

FY2022 2Q Financial Results Presentation
Summary of Q&A Session
(November 8, 2022)

Electronics & Innovative Products

Q1: Could you please provide an application-based breakdown of the status of acetylene black sales in the July–September 2022 period regarding sales for EV-related use and for high-voltage cable use?

A1: Sales of acetylene black for EV-related use were negatively affected by decreased automobile production during the April–June 2022 period due to semiconductor shortages. However, since July demand has been on a recovery track. As for products for use in high-voltage transmission cables, although demand remained strong, the shipment of such products was hindered by logistics disruptions and did not progress as planned.

Q2: What is your demand forecast for the second half regarding EV-related products?

A2: The EV market could be negatively affected by economic recessions in various parts of the world going forward. However, we currently forecast that demand will, to a certain degree, remain solid over the course of the second half of fiscal 2022. This projection is based on a trend toward market recovery as European, U.S. and other automakers are now benefitting from the resolution of semiconductor shortages.

Q3: What is your forecast for semiconductor-related demand for that period?

A3: Because of declining demand for PCs, smartphones and other consumer-sector products, we expect the sales environment to remain harsh. We intend to offset downturns arising from this environment by sales from data center-related and vehicle-mounted products, demand for which has been constantly strong.

Life Innovation

Q4: As the shipment of influenza vaccines commenced in September, the shipment volume of these vaccines is reasonably estimated to grow larger in the second half than in the first half. In addition, the shipment volume of rapid test kits for COVID-19 antigens is similarly expected to rise in the second half, due to concerns over the possible emergence of an eighth wave in the COVID-19 pandemic as well as the simultaneous breakout of both COVID-19 and influenza. Despite these projections, however, the operating income forecast for the second half amounts to only ¥6.5 billion, keeping it on par with that recorded in the first half. What is your rationale for this forecast?

A4: We indeed expect influenza vaccine shipment volumes to be higher in the second half than in the first half. On the other hand, although we do anticipate the emergence of an eighth wave in the COVID-19 pandemic in the second half, we forecast that the shipment volume of rapid test kits for COVID-19 antigens for the period will not be as large as that in the first half, during which the seventh wave of the pandemic remained in place for a prolonged period of time.

Elastomers & Infrastructure Solutions

Q5: Denka has stated that its withdrawal from the cement business will, once completed, translate into a profit effect of around ¥1.0 billion in comparison with the average operating results recorded in the period spanning fiscal 2018 to fiscal 2022. Could you describe the estimated volume of this move's profit effect compared with operating results for fiscal 2022 alone?

A5: Considering that cement producers are now contending with radical surges in coal prices that are sure to lead to an extremely harsh profit environment in fiscal 2022, we believe that our withdrawal from said business will translate into an increase in profit in the order of several billions of yen.

Q6: Don't you think that Denka's complete withdrawal from the cement business could result in higher overall operational costs to be borne by its calcium carbide chain and, further, inflict a major negative impact on the Company's chloroprene rubber-related and other operations?

A6: There will be no major impact on other businesses.

New Vision and the Next Management Plan "Mission 2030"

Q7: It was announced that Denka intends to restructure its non-"three-star businesses," namely, those not associated with specialty businesses, megatrends or sustainability. The Company also named withdrawal and divestment as viable options for restructuring. Please elaborate on your criteria for taking such measures.

A7: With regard to specialty businesses, we have already established a system for calculating ROIC on a product-by-product basis and, therefore, will focus on assessing the investment efficiency of each. We consider a WACC of 6% to be a KPI suggesting the bare minimum approval line. In addition, our judgment criteria include the product's market share, with particular emphasis on whether or not its share is large enough to make it influential in the market.

As for our criteria associated with megatrends, we have defined "ICT & Energy," "Healthcare" and "Sustainable Living" as three key fields. Our resources will be focused on these fields.

In terms of sustainability, our judgment will be based on a given businesses' potential to contribute to the realization of carbon neutrality in 2050. This also takes the future enforcement of carbon taxation into account.

Q8: Could you elaborate on which new businesses you have in mind in terms of Denka's expansion into "ICT & Energy"?

A8: We are focusing mainly on the 5G communications system. As this system now accommodates millimeter waves, we anticipate the launch of new products in relevant fields. As featured in the presentation material, LCP films are considered a good example.

Q9: Denka's target for fiscal 2030 operating income in the healthcare field totals ¥40.0 billion, representing a major increase from the fiscal 2026 operating income target of ¥20.0 billion defined for said field. Do you expect The DELYTACT* (G47Δ) Oncolytic Virus to contribute to operating income through the expansion of the scope of its applications? Or do you anticipate contribution by new products?

A9: Denka is merely a commissioned manufacturer of The DELYTACT* (G47Δ) Oncolytic Virus preparation and is in no way positioned to formulate sales plans for it. That being said, we do anticipate a certain degree of expansion in its applications in countries overseas and future progress in global marketing. Based on these projections, we are planning to augment our supply capacity. While our operating income target thus factors in the contribution of this product, we also expect new products to bolster our operating results.

* DELYTACT is a registered trademark of Daiichi Sankyo Company, Limited.