

FY2020 1Q Financial Results Presentation Summary

(Held on August 7, 2020)

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

		(Billions of yen)
① Net sales:	76.2 (-14.7)	Decrease in sales volume (-9.1) Differences in sales prices (-5.5)
② Operating income:	4.4 (-2.3)	
Decrease in sales volume (-3.4):		Impact of the novel coronavirus pandemic (-2.5) Chloroprene rubber (CR), etc. (-0.9)
Improvement in spread (+0.8):		Decreases in raw material prices, etc. (+5.7) Decreases in sales prices (-4.9)
Effect of foreign exchange (-0.3):		Sales prices (-0.7) Raw material prices, etc. (+0.4)
Other cost elements (+1.0):		Other administrative and manufacturing costs, etc. Forward-looking investments, etc. (-0.3): Rise in R&D expenses, etc.

		(-2.3) Net decrease due to factors listed above

- ① **Net sales** decreased due to a decline in demand reflecting the fallout from the novel coronavirus pandemic as well as the impact of downward revisions of sales prices of styrene-based products in step with plunges in raw material prices.
- ② **Operating income** fell ¥2.3 billion from the same period of the previous fiscal year to ¥4.4 billion. A decline in sales volume due to the spread of the novel coronavirus and other factors resulted in a ¥3.4 billion decrease in profit. However, spreads improved due to efforts to maintain selling prices despite the decline in raw material prices. And fixed costs, such as administrative and manufacturing costs, decreased.

(2) First-Half Operating Results Forecasts for FY2020 (year-on-year changes)

Although Denka refrained from releasing its first-half operating results forecasts at the beginning of fiscal 2020 due to the pandemic, the Company is now able to disclose a forecast.

In addition, despite a lingering sense of uncertainty regarding the future outlook due to the possibility of resurgence of the novel coronavirus, our full-year operating results forecasts are unchanged from initial forecasts disclosed in May 2020.

		(Billions of yen)
		(Apr. – Sep.)
Net sales:	160.0 (-32.0)	Differences in sales volume (-19.6) Differences in sales prices (-12.3)
Operating income:	12.0 (-3.3)	Differences in sales volume (-6.7) Differences in sales prices (-12.3) Differences in costs, etc. (+15.7)
Ordinary income:	12.0 (-2.5)	
First-half profit:	10.0 (-0.9)	

(3) Assumptions used to formulate full-year operating results forecasts

Initial forecasts

The effect of the novel coronavirus pandemic will gradually taper off from the second quarter onward and economic activity will be largely normalized in the second half.

Variable factors that subsequently affected the forecasts

Worse:

- In the first half, the pandemic's impact on the performance of some key offerings, such as CR, will get worse than initial estimates.
- Performance of these key offerings may continue to be affected by the pandemic even in the second half.

Better:

- Semiconductor-related products, such as fused silica and highly functional films, will perform more robustly due to growth in 5G-related demand and an increase in data center-related product needs.
- Reviews of administrative expenses and fixed costs arising from plant operations will help improve consolidated operating results.
- Although the planned release of novel coronavirus rapid test kits is expected to contribute to operating results, contributions by these products have yet to be reflected in forecasts.

Same:

- A megatrend toward the popularization of EVs will remain in place over the medium to long term, supporting demand for EV-related products, including spherical alumina, acetylene black and ceramics-based circuit substrates, and contributing to growth in their performance in the second half.
- Sales of influenza vaccines in the 2020-2021 season are expected to remain virtually unchanged from a year earlier.

Despite an extremely harsh operating environment, we will gear up the execution of growth strategies under the Denka Value-Up management plan and pursue "a company that is genuinely needed by society" via the across-the-board implementation of our policy on workstyle reforms, which was established in July 2020, to improve productivity.

We will thus rally our overall strengths to live up to our initial forecasts for full-year operating results.

(4) Shareholder Returns

Forecasts for dividends per share for fiscal 2020:

Interim : ¥60 (We were undecided at the Initial forecasts.)

year-end: undecided as developments related to the pandemic may significantly affect our operating results.

However, our policy of working to achieve a total shareholder return ratio of 50% remains constant.

(5) Summary of Q&A Session

① Status of demand for Elastomers & Performance Plastics and future outlook

- Although our chloroprene rubber (CR) business faced a harsh situation in the first quarter due to stagnant demand, we have seen signs of recovery from June onward. Despite a strong sense of uncertainty regarding the future outlook, we expect CR demand to recover somewhat.
- Our policy of maintaining CR product prices remains unchanged. In addition, we have positioned CR as a specialty rubber.
- Despite plunges in prices of raw materials in the first quarter, we have nevertheless succeeded in maintaining sales prices of some styrene-based resin products even in the second quarter. As a result, the spread between raw material and product prices has improved.

② Future outlook for Infrastructure & Social Solutions

- In the first quarter, we have seen delays in the signing of contracts for some construction projects, which would have otherwise contributed to sales of special cement additives. Moreover, the volume of recycled materials accepted by our cement manufacturing facilities has temporarily decreased. However, we anticipate that, from July onward, these operations will begin to recover.

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

- In the first quarter, some of our users sought to secure spare inventories of such offerings as highly functional films, which are used as embossed carrier tape for semiconductors, in preparation for possible supply chain disruptions. However, the volume of orders received for these products has currently returned to normal levels.
- Demand for EV-related products, including ultra-pure acetylene black and spherical alumina, weakened in the first quarter due to the global stagnation that idled operations at some automobile production facilities. However, as we have seen recovery in Europe, China and elsewhere, we expect demand to grow going forward into the second quarter.

④ Future outlook for Life Innovation

- The volume of fiscal 2020 influenza vaccine shipments is expected to remain virtually unchanged from a year earlier. As medical associations and other specialist organizations recommend earlier vaccination, we are more focused than ever on increasing shipments in September. Accordingly, sales of these vaccines are factored into our first-half operating results forecasts.
- As for diagnostic reagents, sales of inflammation markers in China are likely to fall short of our estimation at the beginning of the fiscal year due to a trend in some regions of avoiding hospital visits. In terms of full-year operating results, however, we expect the volume of shipments of these offerings to eventually expand year on year, due to ongoing demand in the market.
- Our capacity to produce novel coronavirus rapid test kits amounts to 10,000 kits (for 100,000 rounds of diagnostic tests) per day at maximum. However, considering the latest number of domestic infection cases, we currently do not expect that demand for these test kits will be high.
- The success of these rapid test kits hinges on whether they become popular among private-practice physicians who run clinics, our primary target customers.

Reference: A press release issued on August 11, 2020, following the teleconference,

“Approval for Manufacturing and Marketing of COVID-19 Rapid Antigen Test in Japan

~ QuickNavi™- COVID19 Ag to be distributed to Japanese Medical Institutions starting on August 13 ~”

https://www.denka.co.jp/eng/storage/news/pdf/291/20200811_denka_quicknavi_covid19ag_en.pdf

⑤ Other

- In the first quarter, inventory volume grew from the same period of the previous fiscal year due to a decline in shipments reflecting the fallout from the novel coronavirus pandemic. In addition, inventory volume maintained by Denka tends to grow in the first quarter of the fiscal year as the Company takes advantage of the seasonal operations peak at its hydroelectric power generation facilities in order to produce calcium carbide chain products at lower costs. This results in a temporary rise in production volume and constitutes a seasonal factor that is unique to Denka. Moreover, the initiation of influenza vaccine production also contributes to growth in inventories. Despite the factors described above, we expect that inventory volume will decrease and be maintained at an appropriate level from July onward. Accordingly, its impact on consolidated operating results is insignificant.