

FY2020 2Q Financial Results Presentation Summary  
(Presented at a teleconference held on November 9, 2020)

(1) Overview of FY2020 2Q Financial Results (year-on-year changes)

(Billions of yen)

① Net sales:	160.3 (- 31.7)		Decrease in sales volume (-18.8) Differences in sales prices (-12.8)
② Operating income:	12.1 (- 3.3)		
Changes in sales volume	(- 5.2):		Impact of the novel coronavirus pandemic (-9.1) Other (Electronics & Innovative Products, influenza vaccines, etc.) (+3.9)
Improvement in spread	(+0.1):		Decreases in raw material prices, etc. (+11.8) Decreases in sales prices (-11.7)
Effect of foreign exchange	(- 0.4):		Sales prices (-1.1) Raw material prices, etc. (+0.7)
Other cost elements	(+2.3):		Other administrative and manufacturing costs, etc.
Forward-looking investments, etc.	(- 0.2):		Rise in R&D expenses, etc.
	(-3.3)		Net decrease due to the factors listed above

- ① **Net sales** decreased due to a decline in sales volume that reflected the fallout from the novel coronavirus pandemic as well as the impact of downward revisions in styrene-based products' sales prices in step with plunges in raw material prices.
- ② **Operating income** fell ¥3.3 billion from the same period of the previous fiscal year. This was attributable to the lower sales volume of some mainstay products under the influence of the novel coronavirus pandemic, despite consistently robust sales of EV- and semiconductor-related products, the earlier-than-usual shipment of influenza vaccines, and the August 2020 release of a novel coronavirus antigen rapid testing kit as well as the positive effects of reductions in administrative, manufacturing and other fixed costs.

(2) Revision of Forecasts for Full-Year Operating Results for FY2020 (changes from the initial forecasts) and Announcement of Year-End Dividend Forecast.

(Billions of yen)

Net sales:	350.0	(-10.0)	Differences in sales volume (-4.0) Differences in sales prices (-6.0)
Operating income:	33.0	(+2.0)	Differences in sales volume (+2.7) Differences in sales prices (-6.0) Differences in costs, etc. (+5.4)
Ordinary income:	30.0	(+1.0)	
Net income:	22.0	(+1.0)	

Annual dividends per share: ¥125 (interim: ¥60; year-end\*: ¥65)

Dividend payout ratio: 49%

\*The forecast for year-end dividends had previously been left undetermined.

Denka has revised its fiscal 2020 full-year operating results forecasts for the following reasons:

The Company anticipates growth in sales of specialty products, including antigen rapid testing kits, as well as boosts from such positive factors as recovery in demand and cost reductions.

With regard to dividends, Denka's policy of working to achieve a total shareholder return ratio of 50% remains constant. In line with this policy, we announced a year-end dividend forecast, which had previously been left undetermined, of ¥65 per share. Taking this into account, annual dividends are expected to total ¥125. Striving to live up to the expectations of shareholders, especially those intending to hold Denka shares over the long term, we will pursue sustained growth and continue to deliver a stable stream of dividends in line with long-standing efforts undertaken since the impact of the recessions triggered by Lehman Brothers bankruptcy.

(3) Forecasts for Full-Year Operating Results for FY2020 (year-on-year changes)

		(Billions of yen)
① Net sales:	350.0 (-30.8)	Decrease in sales volume (-5.5) Impact of the novel coronavirus pandemic (-37.6*) *The pandemic's impact in FY2019: -1.4; FY2020: -39.0 Other (novel coronavirus antigen testing kits, EV-related products, etc.) (+32.1) Differences in sales prices (-25.3)
② Operating income:	33.0 (+1.4)	
Changes in sales volume	(+5.1):	Impact of the novel coronavirus pandemic (-15.0*) *The pandemic's impact in FY2019: -1.0; FY2020: -15.9 Other (novel coronavirus antigen testing kits, EV-related products, etc.) (+20.1)
Deterioration in spread	(- 4.4):	Decreases in sales prices (-22.9) Decreases in raw material prices, etc. (+18.5)
Effect of foreign exchange	(- 0.8):	Sales prices (-2.4) Raw material prices, etc. (+1.6)
Other cost elements	(+2.4):	Other administrative and manufacturing costs, etc.
Forward-looking investments, etc. (- 1.0):		Rise in R&D expenses, etc.
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		(+1.4) Net increase due to the factors listed above

Denka's forecast of operating income of ¥33.0 billion is based on the presumption that the positive effect of sales growth in specialty businesses, such as novel coronavirus rapid testing kits and EV-related products, will exceed the impact of a decline in the chloroprene rubber sales volume and an increase in forward-looking investments and other spending

(4) Summary of Q&A Sessions

① Status of demand for Elastomers & Performance Plastics and their second-half financial results

- Demand for chloroprene rubber (CR) deteriorated in the first half due to the impact of the novel coronavirus pandemic. However, we expect that the second-half CR sales volume will exceed results in the same period of the previous fiscal year as its performance is currently on a recovery track in Japan and the United States.
- Our policy of maintaining CR sales prices is unchanged. We squarely refrain from any discounts that disregard profitability.
- In the second half, segment performance will be affected by costs associated with periodic shutdown maintenance totaling approximately ¥ 1.0 billion. Our plans also call for reducing the volume of inventories that built up in the first half. We therefore anticipate the financial impact of inventory reduction.

② Future outlook for Infrastructure & Social Solutions

- The impact of the novel coronavirus pandemic is expected to remain ongoing in the second half. This projection takes into account a decline in demand for fire-resistant materials that reflects a decrease in crude steel production in addition to shrinking demand for agri-products due to the sluggish performance of the restaurant industry, among other factors.

③ Status of demand for Electronics & Innovative Products and future outlook

- Demand for semiconductor- and electronic parts-related products was robust in the April – July period, but plateaued from August onward. However, we expect a pickup in demand in the second half. Although EV-related products were affected by a decline in supply chain demand in the April–June period, we expect recovery in demand some time in the second half.
- Based on the presumption that demand for EVs will become stronger than that seen in the pre-pandemic period, we will vigorously execute capital expenditure to secure capacity to meet such demand.
- The impact of the novel coronavirus pandemic on our rolling stock-related products will persist in the second half.

#### ④ Outlook for Life Innovation

- The expected performance of novel coronavirus antigen rapid diagnostic testing kits is factored into our full-year operating results forecasts based on market intelligence currently available to Denka and certain assumptions that are deemed reasonable.
- Our novel coronavirus antigen rapid diagnostic testing kits are being used by a growing number of designated healthcare institutions in diagnostic examinations. In particular, we have seen growing demand from doctors in private practice.
- To help address concerns about viral resurgence, we strove to raise our production capacity to fulfill our responsibilities as a top manufacturer. As a result of efforts that included staff engaging in overtime, our current capacity is 13,000 units (for 130,000 rounds of testing) per day, an improvement from the initial capacity of 10,000 units (for 100,000 rounds of testing) per day.
- As we have some leeway in terms of boosting production capacity, we will be able to accommodate requests for further production increases even if the demand is upward.

#### ⑤ DPE-related lawsuits

- We have not seen any notable developments since issuance of the February 14 press release.  
Reference: “Notice Regarding Litigation Against US Subsidiary” (dated February 14, 2020)  
[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)
- DPE submitted a paper to the U.S. Environmental Protection Agency (EPA) discussing the chloroprene monomer toxicity assessment method employing a cutting-edge physiologically based pharmacokinetic (PBPK) model. Currently, said paper is undergoing the peer-review process. Once peer review is completed, we expect the EPA to consider revising its recommendations on annual average exposure. In sum, we are making steady progress based on a scientific approach.

##### References:

“Statement regarding NATA’s Toxicity Assessments on the Areas Surrounding Denka’s U.S. Subsidiary and Initiatives Being Undertaken to Reduce Environmental Burden” (dated June 19, 2019)

[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)

“Review of Chloroprene Monomer Toxicity Assessment Performed by the U.S. Environmental Protection Agency” (dated February 14, 2020)

[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)

- DPE is also engaged in spontaneous and proactive efforts to reduce the emission of environmental load substances. To this end, DPE invested more than ¥4 billion and, in 2019, succeeded in reducing the volume of chloroprene monomer emissions by 85% compared with the emission volume recorded in 2016. This accomplishment is also acknowledged by the Louisiana Department of Environmental Quality (LDEQ).