

**FY2023 2Q Financial Results Presentation**  
**Summary of Q&A Session**  
**(November 8, 2023)**

**Electronics & Innovative Products**

Q1: Please describe the status of competition between acetylene black and carbon nanotubes in the field of EV-related applications.

A1: In the EV-related products field, Denka's acetylene black maintains a certain degree of market share despite competition from carbon nanotubes. Also, assessments are now under way to determine the feasibility of the mixed-use of acetylene black and carbon nanotubes. Looking ahead, therefore, we can expect demand for acetylene black to grow in step with the expansion of the EV-related product market.

Q2: Denka's Electronics & Innovative Products have seen profit improve from the first quarter to the second quarter. Did demand for semiconductors used in consumer electronics bottom out?

A2: Yes, it did, and it is now on a gradual recovery track. Demand for our special-grade products for high-end applications was the first to show growth, reflecting expansion in the market for high-performance semiconductors, especially those for applications related to generative AI and other leading-edge fields.

Q3: Some manufacturers that use Denka's spherical alumina in EV lithium ion batteries (LiBs) for thermal dissipation applications recorded declines in market share in the previous fiscal year. Could you describe the impact this has had on the Company's operating results?

A3: Although our fiscal 2023 operating results are expected to be negatively affected, we are also now seeing our user corporations regaining market share. We therefore anticipate that our operating results will gradually recover. Furthermore, not only do we expect growth in demand for products used in EV LiBs for thermal dissipation applications, we forecast that demand will similarly expand for products used in the On Board Chargers (OBCs) of EVs for similar applications as well as those used as semiconductor sealants for high-performance semiconductors, which are being increasingly called upon to meet ever higher standards in terms of thermal dissipation.

**Life Innovation**

Q4: Denka has upwardly revised its full-year operating income forecast. Does this suggest the likelihood of an expansion in sales of simultaneous test kits for COVID 19 and influenza?

A4: While sales of the combo kits are currently growing, sales of other rapid antigen test kits for various infectious diseases are similarly expanding because of the increasing number of infections with diseases other than COVID-19 and influenza. This is why our operating income forecast was upwardly revised.

## **Elastomers & Infrastructure Solutions**

Q5: Denka forecasts that the second half of fiscal 2023 will see Elastomers & Infrastructure Solutions recording an operating loss of ¥5.9 billion, representing a deterioration from the operating loss of ¥1.6 billion recorded in the first half. Could you elaborate on the factors behind this forecast?

A5: Periodic repairs are scheduled for the second half on an annual basis and will entail expenses of around ¥1.0 billion. Moreover, sales prices are expected to decline in fiscal 2023 due to the intensification of competition. These are the main factors behind our forecast. In addition, the utilization of our hydroelectric power plants is usually higher in the first half due to the influx of snowmelt water, which has a seasonal positive effect. Other factors contributing to differences between first-half and second-half results include the impact of changes in inventory volumes due to acceptances and shipments.

Q6: Please describe the status of profit and loss recorded by Denka Performance Elastomer LLC (DPE), a subsidiary tasked with manufacturing chloroprene rubber (CR).

A6: DPE has seen an increase in fixed costs due to surges in repair and labor costs under the influence of inflation. In addition, this subsidiary has had to address the aging of its plant equipment, with a growing number of facilities now requiring refurbishments. These circumstances have, in turn, put ongoing pressure on the profitability of its CR business.

## **Overall**

Q7: Denka reduced its forecast for full-year dividends from ¥120 per share to ¥100 per share. Was the Company unable to secure funds for dividends by implementing cash-generation measures?

A7: We did implement various measures, including the divestment of strategic cross shareholdings. However, our forecast for fiscal 2023 operating income is now set at ¥19.0 billion, which falls significantly short of the ¥32.3 billion in operating income recorded in the previous fiscal year. After giving comprehensive consideration to such factors as the current status of our shareholder returns relative to our policy of targeting a total return ratio of 50%, we regrettably decided to reduce our full-year dividend forecast to ¥100 per share, which is on par with the full-year dividend paid for the previous fiscal year.

Q8: Denka's recent operating results include a notable increase in inventories. Could you name specific businesses and products for which inventories are now growing? Also, don't you think that the higher inventory volume could put pressure on future profit due to resulting deterioration in the facility utilization ratio?

A8: As of September 30, 2023, the main factors contributing to the higher volume of inventories consist of (1) the presence of influenza vaccine inventories that are soon to be shipped in the second half and (2) the need to secure inventories of some Electronics & Innovative Products in anticipation of periodic repairs scheduled for the second half. Moving forward, the carryover of fixed costs arising from inventories may depress profit somewhat from fiscal 2024 onward when sales volumes grow. However, this will not have a major impact on operating results.