

**Denka**

Possibility  
of  
chemistry

# Results Presentation of FY2022 1Q

(the 1st 3 months of the Fiscal year ending March 2023)

Securities code: 4061

Denka Co., Ltd

August 05, 2022

Assumptions : Key Performance Indicators	02
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## FY2022 1Q Results

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## FY2022 Earnings Forecast

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	FY2021 1Q Actual (Apr-Jun)	FY2022 1Q Actual (Apr-Jun)	FY2022 First Half Forecast (Revised Forecast)	FY2022 Forecast (Revised Forecast)
Forex (¥/\$)	109.8	<b>126.5</b>	131.0	133.0
Japan Naphtha (¥/kl)	48,100	<b>86,500</b>	84,500	82,400
				(¥ billions)
	FY2021 1Q Actual (Apr-Jun)	FY2022 1Q Actual (Apr-Jun)	FY2022 First Half Forecast (Revised Forecast)	FY2022 Forecast (Revised Forecast)
Investment	7.6	<b>8.0</b>	23.0	46.0
Depreciation	5.7	<b>6.6</b>	13.0	26.0
R&D	3.8	<b>3.9</b>	7.5	15.0
Interest Bearing Debt	140.2	<b>160.3</b>	158.0	157.0

**Yen depreciation , Naphtha price is not expected to rise, however, higher prices are expected for coal and other raw materials and fuel than forecasted**

# FY2022 1Q Results

(the 1st 3 months of the Fiscal year ending March 2023)

(¥ billions)	FY2021 1Q Actual	FY2022 1Q Actual	Year-on- year	
Sales	86.7	94.4	+ 7.6	
Operating Income	7.7	4.9	- 2.8	
Operating Margin	8.9%	5.2%	- 3.7%	
Ordinary Income	7.5	5.1	- 2.4	Interest, non-operating income/loss, etc. +0.5
Net Income Attributable to Owners of Parent	6.2	4.3	- 1.8	Income taxes, other +0.6

**Lower year-on-year performance in all profit measures**

YoY (¥ billions)

## Sales

94.4 billion

+ 7.6

1. Volume:	COVID-19 antigen test kits: Expanding demand base xEV-related products: Weaker temporarily due to automobile production cutbacks TV, smartphone, and home electronics-related products: Decline in demand due to the Shanghai lockdowns	- 5.0
2. Pricing:	COVID-19 antigen test kits: Price declines due to the reduction of insurance points Acetylene black: Significant price revision in line with product value Chloroprene rubber, styrene-related products, etc.: Sales price revisions in response to higher raw materials and fuel prices	+ 12.7

## Operating Income

4.9 billion

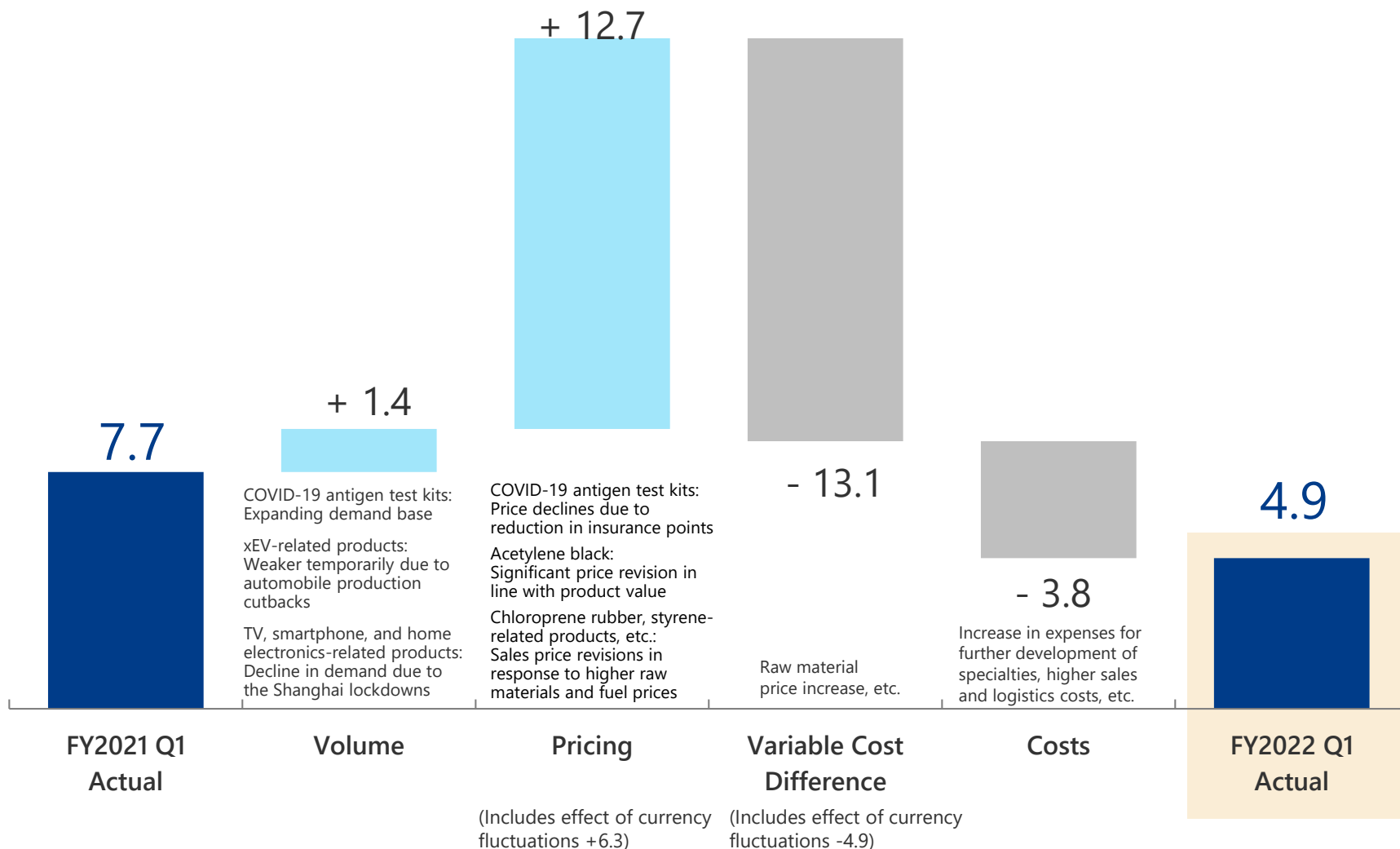
- 2.8

1. Volume	COVID-19 antigen test kits: Expanding demand base xEV-related products: Weaker temporarily due to automobile production cutbacks TV, smartphone, and home electronics-related products: Decline in demand due to the Shanghai lockdowns	+ 1.4
2. Pricing:	COVID-19 antigen test kits: Price declines due to reduction in insurance points Acetylene black: Significant price revision in line with product value Chloroprene rubber, styrene-related products, etc.: Sales price revisions in response to higher raw materials and fuel prices (including effect of currency fluctuations +6.3)	+ 12.7
3. Variable cost Difference:	Increase in raw materials and fuel prices, etc. (including effect of currency fluctuations -4.9)	- 13.1
4. Cost variances:	Increase in expenses (e.g., depreciation) for further development of specialties, higher sales and logistics costs, etc.	- 3.8

**Increase in demand for COVID-19 antigen test kits led to positive volume variance, however, profit decreased due to cost deterioration and other factors**

c) Graph of Operating Income Change Factors (Year-on-Year)

(¥ billions)



Increase in demand for COVID-19 antigen test kits led to positive volume variance, however, profit decreased due to cost deterioration and other factors

Sales (¥ billions)	FY2021 1Q Actual	FY2022 1Q Actual	Incr. Decr.	Pricing		Volume	
Electronics & Innovative Products	21.0	21.9	+ 0.9	+ 2.8	- 1.9		
Life Innovation	6.0	6.4	+ 0.4	- 2.9	+ 3.4		
Elastomers & Infrastructure Solutions	24.6	30.4	+ 5.8	+ 5.3	+ 0.5		
Polymer Solutions	31.8	31.6	- 0.1	+ 7.5	- 7.6		
Others	3.5	4.1	+ 0.6	-	+ 0.6		
<b>Total</b>	<b>86.7</b>	<b>94.4</b>	<b>+ 7.6</b>	<b>+ 12.7</b>	<b>- 5.0</b>		

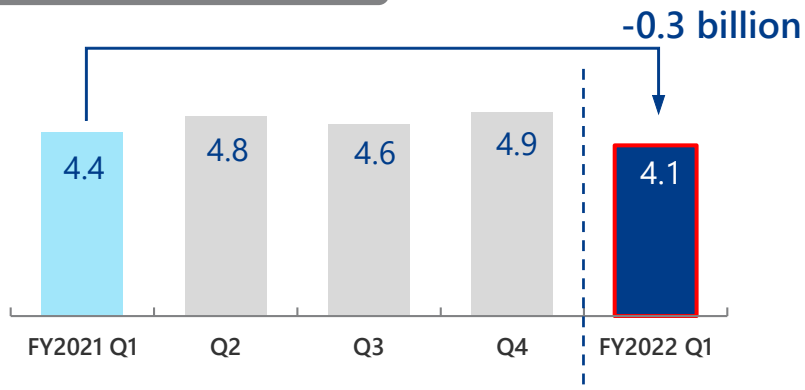
Operating Income (¥ billions)	FY2021 1Q Actual	FY2022 1Q Actual	Incr. Decr.	Pricing		Volume		Cost& Others	
Electronics & Innovative Products	4.4	4.1	- 0.3	+ 2.8	- 0.7	- 2.4			
Life Innovation	0.3	0.5	+ 0.2	- 2.9	+ 3.1	- 0.0			
Elastomers & Infrastructure Solutions	0.1	- 0.2	- 0.2	+ 5.3	+ 0.2	- 5.7			
Polymer Solutions	2.6	- 0.1	- 2.7	+ 7.5	- 1.3	- 8.8			
Others	0.4	0.6	+ 0.2	-	+ 0.2	- 0.0			
<b>Total</b>	<b>7.7</b>	<b>4.9</b>	<b>- 2.8</b>	<b>+ 12.7</b>	<b>+ 1.4</b>	<b>- 17.0</b>			

**Polymer Solutions profit declined sharply,  
while profits in the other three divisions remained level year on year**



e) Electronics & Innovative Products (Year-on-Year)

Operating Income by Quarter



Operating Income Variance Analysis (Year-on-Year)

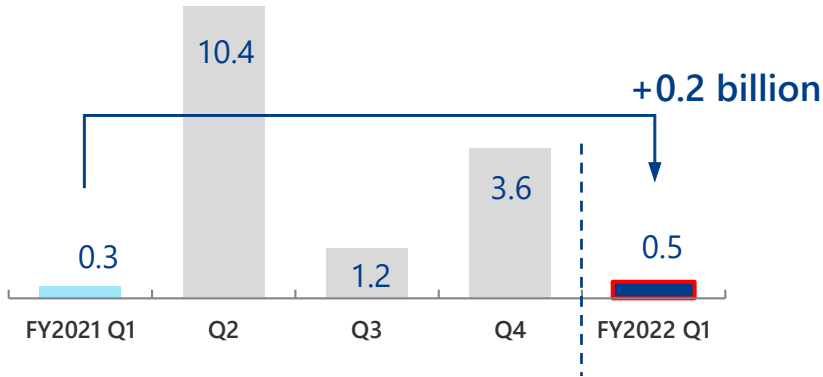


Sales Trends and Costs by Product

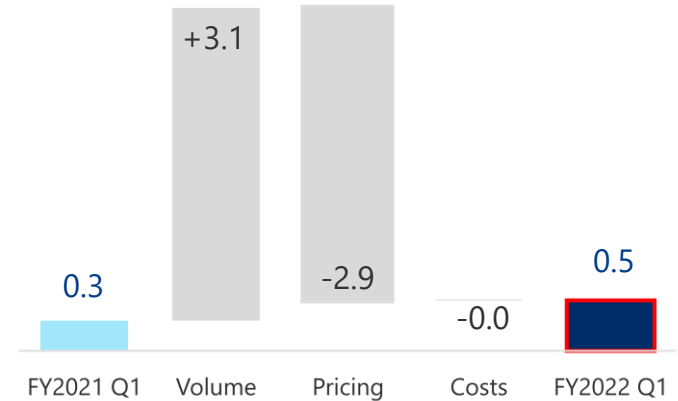
- Spherical alumina**
  - Responded to growing demand related to xEVs and 5G communications (new facility in Singapore began full-scale operations in April 2022); shipments exceeded the previous year despite the impact of the Shanghai lockdowns and automobile production cutbacks in April-June
- Fused silica**
  - Despite the impact of the Shanghai lockdowns, strong demand continued for semiconductors continued, and shipments were level with the previous year
- High-performance film**
  - Implemented flexible price hikes in response to soaring raw materials costs
- Acetylene black**
  - Although demand for high-voltage cable applications remained strong, shipments of xEV-related products were lower year on year due to automobile production cutbacks caused by semiconductor shortages and the impact of the Shanghai lockdowns
  - Sales prices rose sharply due to price revisions in line with product value
- Ceramic substrates (silicon nitride, aluminum nitride)**
  - Demand from electric railways remained sluggish as in the previous year
  - Shipments of xEV-related products were lower year on year due to automobile production cutbacks caused by semiconductor shortages
- Cost**
  - Cost increases for raw materials
  - Costs for further development of specialties (e.g., increase in costs for systems to increase production, cost to strengthen sales system, etc.)

**Continued our growth strategy to megatrends, despite the temporary impact of automobile production cuts due to semiconductor shortage and the Shanghai lockdowns**

Operating Income by Quarter



Operating Income Variance Analysis (Year-on-Year)



Sales Trends and Costs by Product

Influenza vaccine

- We plan to manufacture 10 million vaccines, a significant increase over the previous year as planned toward shipments beginning in September, using the new undiluted liquid plant building

COVID-19 rapid antigen test kit

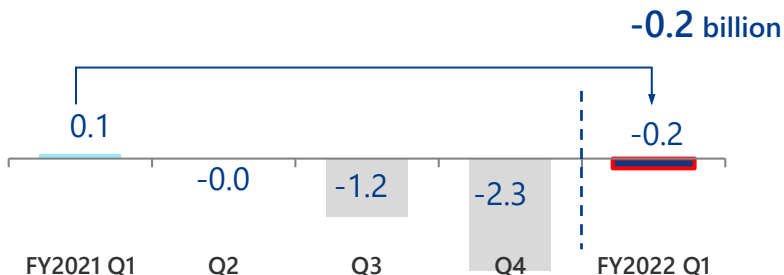
- Shipments exceeded the previous year levels due to an expanding demand base, including supply to medical institutions, elderly care facilities, and educational institutions via local governments; demand also increased for screening tests used in sports, large events, and in the home.
- Selling prices fell sharply due to the reduction of insurance points on December 31, 2021

Other test reagents (Inflammation markets, etc.)

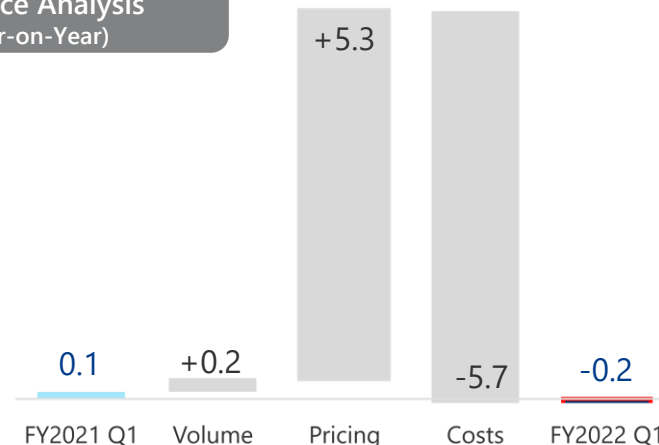
- Despite steady growth in demand, shipments remained flat year on year due to a decline in hospital testing demand and logistics disruptions caused by the Shanghai lockdowns

**Despite the negative impact of the drop in the selling prices for COVID-19 antigen test kits, profit remained level year on year due to the positive impact on volume caused by an expanding base of demand**

Operating Income by Quarter

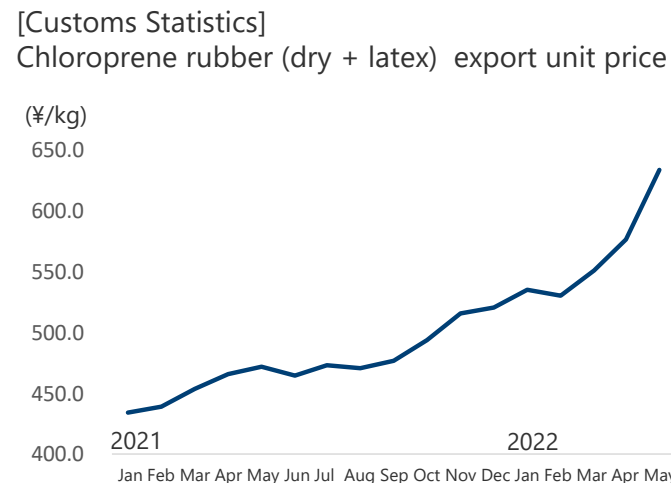


Operating Income Variance Analysis (Year-on-Year)



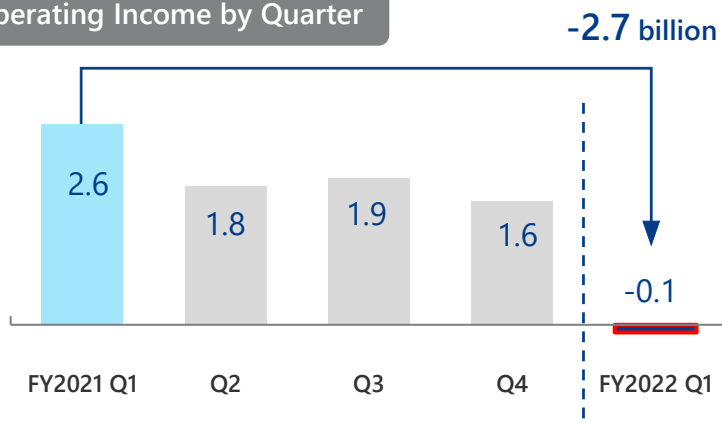
Sales Trends and Costs by Product

- Chloroprene rubber**
  - Demand remained firm and shipments were largely in line with the same period in the previous fiscal year
  - Spread improved due to price hikes in response to rising raw materials costs (additional price hikes scheduled for September)
- Special Cement Additives**
  - Largely unchanged from last year
- Cement**
  - Since January, negotiating to achieve 2,300 yen price increase, but progress has been slow
  - Coal prices soared due to the situation in Ukraine (FY2021 Q1: \$108/t ⇒ FY2022 Q1: \$373/t)

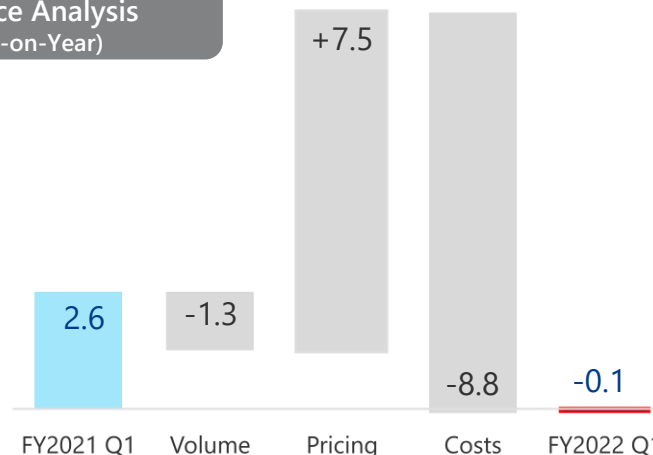


**Despite an improved spread due to a price increase for chloroprene rubber, overall profit was flat year on year due to higher costs stemming from sharp rises in the price of coal for cement**

Operating Income by Quarter



Operating Income Variance Analysis (Year-on-Year)



Sales Trends and Costs by Product

- MS resin
  - Although impacted by the decrease in demand for TVs and monitors due to price hikes and the subsiding decline in in-home demand, shipments were higher year on year due to the expansion of capacity in Singapore, as we captured replacement demand from competing materials.
- AS, ABS, transparent resins, etc.
  - Domestic shipments were affected by automobile production cutbacks due to semiconductor shortages; overseas shipments were lower year on year due to the impact of the Shanghai lockdowns, as well as a slowdown in consumer electronics demand due to the economic downturn in the Chinese market
- Food wrapping sheets and containers
  - Largely unchanged from last year
- Toyokalon
  - Shipments were lower year on year due to weaker purchasing power in Africa and the U.S. due to inflation
- Cost
  - Raw materials cost increases (While spread maintained due to flexible price revisions)
  - Increase in sales logistics costs

**Maintained spread with revised prices addressing soaring raw materials costs; however, profits decreased due to weaker demand from such as the Shanghai lockdowns and economic downturn**

# FY2022 Earnings Forecast (Fiscal year ending March 2023)

Operating Income (¥ billions)	FY2022					Future outlook
	1Q Actual	First Half Forecast	vs initial forecast	Forecast	vs initial forecast	
Electronics & Innovative Products	4.1	10.0	-1.0	22.5	-1.0	1H: We expect the Shanghai lockdowns, lower demand due to have a larger-than-anticipated impact, leading to a downswing 2H: Despite concerns about declining demand for smartphones and TVs, we expect semiconductor-related products to remain firm, and automobile production should recover as the semiconductor shortages are resolved. Our forecasts are in line with initial projections due to progress in price revisions responding to rising costs.
Life Innovation	0.5	5.0	+1.0	11.0	+1.0	1H: Influenza vaccine sales forecast to increase due to advance shipments COVID-19 antigen test kits should see an upward swing in response to increased demand in connection with the 7th Wave and rising infections 2H: We expect to manufacture 10 million vaccines of influenza vaccine Demand for COVID-19 antigen test kits will likely stabilize after the 7th Wave subsides, due to an expanded demand base
Elastomers & Infrastructure Solutions	-0.2	1.5	+0.5	2.5	+1.5	1H: We expect the chloroprene rubber spread to improve, and price hikes for other agri-products and other products are moving forward, which should result in an upswing 2H: Although chloroprene rubber has been undergoing scheduled maintenance, we expect the spread to improve further due to additional price hikes beginning in September Price increases for agri-products and other products will be implemented in response to rising costs
Polymer Solutions	-0.1	0.5	-1.0	4.5	-3.0	1H: We expect the Shanghai lockdowns, lower demand due to price hikes, etc., and higher sales logistics costs to have a larger-than-anticipated impact, leading to a downswing 2H: We will move forward with price revisions in response to rising raw materials costs; however, negative impact of declining demand for home appliances and other products is likely to remain
Others	0.6	1.0	+0.5	2.5	+1.5	
Total	4.9	18.0	±0.0	43.0	±0.0	

Revised the forecast breakdown based on current conditions

Although fluctuations vary by segment, the overall initial forecast remains unchanged

		FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Forecast
Net income	(¥ billions)	25.0	22.7	22.8	26.0	29.0
Dividends per share*	(¥/share)	120.0	125.0	125.0	145.0	145.0
Dividend	(¥ billions)	10.5	10.8	10.8	12.5	12.5
Shareholders Return		42%	48%	47%	48%	43%
Stock Purchase	(¥ billions)	2.1	-	-	-	
Total Return	(¥ billions)	12.6	10.8	10.8	12.5	
Total return ratio		50%	48%	47%	48%	
Depreciation	(¥ billions)	22.9	22.5	22.9	23.9	26.0
Investment & lending	(¥ billions)	32.8	36.9	42.3	35.6	46.0
ROE		10.3%	9.1%	8.8%	9.4%	(9.8%)
Equity Ratio		51.0%	50.0%	50.8%	51.7%	(51.3%)
Net D/E Ratio		0.40	0.42	0.42	0.40	(0.45)

Mid-term 70.0  
End 75.0

Maintaining  
total return  
ratio policy  
of 50%

**Maintaining a dividend of ¥145 per share of last year**

## c) Reference : First Half Breakdown (By Segment) (vs Forecast at the beginning)

Sales (¥ billions)	First Half initial forecast	First Half Revised forecast	Incr. Decr.		Pricing		Volume	
Electronics & Innovative Products	50.0	50.0	±	0	+	0.2	-	0.2
Life Innovation	20.0	20.0	±	0	-	0.7	+	0.7
Elastomers & Infrastructure Solutions	65.0	65.0	±	0	+	2.0	-	2.0
Polymer Solutions	67.5	67.5	±	0	+	0.4	-	0.4
Others	7.5	7.5	±	0		-	±	0
<b>Total</b>	<b>210.0</b>	<b>210.0</b>	±	0	+	1.9	-	1.9

Operating Income (¥ billions)	First Half initial forecast	First Half Revised forecast	Incr. Decr.		Pricing		Volume		Cost& Others	
Electronics & Innovative Products	11.0	10.0	-	1.0	+	0.2	-	1.8	+	0.6
Life Innovation	4.0	5.0	+	1.0	-	0.7	+	1.6	+	0.1
Elastomers & Infrastructure Solutions	1.0	1.5	+	0.5	+	2.0	-	0.6	-	1.0
Polymer Solutions	1.5	0.5	-	1.0	+	0.4	-	0.3	-	1.1
Others	0.5	1.0	+	0.5		-	+	0.4	+	0.1
<b>Total</b>	<b>18.0</b>	<b>18.0</b>	±	0	+	1.9	-	0.7	-	1.2



## d) Reference : Forecast (By Segment) (vs Forecast at the beginning)

Sales (¥ billions)	Initial Forecast	Revised forecast	Incr. Decr.	Pricing		Volume	
Electronics & Innovative Products	105.0	105.0	± 0	+ 2.4	- 2.4		
Life Innovation	50.0	45.0	- 5.0	- 1.1	- 3.9		
Elastomers & Infrastructure Solutions	135.0	140.0	+ 5.0	+ 8.6	- 3.6		
Polymer Solutions	150.0	150.0	± 0	+ 4.7	- 4.7		
Others	15.0	15.0	± 0	-	± 0		
<b>Total</b>	<b>455.0</b>	<b>455.0</b>	<b>± 0</b>	<b>+ 14.6</b>	<b>- 14.6</b>		

Operating Income (¥ billions)	Initial Forecast	Revised forecast	Incr. Decr.	Pricing		Volume		Cost& Others	
Electronics & Innovative Products	23.5	22.5	- 1.0	+ 2.4	- 2.7	- 0.7			
Life Innovation	10.0	11.0	+ 1.0	- 1.1	+ 0.6	+ 1.5			
Elastomers & Infrastructure Solutions	1.0	2.5	+ 1.5	+ 8.6	- 2.5	- 4.6			
Polymer Solutions	7.5	4.5	- 3.0	+ 4.7	- 1.0	- 6.7			
Others	1.0	2.5	+ 1.5	-	+ 1.2	+ 0.3			
<b>Total</b>	<b>43.0</b>	<b>43.0</b>	<b>± 0</b>	<b>+ 14.6</b>	<b>- 4.4</b>	<b>- 10.2</b>			

## e) Reference : Quarterly Trends (By Segment)

Sales (¥ billions)	FY2020				FY2021				FY2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 Actual	Q2 Forecast	2H Forecast
Electronics & Innovative Products	17.1	19.6	20.0	21.1	21.0	22.8	22.3	24.0	21.9	28.1	55.0
Life Innovation	5.3	10.9	20.5	6.3	6.0	19.3	10.9	9.9	6.4	13.6	25.0
Elastomers & Infrastructure Solutions	19.8	22.0	24.8	25.2	24.6	26.8	26.1	29.3	30.4	34.6	75.0
Polymer Solutions	25.3	25.1	28.3	31.3	31.8	31.5	29.5	33.9	31.6	35.9	82.5
Others	8.7	6.5	8.2	8.5	3.5	4.0	4.0	3.7	4.1	3.4	7.5
<b>Total</b>	<b>76.2</b>	<b>84.1</b>	<b>101.7</b>	<b>92.4</b>	<b>86.7</b>	<b>104.4</b>	<b>92.8</b>	<b>100.9</b>	<b>94.4</b>	<b>115.6</b>	<b>245.0</b>

Operating Income (¥ billions)	FY2020				FY2021				FY2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 Actual	Q2 Forecast	2H Forecast
Electronics & Innovative Products	2.8	3.8	3.6	4.0	4.4	4.8	4.6	4.9	4.1	5.9	12.5
Life Innovation	0.0	2.4	11.4	1.0	0.3	10.4	1.2	3.6	0.5	4.5	6.0
Elastomers & Infrastructure Solutions	0.3	-0.4	-1.9	-1.5	0.1	-0.0	-1.2	-2.3	-0.2	1.7	1.0
Polymer Solutions	1.3	1.6	2.5	3.0	2.6	1.8	1.9	1.6	-0.1	0.6	4.0
Others	0.0	0.3	0.3	0.2	0.4	0.5	0.4	0.2	0.6	0.4	1.5
<b>Total</b>	<b>4.4</b>	<b>7.7</b>	<b>16.0</b>	<b>6.7</b>	<b>7.7</b>	<b>17.5</b>	<b>7.0</b>	<b>7.9</b>	<b>4.9</b>	<b>13.1</b>	<b>25.0</b>

## Cautionary statement regarding forward-looking information

Target figures in this material are not forecasts of business results.

In addition, any description relating to the future in this material is subject to known or unknown risks and uncertainties, although it is based on management's current assumptions and beliefs in light of the information currently available to it.

Please be cautioned that a number of important factors could cause actual results to differ significantly from the description in the material.

Such risks and uncertainties include adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launch, pricing, and product initiatives of competitors, the inability of the Company to market existing and new products effectively, interruptions in production, infringements of the company's intellectual property rights and the adverse outcome of material litigation.

Possibility of chemistry

# Denka

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