to increase year on year in terms of full-year operating results.

Life Innovation

Because of the pandemic, sales of diagnostic reagents have declined year on year due to a fall in the number of diagnostic examinations and a trend toward voluntary restraint in the conduct of health checkups. On the other hand, R&D expenses and other forward-looking investments increased. However, as influenza vaccines were shipped earlier than usual this year, sales saw a year-on-year rise. Moreover, the August 2020 release of QuickNavi™-COVID19 Ag, a rapid diagnostic testing kit for detecting novel coronavirus antigen, contributed to segment results. Consequently, operating income for the first half was virtually unchanged from the same period of the previous fiscal year.

In terms of full-year operating results, the Group anticipates that sales of influenza vaccines will remain virtually unchanged from the previous fiscal year. Given the expected contribution of QuickNavi™-COVID19 Ag and other products, the Group also believes that full-year segment income will grow year on year.

2. Consolidated Financial Results and Forecast

Billions of Yen

	FY2020 Apr to Sep	FY2019 Apr to Sep	Incr. △Decr.	FY2020 Forecast Apr to Mar	FY2019 Actual Apr to Mar
Net Sales	160.3	192.0	△ 31.7	350.0	380.8
Operating Income	12.1	15.3	△ 3.3	33.0	31.6
Ordinary Income	12.3	14.5	△ 2.2	30.0	30.0
Net Income attributable to owners of parent	10.0	10.9	△ 0.8	22.0	22.7

3. Net Sales and Operating Income by segments

Billions of Yen

		FY2020 Apr to Sep	FY2019 Apr to Sep	Incr. △Decr.	FY2020 Forecast Apr to Mar	FY2019 Actual Apr to Mar
Elastomers & Performance Plastics	Net Sales	54.6	78.7	△ 24.1	115.0	149.3
	Operating Income	2.1	6.9	△ 4.8	3.0	10.9
Infrastructure & Social Solutions	Net Sales	24.5	26.9	△ 2.5	52.0	54.8
	Operating Income	0.2	0.3	△ 0.1	0.5	0.3
Electronics & Innovative Products	Net Sales	33.3	33.5	△ 0.2	70.0	68.0
	Operating Income	6.6	5.8	0.8	13.0	12.4
Living & Environment Products	Net Sales	16.6	18.6	△ 2.0	33.0	37.0
	Operating Income	0.5	△ 0.2	0.7	1.0	0.1
Life innovation	Net Sales	16.2	15.0	1.2	46.0	35.5
	Operating Income	2.4	2.5	△ 0.1	15.0	7.0
Others/ Companywide	Net Sales	15.2	19.2	△ 4.0	34.0	36.2
	Operating Income	0.3	0.2	0.2	0.5	0.9
Total	Net Sales	160.3	192.0	△ 31.7	350.0	380.8
	Operating Income	12.1	15.3	△ 3.3	33.0	31.6

4.1 Net Sales by segments

Billions of Yen

	Net Sales				
	FY2020 Apr to Sep	FY2019 Apr to Sep	Incr. △Decr.	Sales price	Sales volume
Elastomers & Performance Plastics	54.6	78.7	△ 24.1	△ 11.9	△ 12.2
Infrastructure & Social Solutions	24.5	26.9	△ 2.5	0.2	△ 2.7
Electronics & Innovative Products	33.3	33.5	△ 0.2	△ 0.5	0.2
Living & Environment Products	16.6	18.6	△ 2.0	△ 0.5	△ 1.4
Life innovation	16.2	15.0	1.2	△ 0.1	1.3
Others	15.2	19.2	△ 4.0	-	△ 4.0
Total	160.3	192.0	△ 31.7	△ 12.8	△ 18.8

4.2 Operating income by segments

Billions of Yen

	Operating income					
	FY2020 Apr to Sep	FY2019 Apr to Sep	Incr. △Decr.	Sales price	Sales volume	Operating cost & others
Elastomers & Performance Plastics	2.1	6.9	△ 4.8	△ 11.9	△ 5.7	12.8
Infrastructure & Social Solutions	0.2	0.3	△ 0.1	0.2	△ 0.7	0.4
Electronics & Innovative Products	6.6	5.8	0.8	△ 0.5	0.6	0.7
Living & Environment Products	0.5	△ 0.2	0.7	△ 0.5	△ 0.6	1.9
Life innovation	2.4	2.5	△ 0.1	△ 0.1	1.2	△ 1.1
Others	0.3	0.2	0.2	-	0.1	0.0
Total	12.1	15.3	△ 3.3	△ 12.8	△ 5.2	14.7

5. Key operating factors

Billions of Yen

	FY2020 Apr to Sep	FY2019 Apr to Sep	Incr. △Decr.	FY2020 Forecast Apr to Mar	FY2019 Actual Apr to Mar
Investment	17.1	18.9	△ 1.8	45.0	36.9
Depreciation	11.5	11.0	0.4	23.0	22.5
Research and Development	7.4	7.3	0.2	16.0	15.0
Interest-bearing debt	140.5	123.3	17.2	141.0	134.3
Yen / USD exchange rate	106.8	109.2			
Naphtha price (yen/kl)	28,250	42,800			