

FY2023 3Q Financial Results Presentation
Summary of Q&A Session
(February 7, 2024)

Electronics & Innovative Products

Q1: We have heard from you that in Europe demand for acetylene black for use in high-voltage cables has stagnated on the back of delays in construction projects while that for applications related to xEVs has been affected by reductions in subsidies. Do you still intend to maintain Denka's future growth outlook despite these circumstances? Also, are there any changes in Denka's plans for increasing production in Thailand, a country in which the Company has decided to undertake investment?

A1: With regard to demand associated with high-voltage cables, some construction projects in Europe have been temporarily postponed. However, the number of cancelled projects has been limited. In addition, while the market for xEVs continues to expand, Denka's acetylene black maintains a certain degree of market share. Furthermore, we are currently promoting projects that involve this product's mixed use with carbon nanotubes, a competing product. In light of these factors, we have not revised our future growth outlook nor have we altered our plans for increasing production in Thailand.

Q2: Demand for spherical fused silica has been slow to recover. Do you have any projections regarding when it will? Also, please describe the status of demand for this product for use in generative AI-related devices, an area that is expected to expand going forward.

A2: Although demand for spherical fused silica for use in consumer electronics has been less than robust for some time, we anticipate that it will recover from the second half of fiscal 2024 onward. Also, sales volumes of products for use in generative AI-related devices and substrates for high-frequency devices are already on a recovery track.

Elastomers & Infrastructure Solutions

Q3: Please tell us what caused the deterioration in operating income from the second quarter through the third quarter.

A3: Our chloroprene rubber (CR) operations saw a substantial increase in per-unit fixed costs due to lower capacity utilization caused by a decrease in demand as well as higher costs at U.S.-based Denka Performance Elastomer LLC (DPE), a CR manufacturing subsidiary. This led to the recording of valuation losses on inventories in the third quarter and served as the main factor behind the deterioration in operating income.

Q4: Denka's full-year operating income forecast was downwardly revised from the previous forecast announced in November 2023, due to the impact of the Noto Peninsula Earthquake. Please describe the breakdown of this revision.

A4: Operations at the Omi Plant's CR manufacturing facilities were suspended until the end of January 2024. This move resulted in reductions in production which, in turn, led to lower shipment volumes. These factors negatively impacted sales and will cause operating income to fall by ¥1.1 billion. Moreover, this operational suspension has led to growth in per-unit fixed costs and expansion in valuation losses on inventories. These and other cost factors are likely to cause operating income to decline a further ¥2.3 billion.

Q5: Denka announced its intention to make a decision by the end of 2024 regarding the details of drastic measures aimed at improving its CR business. Does this mean that the timing of such decision could be as late as the second half of 2024 due to the Company's need to closely examine projections of future demand trends before determining the optimal level of production capacities?

A5: The drastic measures to improve the CR business have constituted a subject of the utmost priority and been regularly discussed. We intend to decide on this matter as early as possible.

Other

Q6: We have heard that Denka aims to achieve drastic outcomes via cost reduction projects from fiscal 2025 onward. Does this mean that these projects are not expected to yield results during fiscal 2024?

A6: Although we have been engaged in ongoing cost reductions, the projects in question differ from our traditional efforts due to the incorporation of external best practices. That's why we assume that the implementation of these projects will take a time. We are, of course, aiming for robust cost-reduction effects. Under the President's leadership, we will strive to exceed expectations with regard to cost cutting.