

Summary of Questions and Answers at a Briefing on SDK's 2020 Financial Results

10:00 - 11:30, Thursday, February 18, 2021

Briefer: Kohei Morikawa, President and CEO

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

[General]

Q. How are you going to invest in your “Core Growth” businesses including electronics until 2023 when you will integrate legal personalities of the two companies?

A. We think it is very important for us to make investment in plants and equipment for our electronics business in a timely manner. In 2020, we made decisions to make capital investment in Showa Denko Materials' CMP slurry and copper clad laminate businesses, and SDK's electronic high-purity gas business.

Q. How is your outlook for restructuring of your business portfolio?

A. At present, nothing has been decided yet. Our policy on the business portfolio is as that we stated in the “Long Term Vision for Newly Integrated Company.”

Q. How was the detail of the effect of COVID-19 on your 2020 business performance?

A. Products for commodities including automobile related products and chemicals were significantly affected. COVID-19's impact on our electronics business was small.

Q. How do you expect the effects of various factors on your operating income for 2021 will be?

A. Petrochemicals and Chemicals segments will have periodic shutdown maintenance of plants in the first half of 2021. In the Inorganics segment, we expect that graphite electrode business will have recovery of spread between production costs and sales prices in the second half of 2021. We expect that all segments will have improvement in performance in the second half of 2021 due to seasonal cycle. Especially in the mobility business, we expect sales of products for new models will push up our operating income for the second half of 2021.

Q. How will your electronics related business be in 2021?

A. Our electronics business showed a deterioration of performance in 2019 due to inventory adjustment at our customers. However, it showed recovery in 2020. Moreover, our electronics business will have increase in demand centering on products for use in data centers. We expect our electronics business will show growth rate exceeding market growth in 2021.

[Inorganics segment]

(Graphite electrodes)

Q. Why did sales prices of graphite electrodes decline in 2020?

A. Graphite electrode inventory adjustment in the electronic steel industry, which is our customer, took longer time than expected due to the pandemic of COVID-19. We suppose this is the reason of a fall in market prices of graphite electrodes in 2020.

Q. How is the operating rate of your graphite electrode plants? How is your outlook for the performance of your graphite electrode business in 2021?

A. The operating rate of our graphite electrode plants in 2020 fell to 30% to 40% at the bottom. However, it has recovered to about 80% recently, and we expect further recovery in 2021. Sales prices of graphite electrodes in 2021 will deviate in high price zone compared to those in 2017 when sales prices of graphite electrodes hit the bottom. We expect that we will be able to secure enough amount of spread between production costs and sales prices of graphite electrodes in 2021.

[Showa Denko Materials segment]

Q. How is your outlook for the performance of Showa Denko Materials in 2021?

A. We expect strong recovery in almost all businesses of Showa Denko Materials. We expect realization of performance recovery of the segment equivalent to the level we forecasted when we acquired former Hitachi Chemical Company.

*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 2020 which were announced on February 17, 2021.