

Summary of Questions and Answers at a Briefing on SDK's Third Quarter, 2020 Results

17:30 - 18:30, Thursday, November 5, 2020

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*All contents are based on the information available as of the date and time of the briefing.

[General]

Q. How is your evaluation of the third quarter, 2020 financial results in comparison with the forecast you announced in August?

A. Generally speaking, our performance goes on as we forecasted in August 2020. Petrochemicals and Showa Denko Materials segments are showing favorable performance. However, the Inorganics segment is in a harsh business environment.

Q. You recorded extraordinary loss amounting to about 10 billion yen by the end of the third quarter of 2020. How do you see the possibility of recording extraordinary loss amounting to 24 billion yen for full year 2020 which you forecasted in August?

A. We should carefully watch how our performance will be in the future. Of course it is possible that the amount of extraordinary loss may vary from our forecast.

[Chemicals segment]

(High-purity gases for electronics)

Q. Your electronic gas business recorded about the same amount of operating income in the third quarter as that in the second quarter. How are the business conditions of your customers? How do you expect the performance of your electronic gas business will be in 2021?

A. Sales volumes and prices of electronic gases in the third quarter were at the same levels as those in the second quarter, though there were some changes in the combination of the sales volumes of various gases. With regard to our customers, semiconductor manufacturers of South Korea and China are showing good performance. Shipment volumes of gases for production of display panels remain strong, and are expected to show two-digit growth rate in 2021. However, production of LCD panels in South Korea may be stagnant in the coming year.

[Electronics segment]

(HD media)

Q. How do you expect your sales of HD media in the fourth quarter will be?

A. It will increase from that in the third quarter because our sales of HD media for use in data centers remains strong.

(LIB materials)

Q. Your sales of LIB materials in the third quarter increased from that in the second quarter.

Why?

A. *SPALF*TM and VGCF are major products among our LIB materials. *SPALF*TM is selling well due to strong sales of LIBs for use in PCs, smartphones, and tablets resulting from the spread of teleworking. VGCF is selling well due partly to an increase in sales of EVs in China this year from that in the previous year.

[Inorganics segment]

(Graphite electrodes)

Q. How was your sales of graphite electrodes in the third quarter, and how will that be in the fourth quarter? How is your forecast for your sales volumes and prices of graphite electrodes?

A. In the third quarter, we sold about 25,000 tons of graphite electrodes, which was equivalent to our sales volumes in the second quarter. We expect our sales volumes in the fourth quarter will be about 35,000 tons. This amount is on the right track to achieve our sales forecast of graphite electrodes amounting to 60,000 tons for the second half of this year, which we forecasted in August. Sales prices in the fourth quarter will be slightly lower than those in the third quarter. However, the width of price reduction from the third quarter to the fourth quarter is narrower than that from the second quarter to the third quarter. Sales volumes for full year 2020 will be a little more than 100,000 tons. We do not have calculated the total sum of expected orders for graphite electrodes for 2021. However, we expect that the total sales volume of our graphite electrodes will be 130,000 tons, which will be a significant recovery. Sales prices will rise with slight delay, following a rise in sales volume. Inventory adjustment by customers is in progress, and customers will maintain appropriate level of inventory even when they increase purchase volumes of graphite electrodes in the fourth quarter.

[Showa Denko Materials segment]

Q. Why did Showa Denko Materials' performance in the third quarter improve from that in the second quarter?

A. Showa Denko Materials' Information and Communication Business has been leading the recovery of the segment's operating income. Sales of CMP slurry and circuit board materials have been increasing due to strong sales of devices for teleworking, servers for data centers, and new models of smartphones. As for Mobility Business, production of cars plummeted in the second quarter due to the pandemic of COVID-19. However, in the third quarter, it recovered more than we expected. Though the current market condition is still harsh, global car market hit the bottom in the second quarter, and improvement in market condition is in significant progress recently.

Q. Which accounting standard does Showa Denko Materials adopt? Do you expect that the amount of amortization of the goodwill of Showa Denko Materials for a full year will be 38 billion yen, which is twice as much as the amount you expect for the second half of this year? Is the step-up of inventory you recorded for just this once?

A. Consolidation of Showa Denko Materials' accounting is based on IFRS. The amount of amortization of the goodwill of Showa Denko Materials for a full year will be about 38 billion yen, as you said. However, this amount may be changed slightly after purchase price allocation (PPA). Step-up of inventory we recorded is for just this once, and we won't have it any more.

*Performance forecast and other statements pertaining to the future as contained in this material are based on the information available as of the date and time of the briefing regarding risk factors that could affect our future performance. Actual results may differ materially from the forecast due to a variety of risk factors, including, but not limited to, the influence of the coronavirus disease 2019 (COVID-19), the economic conditions, costs of naphtha and other raw materials, demand for our products including graphite electrodes, market conditions, foreign exchange rates, changes in laws and regulations, and lawsuits. As to the assumptions about the consolidated performance forecast including exchange rates and domestic naphtha price, please refer to the Consolidated Financial Statements for the first three quarters ended September 30, 2020 which were announced on November 5, 2020.