

# FY2021 3Q Financial Results Presentation Summary

(February 7, 2022)

## (1) Overview of FY2021 3Q Financial Results (year-on-year changes)

Through the implementation of the Denka Value-Up management plan initiatives, Denka achieved a new record high in terms of profit for the first nine months.

(Billions of yen)

① Net sales:	284.0 (+22.0):	Increase in sales volume (+17.5) Differences in sales prices (+26.7) Impact of the revision of Accounting Standard for Revenue Recognition (-22.3)
② Operating income:	32.2 (+4.2):	
	Changes in sales volume (+10.2):	Growth in demand for EV related products and semiconductor related products Sales increased for test reagents such as rapid test kits for COVID-19 antigens (including supply to the government) and inflammation markers, while sales of influenza vaccines decreased due to weakening productivity. Demand recovered from the negative impact of COVID-19 (chloroprene rubber (CR), etc.)
	Differences in sales prices (+26.7):	Upward revision of styrene-based product prices in step with rises in raw material prices, etc. (including +4.6 attributable to foreign exchange fluctuations)
	Differences in manufacturing costs (-26.7):	Rises in raw material prices, etc. (including -2.5 attributable to foreign exchange fluctuations)
	Other differences in costs (-6.1):	Fixed costs, etc.
	(+4.2)	Net increase due to the factors listed above

Maintaining robust spreads through flexible product price revisions in response to higher raw material prices, we achieved profit growth as sales volume increased on the back of recovery, expansion and growth in demand.

## (2) Forecasts for Full-Year Operating Results for FY2021 (comparisons with forecasts as of November 2021)

Although the latest forecasts were revised downward from forecasts as of November 2021, we expect each profit indicator to beat our record high.

(Billions of yen)

① Net sales:	385.0 (-10.0):	Changes in sales volume (-6.5) Differences in sales prices (-3.5)
② Operating income:	40.0 (-4.0)	
Changes in sales volume (-0.9):		Positive factor: Increasing demand for COVID-19 rapid antigen test kits Negative factors: Opportunity loss due to reduced DPE production, reduced demand for functional resins
Differences in sales prices (-3.5):		Positive factor: Additional upward revisions of CR, Poval and other product prices Negative factors: Reduced insurance points for COVID-19 rapid antigen test kits (including -0.2 attributable to foreign exchange fluctuations)
Differences in manufacturing costs (-0.5):		Rises in raw material prices, etc. (including +0.1 attributable to foreign exchange fluctuations)
Other differences in costs (+0.9):		Other manufacturing and administrative costs, etc.
	(-4.0)	Net decrease due to the factors listed above

Despite growth in the shipment volume of COVID-19 rapid antigen test kits on the back of growing testing demand, changes in sales volume are expected to result mainly from the loss of business opportunities due to production decrease at DPE and a decline in demand for functional resins, causing our latest forecast to be ¥0.9 billion lower than the previous forecast. Differences in sales prices are expected to result in a ¥3.5 billion decrease in profit due primarily to the downward revision of health insurance points allocated to novel coronavirus antigen testing, despite the scheduled additional upward revisions of CR and other product prices. Overall, we revised our operating income forecast downward by ¥4.0 billion.

## (3) Shareholder Returns

Although full-year operating results forecasts have been lowered, our fiscal 2021 annual dividend forecast remains unchanged from ¥145 per share, based on our policy of targeting a total return ratio of 50%.

Fiscal 2020 dividends:

¥125 per share (interim: ¥60; year-end: ¥65); dividend payout ratio: 47%

Revised forecasts for dividends per share for fiscal 2021:

¥145 per share (interim: ¥70; year-end: ¥75); dividend payout ratio: 48%

## (4) Fiscal 2022 Numerical Targets under Denka Value-Up (year-on-year changes)

Fiscal 2022 numerical targets: Operating income of ¥50.0 billion

Breakdown by segment

Electronics & Innovative Products:	¥22.0 billion	(+¥ 3.5 billion)
Life Innovation:	¥11.0 billion	(- ¥ 3.5 billion)
Elastomers & Infrastructure Solutions:	¥ 7.0 billion	(+¥10.5 billion)
Polymer Solutions:	¥11.0 billion	(+¥ 2.5 billion)
Others:	-¥ 1.0 billion	(- ¥ 3.0 billion)
-----		
Total	¥50.0 billion	(+¥10.0 billion)

To achieve operating income of ¥50.0 billion, we will continue to push ahead with our strategy of increasing outstanding global competitiveness backed by a robust portfolio of specialty businesses and products under the Denka Value-Up management plan.

## (5) Summary of Q&A Session

- ① Trends in demand for Electronics & Innovative Products
  - At the time of the November 2021 announcement of our previous forecasts, we had assumed that demand for acetylene black, ceramics-based electronic circuit substrates and HITTPLATE, all of which have been affected by reduced automobile production on the back of semiconductor shortages, would recover sometime in the January–March 2022 period. However, this assumption has yet to come into play due mainly to resurgences of the novel coronavirus pandemic and worldwide logistics disruption. We currently expect to see recovery during fiscal 2022.
  - Although spherical alumina was similarly affected by reduced automobile production, we expect shipping volume to live up to our November forecast since sales remained robust for offerings for a range of applications, such as 5G communications devices and semiconductor encapsulant fillers.
- ② Status of sales and production of COVID-19 rapid antigen test kits
  - As we aim to supply as many testing kits as possible in response to the rapid surge in demand, we are planning to further augment our production system, which is currently operating at full capacity. We will not slow down the pace of supply before the end of March 2022. At present, we assume that testing demand will peak sometime during February 2022.
- ③ Performance outlook for Elastomers & Infrastructure Solutions
  - DPE, a CR production base in the United States, has been affected by Hurricane Ida, which disrupted the upstream supply chain and caused DPE to suspend facility operations. In addition to our November 2021 estimate that the hurricane's impact on profit would roughly amount to -¥2.5 billion, we currently expect to also record about -¥1.5 billion as the resumption of DPE facilities has been delayed beyond our assumption when the November forecasts were announced. (This brings our estimate to approximately -¥4.0 billion in total.)
  - We have steadily revised product sales prices upward in step with rises in raw material prices (see graphs on page 19 of the presentation material). However, we still expect higher raw material prices to exert a negative impact on fiscal 2021 operating results as there will be time lags until revised sales prices take effect.
- ④ Status of the business portfolio shift
  - Multiple projects with specific goals are currently progressing.
  - We aim to disclose tangible outcomes of the business portfolio shift by the end of fiscal 2022.
  - Denka's portfolio includes no operation whose marginal profit ratio is negative. Accordingly, the business portfolio shift is not necessarily expected to yield immediate growth in profitability. We therefore take a medium- to long-term perspective in our pursuit of a further shift to high-profitability businesses through specialization.