

FY2019 Financial Results Presentation Summary

(Held on May 13, 2020)

(1) Overview of FY2019 Financial Results (year-on-year changes)

		(Billions of yen)
① Net sales:	380.8 (-32.3)	Decrease in sales volume (-16.1) Differences in sales prices (-16.3)
② Operating income:	31.6 (-2.6)	
Decrease in sales volume (-5.9):		Chloroprene rubber (CR), etc. (-4.9) Impact of the novel coronavirus pandemic (-1.0)
Improvement in spread (+6.2):		Increases in sales prices (+20.1) Increases in raw material prices, etc. (-13.9)
Effect of foreign exchange (-0.9):		Sales prices (-2.3) Raw material prices, etc. (+1.5)
Other cost elements (-1.6):		Absence of periodic shutdown maintenance (SDM) of styrene monomer (SM) plant (+1.4) Absence of damage previously incurred by Denka Performance Elastomer (DPE) in the United States due to cold wave and the restoration of the Omi Plant's hydroelectric power generation output (+1.6) Other administrative and manufacturing costs (-4.6): Personnel system reforms and IT development, etc.
Forward-looking investments, etc. (-0.5):		Rise in R&D expenses, etc.

	(-0.6)	Net decrease due to factors listed above

- ① **Net sales** decreased due to lower CR sales, which reflected a decline in demand, and the downward revisions of sales prices of styrene-based products in step with plunges in raw material prices.
- ② **Operating income** fell due to the lower sales volume, reflecting the impact of U.S.-China trade friction, which caused demand for CR and other products to decrease significantly, as well as the fallout from the global novel coronavirus pandemic. However, earnings from such specialty businesses as xEV-related products, influenza vaccines and diagnostic reagents remained stable.

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

		(Billions of yen)	
① Net sales:	360.0	(-20.8)	Growth in sales volume (+3.5) Differences in sales prices (-24.3)
② Operating income:	31.0	(-0.6)	
Growth in sales volume	(+3.9):		Electronics & Innovative Products, etc. (+8.9) Impact of the novel coronavirus pandemic (-5.0) (Expected overall impact for FY2020: -¥6.0 billion)
Changes in spread	(-1.5):		Decreases in raw material prices (+22.7) Decreases in sales prices (-24.2)
Effect of foreign exchange	(-0.0):		Sales prices (-0.1) Raw material prices, etc. (+0.1)
Other cost elements	(-2.0):		Other administrative and manufacturing costs
Forward-looking investments, etc.	(-1.0):		Rise in R&D expenses
		(-0.6)	Net decrease due to factors listed above

- ① **Net sales:** A decline in styrene-based product prices, which reflects the weakening of market demand for raw materials, is expected to have a major negative impact on sales.
- ② **Operating income:** Regarding sales volume, it is anticipated that, after the novel coronavirus pandemic comes to an end, sales of Electronics & Innovative Products will grow in a manner that exceeds the sales decrease attributable to the pandemic. Regarding costs, however, spending on R&D and other forward-looking investments in such fields as healthcare is expected to increase.
- ③ The above forecasts are formulated based on the assumption that the effect of the novel coronavirus pandemic will gradually taper off from the second quarter onward and economic activity will be largely normalized sometime in the third quarter. However, we are refraining from disclosing operating results forecasts for the first six months of FY2020 as the magnitude of the fallout from the pandemic may significantly differ from our projections.

(3) Shareholder Returns

- Policy on shareholder returns under the Denka Value-Up management plan: Remain committed to a targeted total shareholder return ratio of 50%; place stronger focus on cash dividends; and flexibly execute share repurchases

Dividends per share for fiscal 2019:

- Interim: ¥60; year-end: ¥65; full-year: ¥125 (dividend payout ratio: 48%)

Forecasts for dividends per share for fiscal 2020:

- Our forecasts for dividends per share for fiscal 2020 have not been determined as our operating results may significantly fluctuate due to the impact of the novel coronavirus pandemic. However, our policy of working to achieve a total shareholder return ratio of 50% remains unchanged.

(4) Key Themes for Our Specialty Business Initiatives under Denka Value-Up

- ① Contribution to countermeasures against the novel coronavirus
 - Develop rapid test kits for the novel coronavirus (antigen/antibody detection employing the immunochromato-method)
 - Develop measures for testing the disease other than those using the immunochromato-method (incorporate R&D findings from Taiwanese and U.S. facilities to Japan by acting in collaboration with PlexBio, in which Denka holds a 33.4% equity stake)
 - Provide raw material for Avigan® (diethyl malonate)
 - Launch basic research with an eye to developing a vaccine for the disease
 - Expand CR marketing to supply medical glove materials
- ② New businesses in the healthcare field
 - Commercialize the G47Δ oncolytic virus
 - Promote CANCERPLEX®, a genome-based panel examination method for cancer diagnosis
 - Develop panel examination methods and diagnostic devices to detect pathogenic microorganisms and drug resistant bacteria genes
 - Develop norovirus vaccines (phase I clinical testing started in Europe)
- ③ New products to be delivered in response to needs arising from megatrends in the field of the environment and energy
 - Expand our capacity to supply xEV-related products (spherical alumina, ultra-pure acetylene black and ceramics-based electronic circuit substrates)
 - Develop and release new products designed to meet needs associated with the introduction of the 5G communications infrastructure and the emergence of “CASE” next-generation automobile technologies (LCP films, high dielectric constant fillers and low dielectric loss tangent fillers)

(5) Summary of Q&A Sessions About Forecasts of FY2020

- ① **Impact of the novel coronavirus pandemic**
 - On the earnings front, the impact is expected to total a negative ¥6.0 billion due to a decline in sales volume. Approximately half of this amount will be attributable to a demand decline in such fields as automobiles, home appliances and PET bottles in Elastomers & Performance Plastics. And we can also expect Electronics & Innovative Products to be affected and also believe that, although the outlook remains unclear, Life Innovation will also be impacted due to a decrease in the number of people undergoing annual health checkups.
 - On the other hand, we anticipate that the pandemic-related suspension of construction projects will not affect Infrastructure & Social Solutions in a major way.
 - With regard to capital expenditures now under way at domestic and overseas, although the pandemic may force us to delay the operational kick off of some facilities for two or three months, we will do our best to steadily push ahead with these projects as initially planned.

② Outlook for the CR business

- We forecast that the CR business will be negatively affected as users in the U.S. and Europe are currently suspending their facility operations or engaged in only partial facility operations. However, we anticipate a gradual uptick in demand from the second half onward.
- Although the business environment surrounding CR remains harsh, our policy of maintaining CR sales prices is unchanged as is its positioning as a functional elastomer.
- The status of DPE-related litigation is unchanged from that described in the press release and statement publicized on February 14, 2020. Since the acquisition of its facilities by Denka, DPE has maintained compliance with emission-related legal regulations and standards in the course of its operations. Moreover, DPE succeeded in reducing the volume of environmental load substances emitted from its facilities by 85% via the execution of an approximately 4.0 billion yen investment. In addition, epidemiological research carried out targeting communities surrounding DPE facilities suggested no abnormality. Also, key statistical surveys conducted by the state government revealed no region-specific outlier. Currently, DPE is engaged in discussions with the U.S. Environmental Protection Agency (EPA) regarding chloroprene monomer toxicity assessments.

References: Press releases publicized by Denka to describe its relevant initiatives

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

"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)

③ Factors behind expected profit growth in Infrastructure & Social Solutions

- We anticipate progress in our ongoing efforts to develop new applications for special cement additives at domestic and overseas while expecting a number of new businesses in this field to get on track
- Other positive factors contributing to profit include our recent success in upwardly revising the sales prices of cement, agri-products and other offerings and the resulting improvement in profitability.

④ Outlook on demand for Electronics & Innovative Products

- While the novel coronavirus pandemic will continue to impact operations in the first half, we anticipate growth in demand from the second half onward in such fields as xEV-related products, one of our product categories supported by a megatrend, as well as 5G- and robotics-related offerings. Although the sales growth these products have previously enjoyed has mainly been in Europe and the United States, we expect that, going forward, they will also see a significant rise in the Chinese market. At present, we are not open to inducing a boost in their sales volume via downward price revisions. In addition, we assume that an ongoing megatrend driving the popularization of xEVs will not be significantly affected by plunges in crude oil prices.
- We expect a rise in sales of spherical alumina for thermal materials particularly due to a growing need related to 5G communication infrastructure base stations in addition to needs in the area of xEV-related applications.
- We also expect growth in demand for ultra-pure acetylene black for use in high-voltage cables used in offshore power generation and transmission and anticipate a continued rise in demand for ultra-pure acetylene black for lithium ion battery (LiB) use amid the popularization of xEVs. We are currently engaged in negotiations aimed at upwardly revising product prices on the back of burgeoning demand.

⑤ Initiatives Under Way in Connection with Life Innovation

- Although we expect sales of diagnostic reagents to grow, we forecast that profit from Life Innovation will remain unchanged from the previous fiscal year due to an expected rise in spending on R&D and other forward-looking investments.
- Our plans call for resuming the manufacture of diethyl malonate, the raw material for Avigan®, to support the production of medicine for approximately 2 million patients in response to a government request. Currently, we have no other shipment plans for this material. The supply of diethyl malonate is part of our social responsibilities. Although we also expect to be granted government subsidies for this move, its impact on our FY2020 profit is insignificant.
- In Life Innovation, we have placed the utmost priority on the development of a rapid test kit for detecting novel coronavirus antigen. Despite the initial development schedule calling for obtaining government approval and launching marketing by the end of 2020, we are currently striving to significantly accelerate this project while studying actual cases of fast-tracked approval granted for medicines created by other pharmaceutical companies. In addition, the impact of the development of this rapid test kit has not been factored into our operating results forecasts due to uncertainty about future demand.

* Avigan is a registered trade name of FUJIFILM Toyama Chemical Co., Ltd.

* CANCERPLEX is a registered trade name of KEW, Inc.