



# 2020 Financial Results Tasks and Strategies for 2021

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February 18, 2021

**SHOWA DENKO K.K.**

Kohei Morikawa, President & CEO

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# 1. Summary



## [2020]

- There was a significant decrease in shipment volumes due to the impact of COVID-19. However, there was a trend toward recovery in the second half of the year.
- Profit of the graphite electrodes business shrunk significantly due to prolonged inventory adjustment by customers and a decline in market prices.
- SDK made Showa Denko Materials Co., Ltd. (SDMC) a wholly owned subsidiary, and started the process to integrate with SDMC.



## [2021]

- Our performance will recover as a result of improvement in the performance of graphite electrodes, petrochemicals, and HD media businesses along with the growth of the information and communication business and rapid recovery of automotive parts business.
  - We will implement post merger integration (PMI) steadily in accordance with the long term vision toward complete integration.
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- The graphite electrode business carried out profit improvement measures including closure of a production base and the application of LCM in 2020.
  - Further growth of the information and communication business will be achieved due to an increase in demand from the robust semiconductor industry.
  - Business performance of the mobility business will recover thanks to the rapid recovery of car production and start of new programs.
  - We are currently implementing measures in line with the long-term vision toward substantial integration in July 2021 and complete integration in 2023.

## 2. 2020 financial results and forecast for 2021

### Business performance and full-year performance forecast



(Unit: Billion yen)

	2019 results	2020 results		2021 Forecast b	Increase/ decrease b-a
		Institutional accounting basis	Annualized basis* a		
Net sales	906.5	973.7	1,251.9	1,280.0	28.1
Operating income	120.8	-19.4	-26.0	45.0	71.0
Net income attributable to owners of the parent	73.1	-76.3	-91.9	-14.0	77.9
EBITDA (Sales %)	158.6	58.5	89.7	165.1	75.4
	17.5%	6.0%	7.2%	12.9%	5.7%
ROE	15.5%	-16.9%	-20.3%	-3.7%	16.6%
Annual dividend	¥130	¥65 (planned)	¥65 (planned)	¥65	0

[Temporary expense pertaining to integration with Showa Denko Materials]

2020 results: ¥25.0 billion (Financing costs, registration and licensing tax, cost of PMI, etc.)

2021 forecast: ¥8.0 billion (Cost of PMI)

\*Showa Denko Materials's results for the period from the beginning of January 2020 to June 2020 combined with figures based on institutional accounting (including the amount equivalent to amortization expenses such as goodwill in 2H).

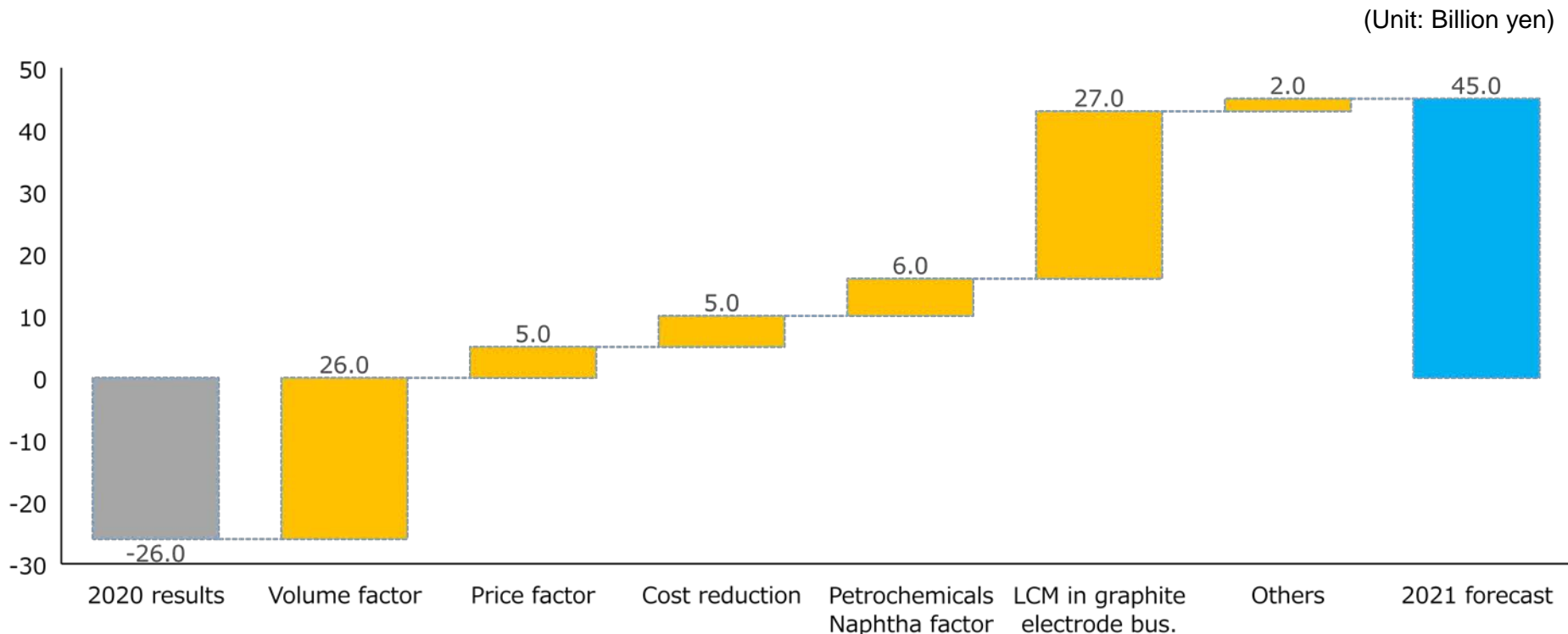
## 2. 2020 financial results and forecast for 2021



### Operating income breakdown by factor

Volume factor: The demand for HD media for use in PCs and data centers, and that for materials used in the semiconductor industry remain strong.

Price factor: The spread between production cost and product prices in the Petrochemicals segment will improve. Recovery of graphite electrode prices in the market is expected in the second half of 2021.



(Note: Operating income for 2020 is on annualized basis.)

## 2. 2020 financial results and forecast for 2021

### Net sales by portfolio, EBITDA



(Unit: Billion yen)

"Core Growth" business "Next-Generation" business	2020		2021 forecast b	Annual increase/decrease b-a (%)
	Institutional accounting basis	Annualized basis* a		
<b>Net sales</b>	<b>257.1</b>	<b>430.2</b>	<b>480.6</b>	<b>50.4</b> (+12%)
<b>EBITDA</b>	<b>42.6</b>	<b>62.3</b>	<b>81.9</b>	<b>19.6</b> (+31%)
<b>EBITDA margin</b>	16.6%	14.5%	17.0%	(+2.6%)

"Stable Earnings" business "Fundamental Technologies/Materials" business	2020		2021 forecast b	Annual increase/decrease b-a (%)
	Institutional accounting basis	Annualized basis* a		
<b>Net sales</b>	<b>716.6</b>	<b>821.7</b>	<b>799.4</b>	<b>-22.3</b> (-3%)
<b>EBITDA</b>	<b>15.9</b>	<b>27.4</b>	<b>83.2</b>	<b>55.8</b> (+204%)
<b>EBITDA margin</b>	2.2%	3.3%	10.4%	(+7.1%)

\*Annualized figures are the combined figures of actual results and Showa Denko Materials' institutional accounting figures for Jan. 2020-Jun. 2020, including amortization of goodwill and other assets equivalent to that in the second half of 2020.

### 3. Presence of Core Growth businesses

## Electronics market, mobility market



Growth of electronics has been driven by an increase in demand for cutting-edge semiconductors.

In the mobility market, automotive production and sales have been recovering from the downturn caused by COVID-19.

#### Key points for growth

##### Evolution of 5G

- Turning point for market expansion  
=> Achieve further growth by responding to customer needs

##### Spread of telework

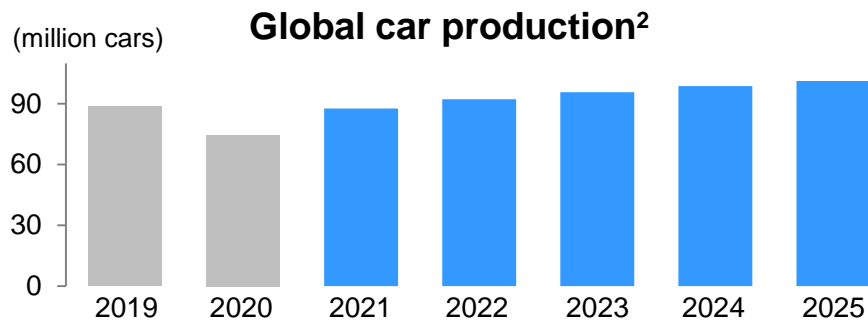
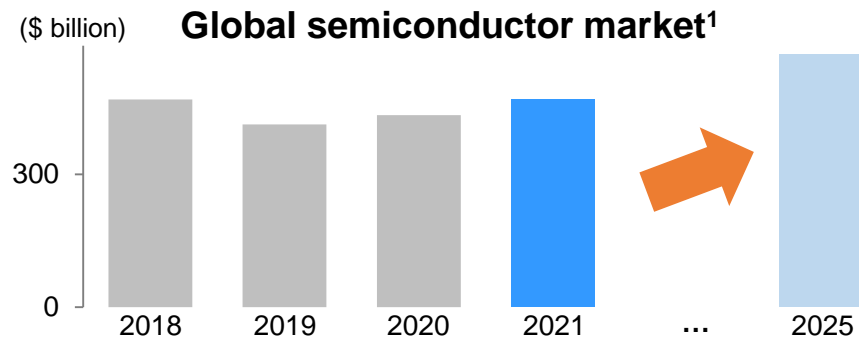
- Network enhancements to cope with increased traffic  
=> Expansion of data centers and increased demand for mobile devices

##### Recovery of automotive production and sales

- Active launch of new models  
=> Steadily launch products for new models and capture demand

#### Semiconductor and automotive markets

##### Growth of semiconductor and car markets continue



1. Data: WSTS(~2021) and SDK's forecast 2. Data: LMC Automotive

## 4. Drivers for recovery of corporate performance

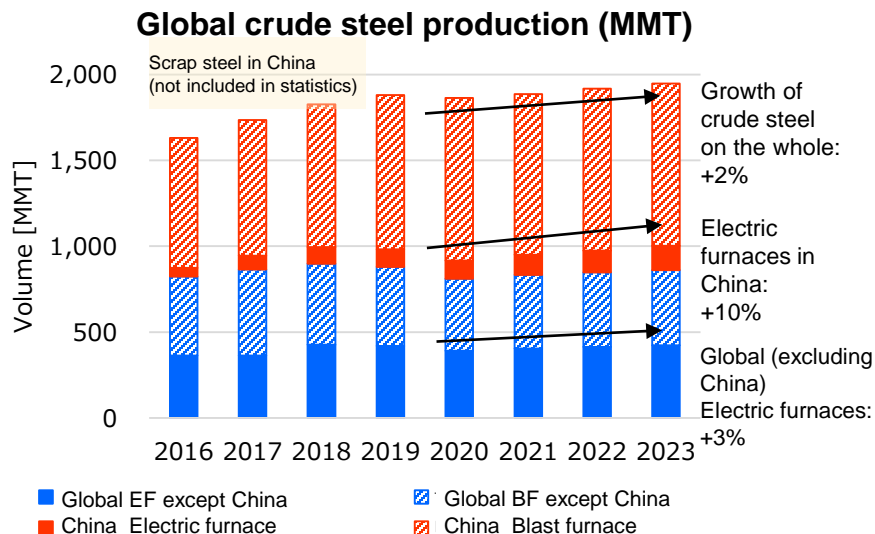
### Graphite Electrodes



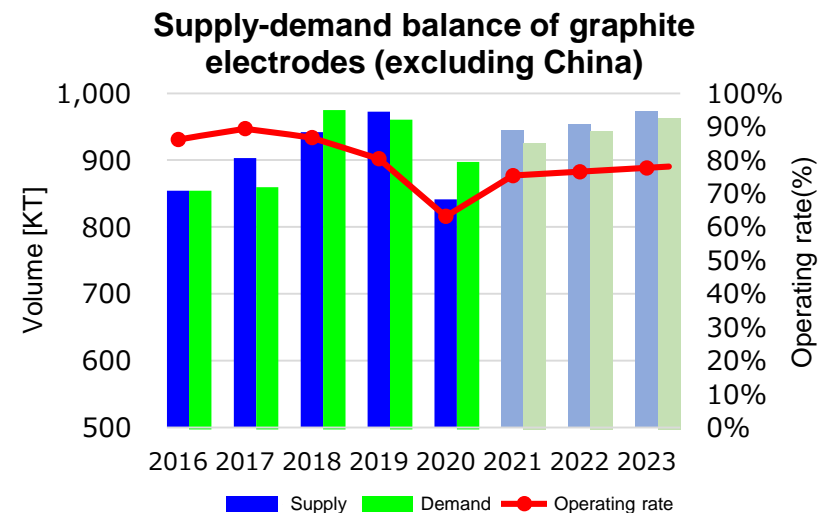
**Demand for graphite electrodes is getting better along the recovery of steel demand.**

- Steel demand is recovering. Production of electric furnaces is growing at 3%/year.
  - Global excluding China<sup>1</sup> 2020: -13.3% (from 2019)  
2021: +9.4% (from 2020)
- Inventory adjustment of graphite electrodes for electric furnaces **was completed at the end of 2020.**

#### Demand levels of crude steel and graphite electrodes



Data: WSA and SDK's estimate



Data: SDK's estimate



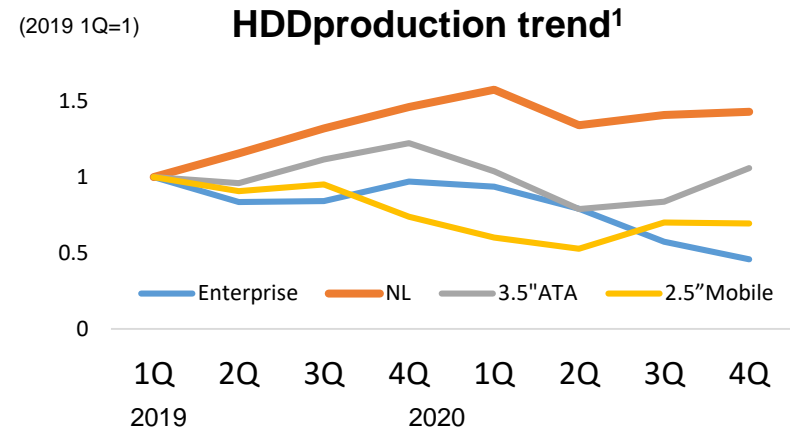
## 4. Drivers for recovery of corporate performance

### HD media, Petrochemicals



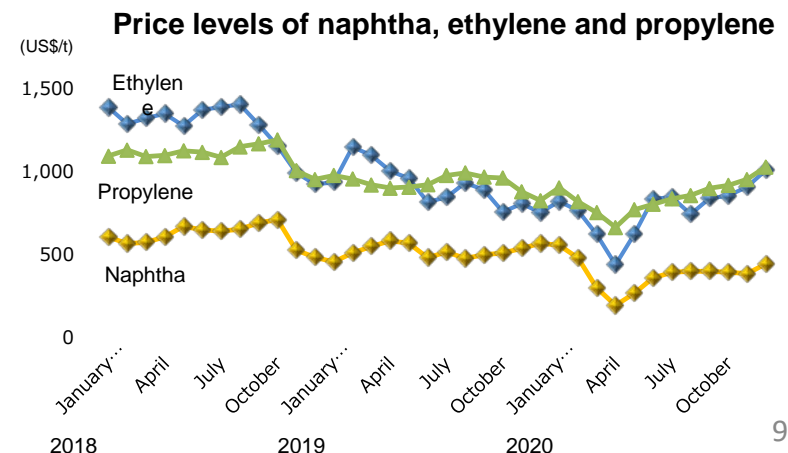
**HD media: HDD demand has been driven by increased investment in data centers.**

- Demand is recovering, despite a temporary decline in the operating rate of some HDD manufacturers due to COVID-19.
- Demand increased for low-priced mobile PCs for emerging countries for the use with telework and online lessons; demand for external HDDs remained robust.



**Petrochemicals: Overseas demand has been driven by the Chinese economy, while domestic demand is also recovering.**

- Crude oil prices have been recovering since the second half of 2020, and this trend is expected to continue throughout 2021.
- Demand for petrochemicals  
East Asia on the whole: Demand has been driven by the brisk Chinese economy.  
Domestic demand: Demand pertaining to lifestyle-related products remained strong.  
High demand as seen in 2019 is expected to continue along the recovery in automotive production.



## 4. Drivers for recovery of corporate performance



### Capital investment

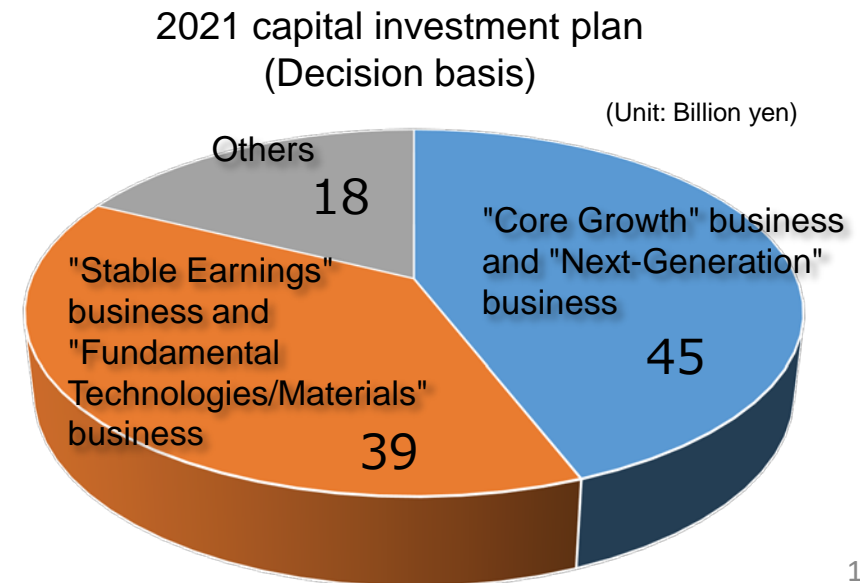
**Continue carefully-selected investments, aiming to strengthen competitiveness**

#### ◆ Capital investment for 2021 (Decision basis)

- "Core Growth" business and "Next-Generation" business: ¥45 billion
- "Stable Earnings" business and "Fundamental Technologies/Materials" business: ¥39 billion
- Total capital investment: ¥102 billion

#### ◆ Integrated R&D complex

Construct "Stage for Fusion"



## 5. Overview of major businesses

# Information and Communication



**Achieve further growth by capturing growing demand in line with full-fledged 5G rollout**

**2021**



**Performance**



### **Outperform market growth by reaping the fruits of past investments**

- In line with global 5G investment, demand for servers is expected to remain firm and the smartphone market is also expected to recover.
- Demand for semiconductors is expected to reach a record-high level in 2021. Achieve further growth in 2021 and continue investment leading to future growth

**Measures**

- Promote the “local production, local consumption” of electronic high-purity gases by continuing measures to strengthen stable supply system
  - Commence the operation of manufacturing facility in Chengdu, and expand/launch production facilities in Shanghai and Taiwan
  - Establish a new sales and distribution base in Xian
- Commence the operation of new plants in Taiwan and South Korea
  - In addition to the commencement of the operation of new plants for advanced functional laminate materials for semiconductor packaging substrates and CMP slurry, work on preparations aimed at further capacity increase in response to rapidly growing demand.
- Continue to actively invest in semiconductors in order to achieve sustainable growth in the future and maintain a leading position in the industry.
  - Promote the development of next-generation package at the packaging solution center. Continue aggressive investment in semiconductor related fields.

## 5. Overview of major businesses

### Mobility



#### Secure stable sales and profit and plant seeds for the future

2021



Performance



#### Steadily start new programs, and achieve growth outperforming the market recovery

- While production and sales of new cars were constrained in 2020 due to the impact of the COVID-19 pandemic, recovery progressed in 2H.  
Further recovery is expected for 2021.
- Performance in 2020 was sluggish, but the recovery from 2H was strong and promising.
- Outperform the market recovery with scheduled launch of products for new models in 2021.

Measures

- Steadily launch new programs
  - Launch products for slightly less than 20 models including backdoor modules and copper-free disc pads.
- Develop products for next-generation cars
  - Respond to the demand for weight reduction, electrification, and heat management.
- Promote sales of products for promising next-generation models in light of market recovery
  - Steadily launch new programs such as those for environment-friendly vehicles, and outperform the market recovery.

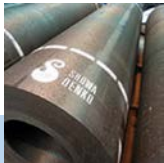
## 5. Overview of major businesses

### Graphite electrodes



Inventory adjustment of graphite electrodes for electric furnaces was completed at the end of 2020, and the shipment volumes are expected to increase significantly in 2021.

2021



Performance



**Inventory adjustment by customers was completed at the end of 2020.**

- Global inventory adjustment by customers was completed at the end of 2020  
Demand for graphite electrodes is expected to get back as crude steel production recovers from the downturn caused by COVID-19.
- Shipment volumes of SDK's graphite electrodes are expected to increase significantly from those in 2020 along the recovery in steel demand.

Measures

- Execute measures to improve profitability, and secure adequate spreads.
  - Price will shift to an upward trend from this year along recovery of demand.
  - Promotion of CX; Execute project to maximize value by making customers, SDK and AMI perform as a team.
  - Enhancement of the global production and quality management system
- Realize cost reduction effect through the optimization of production capacity.
  - Realization of the effect of low-cost needle coke inventory by reducing inventory book value
- Promotion of consulting sales toward the realization of the SDGs
  - Consulting sales for electric furnaces aimed at reduction of CO<sub>2</sub> emissions

## 5. Overview of major businesses

### HD media

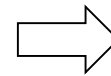


#### Expansion in demand for large capacity media for data centers



##### Performance

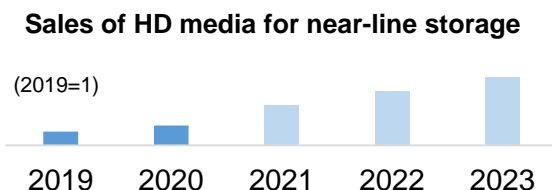
2021



- Sales to data centers have been strong reflecting increased data traffic amid the pandemic of COVID-19
- Sales of HD media for PCs and external HDDs have been strong as a result of the spread of telework and on-line lessons
- Sales volumes are expected to increase significantly in 2H

##### Measures

- Continue to pursue “Best in Class” strategy, productivity improvement and cost reduction
- It has been decided to increase the production capacity of aluminum substrate by 30% (mass production to commence at the beginning of 2022)
- Expand sales of MAMR media
- Continue development of HAMR media



## 5. Overview of major businesses

### Petrochemicals



**Performance has improved reflecting recovery of domestic demand and stable global market conditions**

2021



#### Performance

- Cost-price spread of products for export remains firm due to an increase in export to China.
- Favorable recovery of domestic demand continues, and our cracker continues full-capacity operation.
- Naphtha price maintains upward tendency. Therefore, we expect improvement in the spread between purchase and delivery prices of naphtha.

#### Measures

- Ensure safety and stable operations
- Continue to implement measures to control fluctuation of income, and improve profitability and stability
- Strengthen competitiveness of Oita Complex through expansion of the business to produce and sell derivatives
- Strengthen revenue base of organics business through refinement of catalysts and stricter management of plant operation
- Improve profitability through export to East Asia by taking advantage of location



## 6. Progress of long-term vision

Medium-term business plan “The TOP 2021”



Road map to become a company that can win the global competition



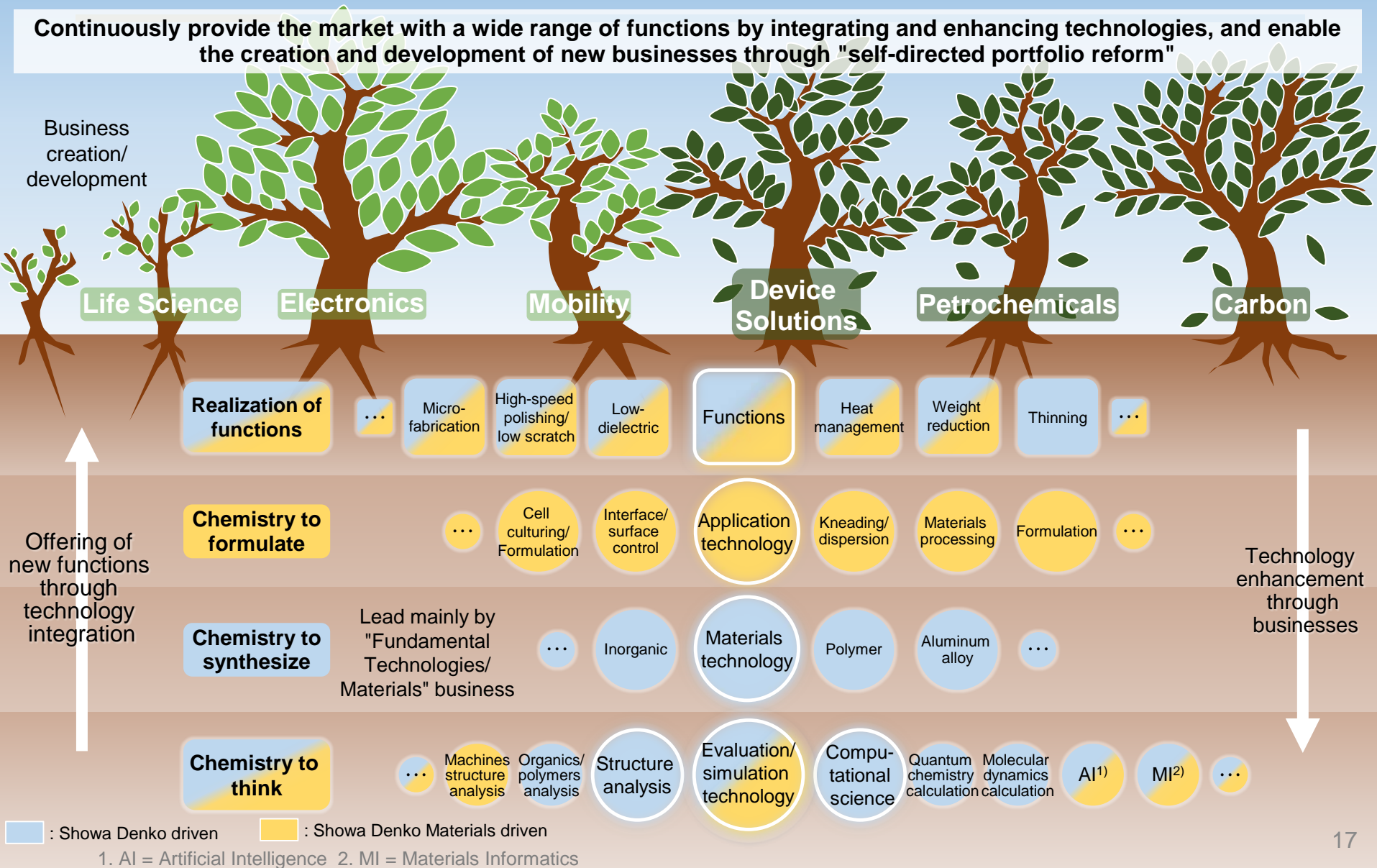


# 6. Progress of long-term vision

## Integration of technologies of the two companies



Continuously provide the market with a wide range of functions by integrating and enhancing technologies, and enable the creation and development of new businesses through "self-directed portfolio reform"



## 6. Progress of long-term vision

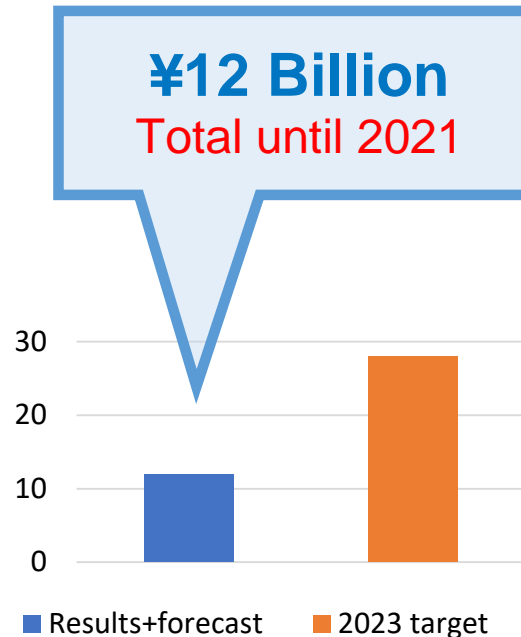
Initiatives to realize short- to medium-term synergy



### Improvement in profit structure / asset streamlining

- Reduce direct/indirect costs through integration
- Reduce working capital, sell off marketable securities, etc.

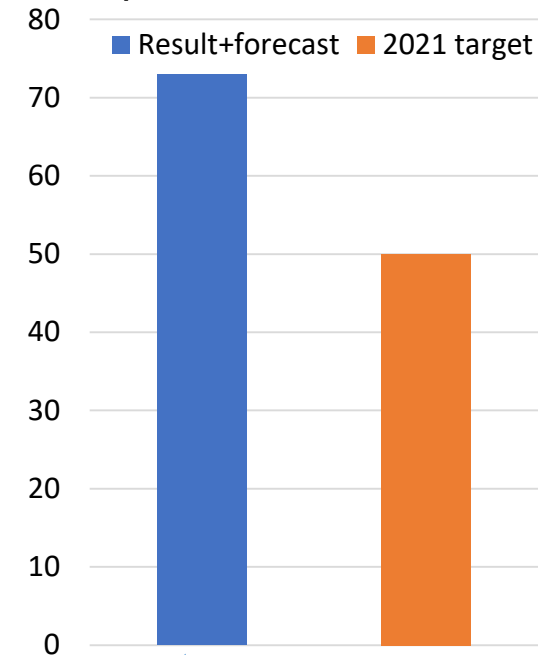
### Improvement in profit structure



### Business portfolio restructuring

- Decided to sell off aluminum can and aluminum rolled products businesses

### Squeeze on asset



**¥73 Billion**  
Achieved in 2020,  
earlier than we planned

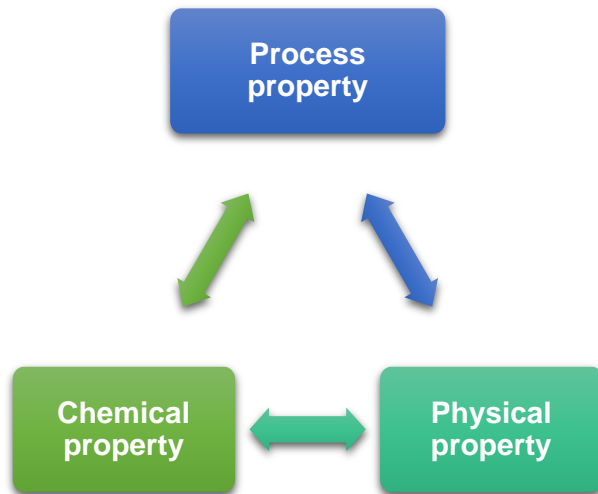
## 6. Progress of long-term vision

R&D: Creation of synergy (integration of platforms)



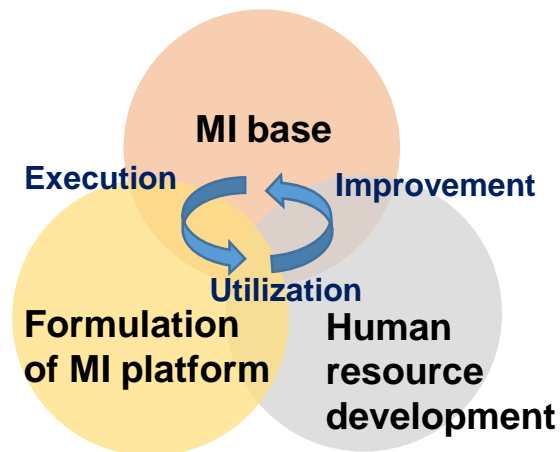
Construction of data-driven development infrastructure: Promote DX in R&D by leveraging knowledge of the two companies

### Actively utilize statistical analysis



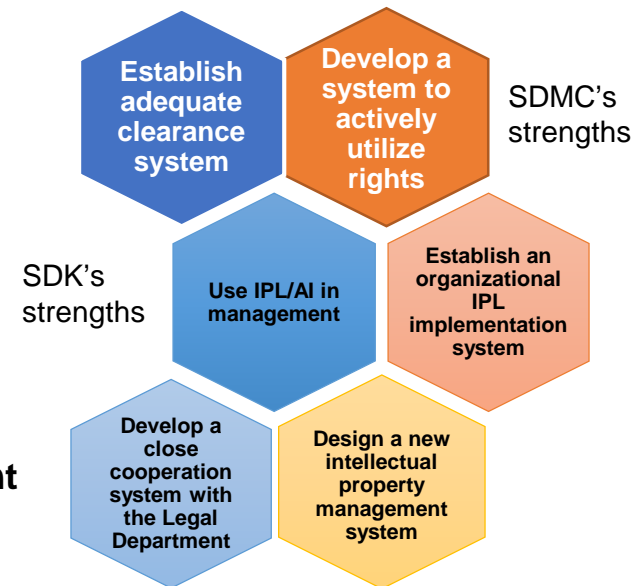
- ✓ **Accelerate development** by utilizing original data accumulated in-house

### Develop MI platform



- ✓ **Shift to data-driven development** from trial-and-error development based on experience and intuition

### Integrate intellectual property functions



- ✓ Utilize **IP landscape** based on big data concerning intellectual properties and **AI**

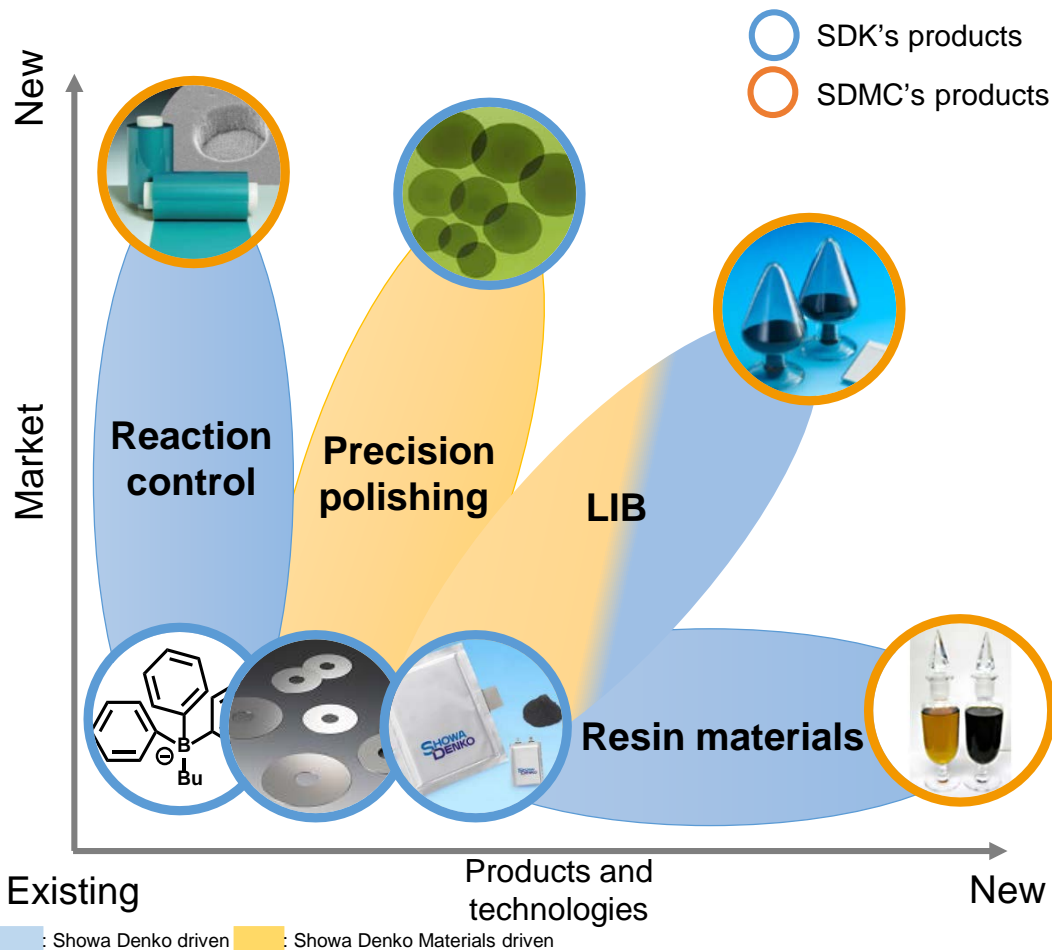
## 6. Progress of long-term vision

### R&D: Create synergy (examples of initiatives)



Create synergy from a variety of perspectives by utilizing strengths of materials and applications

#### Synergy creation fields



#### Synergy creation approach

##### Reaction control

ACF

Resist

- **Onko Chishin** (developing new ideas based on study of the past) - new findings that incorporate the perspective of application

##### Precision polishing

HD

SiC

- **Enhance process technology** on the basis of SDMC's processing technologies and materials

##### LIB

Anode materials

Binders

- **By merging original technologies** of the two companies, create synergy with mutual stimulation

##### Resin materials

Transparent heat-resistant films

Insulating varnish

- Increase added value of applications by **deepening materials**

## 6. Progress of long-term vision

### Fusion of strategies and promotion of cooperation (Reinforcement of marketing)



By establishing Corporate Marketing Office, a system to strengthen marketing functions and promote company-wide implementation has been strengthened. This system contributes to maximization of Customer Experience and planning/promotion of organic growth strategy.

Perspective of industries and applications

Deepen understanding of the market

**Application**

Perspective of product/technology

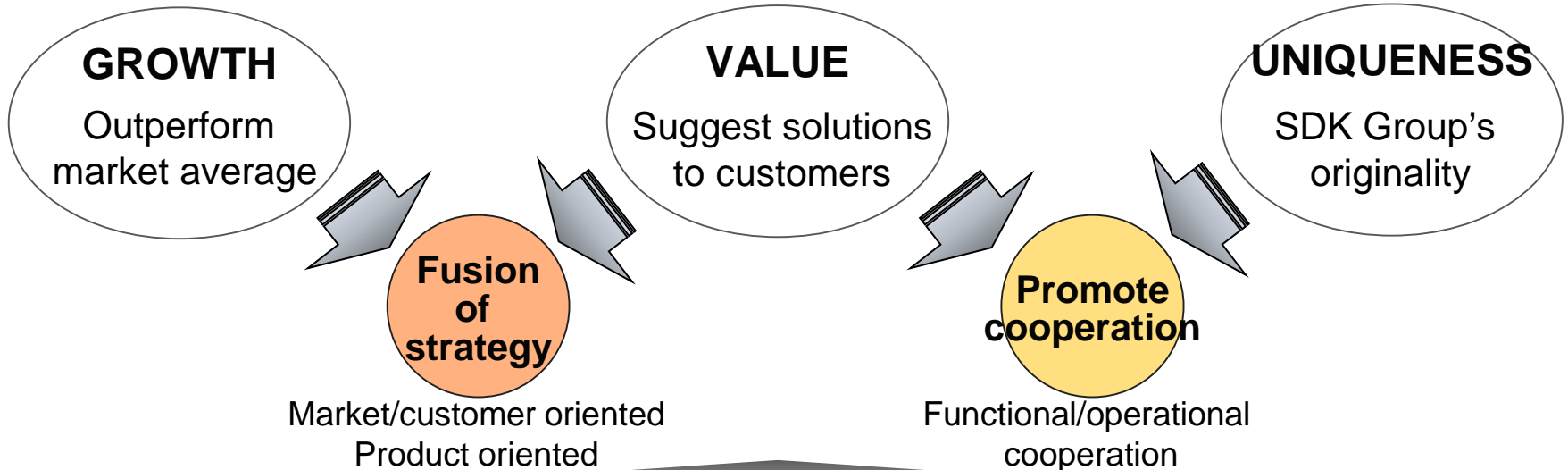
Strengthen commitment to technology

**Product**

Perspective of important customers

Strengthen relationship with customers

**Marketing**



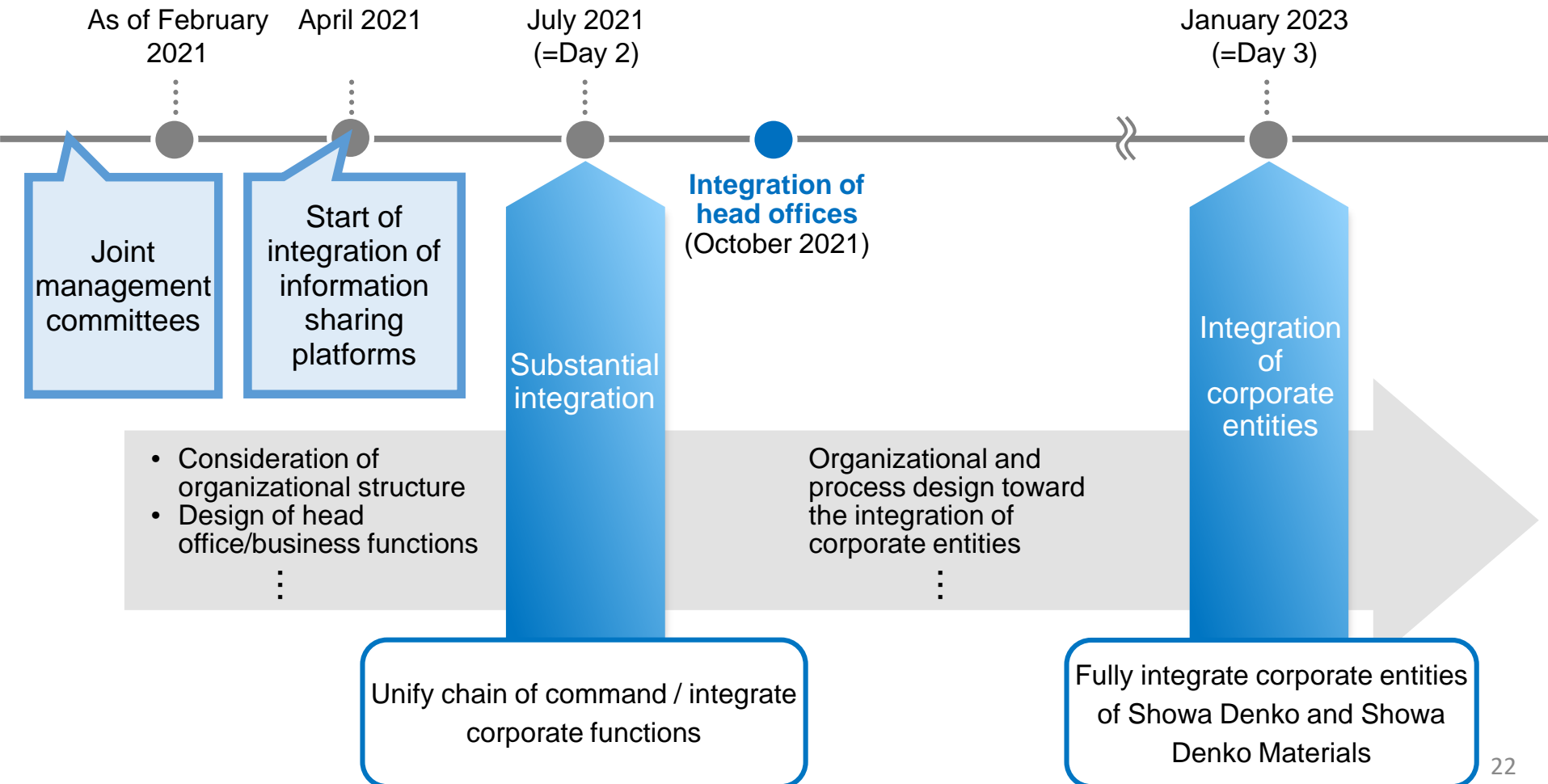
Companywide digital platform & Base for inter-business/inter-function cooperation

## 7. Integration with Showa Denko Materials

### Status of PMI progress



Toward the integration of corporate entities scheduled in January 2023 (Day 3), we will substantively integrate organization in July 2021 (Day 2) and integrate head offices in October 2021.



## 8. Contribution to sustainable society



### Social issues which we will cope with

#### **Effort to achieve carbon neutrality**

We will promote R&D and improvement of production processes, aiming to achieve carbon neutrality by 2050.

#### **Effort to realize recycling-oriented society**

We will promote efficient and effective use of resources and recycling of steel and plastics with communities.

#### **Contribution to improvement in quality of life (QOL)**

We will promote development of products which contribute to improvement in quality of life, learning, and health.

Purpose of the newly integrated company

**Change society with the power of chemistry**

**We will conduct business activities that contribute to solution of SDGs-related issues.**

All Divisions will clarify how our major products contribute to solution of social issues.

In 2021, we will formulate and announce the Vision of the newly integrated company pertaining to sustainability of society and our materiality.



### Note

Performance forecasts and other statements pertaining to the future contained in this presentation are based on the information available as of today and assumptions as of today regarding risk factors that could affect our future performance. Actual results may differ materially from the forecasts due to a variety of risk factors, including, but not limited to, the effect of the COVID-19 pandemic on the world economy, economic conditions, the costs of naphtha and other raw materials, demand for our products such as graphite electrodes and other commodities, market conditions, and foreign exchange rates. We undertake no obligation to update the forward-looking statements unless required by law.