

Summary of Consolidated Financial Results

February 5, 2021
Denka Company Limited

1. Consolidated Financial Results and Forecast

(¥ billions)

	FY 2020 Apr to Dec	FY 2019 Apr to Dec	Incr. Decr.	FY 2020 Forecast Apr to Mar	FY 2019 Actual Apr to Mar
Net Sales	262.0	288.7	- 26.7	350.0	380.8
Operating Income	28.0	24.0	4.0	33.0	31.6
Ordinary Income	27.3	22.7	4.6	30.0	30.0
Net Income attributable to Owners of parent	18.9	16.7	2.2	22.0	22.7

2. Overview (year-on-year comparisons)

To realize the corporate philosophy enshrined in The Denka Value, the Denka Group set up a threefold growth vision designed to create a “Specialty-Fusion Company,” “Sustained Growth” and “Sound Growth” through the execution of Denka Value-Up, a management plan spanning a period of five years beginning in April 2018. To this end, the Group has been promoting the plan’s two growth strategies, namely, the business portfolio shift and the introduction of innovative processes, aiming to expand its operations and enhance profitability.

In the first nine months of the fiscal year ending March 31, 2021, the Group’s operating results were negatively affected by revisions of styrene-based product sales prices in step with plunges in raw material prices. Moreover, the shipping volume of some mainstay products was stagnant due to the novel coronavirus pandemic. From the second quarter onward, however, the Group saw demand show signs of recovery from the decline attributable to the pandemic’s fallout. Consequently, consolidated net sales totaled ¥262.0 billion, down ¥26.7 billion, or 9.2%, compared with the same period of the previous fiscal year.

On the earnings front, some mainstay products, including chloroprene rubber (CR) and diagnostic reagents, have been subject to the negative impact of pandemic fallout. On the other hand, the shipping volume of spherical alumina, ultra-high purity electro-conductive carbon black and other EV-related products was robust. Furthermore, due to growing demand associated with the introduction of 5G infrastructure as well as an increase in data center-related product needs worldwide, the shipping volume of semiconductor-related products (e.g. highly functional films for use as embossed carrier tapes for electronic components and semiconductors, and fused silica fillers for use as semiconductor encapsulant fillers) exceeded the level recorded in the same period of the previous fiscal year. In addition, the Group launched sales of QuickNavi™-COVID19 Ag, a rapid diagnostic testing kit for detecting novel coronavirus antigen, in August 2020. This testing kit greatly contributed to the Group’s operating results.

As a result, operating income rose ¥4.0 billion, or 16.7%, year on year to ¥28.0 billion. Ordinary income was ¥27.3 billion, up 20.2% year on year, while profit attributable to owners of the parent was ¥18.9 billion, up 13.1% year on year.

From the third quarter onward, recovery in CR demand has been more robust than estimated and the Group has also seen growing demand in the environment and energy field. However, the Group decided not to revise its full-year operating income forecast of ¥33.0 billion in light of the current resurgence of the virus and resulting uncertainty in future outlook.

3. Assumptions

	FY 2020 Apr to Dec	FY 2019 Apr to Dec	Incr. Decr.	FY 2020 Forecast Apr to Mar	FY 2019 Actual Apr to Mar
Investment	31.7	26.5	5.2	45.0	36.9
Depreciation	17.2	16.6	0.6	23.0	22.5
R&D	11.1	11.2	- 0.1	16.0	15.0
Interest-Bearing Debt	140.0	126.8	13.2	141.0	134.3

	FY 2020 Apr to Dec	FY 2019 Apr to Dec	FY 2020 Forecast Apr to Mar	FY 2019 Actual Apr to Mar
Forex (¥/\$)	106.1	109.1	106.1	109.1
Japan Naphtha (¥/KL)	29,360	42,600	30,150	42,650

4. Results by Segment (year-on-year comparisons)

Elastomers & Performance Plastics

Sales of MS resin for use in light guiding substrates for televisions and monitors and other applications was firm. However, segment income was down year on year because of the significant impact of fallout from the novel coronavirus pandemic on CR sales during the first half.

Although recovery in demand for CR is expected to continue in the fourth quarter, the Group believes that full-year segment income will decrease year on year.

Infrastructure & Social Solutions

Segment income decreased despite the positive effects of the Group's efforts to maintain product prices after the recent upward revisions. This was mainly attributable to declines from results seen in the same period of the previous fiscal year in sales of cement, special cement additives, fertilizers, fire-resistant materials and steelmaking materials due to the pandemic's fallout and the influence of unfavorable weather.

In the fourth quarter, the Group will nevertheless continue to maintain the product prices while pushing ahead with cost reduction efforts as it strives to secure operating income in terms of full-year operating results.

Electronics & Innovative Products

As the Group was buoyed by growing demand associated with the global introduction of 5G infrastructure and an increase in data center-related product needs worldwide, robust sales of highly functional films for use as embossed carrier tapes for electronic components and semiconductors exceeded results recorded in the same period of the previous fiscal year, as did sales of fused silica fillers for use as semiconductor encapsulant fillers. Similarly, sales of spherical alumina and ultra-high purity electro-conductive carbon black for use in EV-related applications were up year on year. Thanks to these factors, segment income increased.

As the Group anticipates that the shipping volume of EV- and semiconductor-related products will remain robust in the fourth quarter, segment income is expected to increase year on year in terms of full-year operating results.

Living & Environment Products

Although demand for plastic rain gutters, TOYOKALON synthetic wig fibers and industrial tapes returned to a recovery track from the decline induced by the pandemic, the sales volume for these products was still down year on year. However, thanks to growing demand for takeaway food services, overall sales of food packaging sheets and processed products using such sheets largely remained firm. Moreover, plunges in raw material prices and a reduction in fixed costs contributed to segment results. Taking these and other factors into account, segment income rose from the same period of the previous fiscal year.

Despite a projection that segment results could be affected by rising raw material prices in the fourth quarter, the Group expects segment income to increase year on year in terms of full-year operating results.

Life Innovation

The shipping volume of influenza virus rapid diagnostic testing kits was down from the same period of the previous fiscal year. On the other hand, the shipping volume of influenza vaccines increased year on year as medical specialists and authorities issued earlier-than-usual recommendations regarding vaccination. Moreover, the August 2020 release of QuickNavi™-COVID19 Ag, a rapid diagnostic testing kit for detecting novel coronavirus antigen, contributed to segment results. Consequently, operating income for the first nine months rose significantly from the same period of the previous fiscal year.

Because of the contribution of QuickNavi™-COVID19 Ag, full-year segment income will grow year on year.

Net Sales and Operating Income by segments		FY 2020 Apr to Dec	FY 2019 Apr to Dec	Incr. Decr.	FY 2020 Forecast Apr to Mar	FY 2019 Actual Apr to Mar
Elastomers & Performance Plastics	Net Sales	86.4	112.1	- 25.7	115.0	149.3
	Operating Income	2.2	8.2	- 5.9	3.0	10.9
Infrastructure & Social Solutions	Net Sales	38.4	41.3	- 2.9	52.0	54.8
	Operating Income	0.1	0.4	- 0.2	0.5	0.3
Electronics & Innovative Products	Net Sales	51.5	49.9	1.6	70.0	68.0
	Operating Income	10.1	8.5	1.6	13.0	12.4
Living & Environment Products	Net Sales	25.6	28.1	- 2.5	33.0	37.0
	Operating Income	1.1	0.0	1.1	1.0	0.1
Life innovation	Net Sales	36.6	28.7	7.9	46.0	35.5
	Operating Income	13.8	6.3	7.5	15.0	7.0
Others/ Companywide	Net Sales	23.5	28.5	- 5.0	34.0	36.2
	Operating Income	0.7	0.7	0.0	0.5	0.9
Total	Net Sales	262.0	288.7	- 26.7	350.0	380.8
	Operating Income	28.0	24.0	4.0	33.0	31.6

Net Sales by segments	Net Sales				
	FY 2020 Apr to Dec	FY 2019 Apr to Dec	Incr. Decr.	Sales price	Sales volume
Elastomers & Performance Plastics	86.4	112.1	- 25.7	- 17.6	- 8.1
Infrastructure & Social Solutions	38.4	41.3	- 2.9	0.3	- 3.2
Electronics & Innovative Products	51.5	49.9	1.6	- 1.2	2.8
Living & Environment Products	25.6	28.1	- 2.5	- 1.1	- 1.5
Life innovation	36.6	28.7	7.9	- 0.1	8.0
Others/Companywide	23.5	28.5	- 5.0	—	- 5.0
Total	262.0	288.7	- 26.7	- 19.7	- 7.0

Operating income by segments	Operating income					
	FY 2020 Apr to Dec	FY 2019 Apr to Dec	Incr. Decr.	Sales price	Sales volume	cost & others
Elastomers & Performance Plastics	2.2	8.2	- 5.9	- 17.6	- 4.0	15.7
Infrastructure & Social Solutions	0.1	0.4	- 0.2	0.3	- 1.0	0.4
Electronics & Innovative Products	10.1	8.5	1.6	- 1.2	2.0	0.8
Living & Environment Products	1.1	0.0	1.1	- 1.1	- 0.8	3.0
Life innovation	13.8	6.3	7.5	- 0.1	8.6	- 1.0
Others/Companywide	0.7	0.7	0.0	—	0.1	- 0.1
Total	28.0	24.0	4.0	- 19.7	5.0	18.7