

Quarterly Financial Summary

2nd Quarter, Ended September 30, 2020

November 10, 2020
Kaneka Corporation

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The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements.

(Billions of yen)

	FY2019			FY2020			Differences between the 1st half	
	1Q	2Q	1st half	1Q	2Q	1st half	Amount	%
Net sales	148.8	151.0	299.9	126.6	140.1	266.7	△ 33.1	△11.1%
Operating income	7.0	5.8	12.8	2.0	5.0	7.0	△ 5.8	△45.1%
Ordinary income	5.5	4.2	9.7	0.8	3.2	4.0	△ 5.7	△58.5%
Net income attributable to owners of parent	3.5	2.6	6.0	0.4	2.0	2.5	△ 3.6	△59.0%

- The Kaneka Group's business performance for the first six months (April 1, 2020 to September 30, 2020) of the fiscal year ending March 31, 2021 has seen steady improvement in the second quarter (July-September 2020; "2Q") though it was hit by the COVID-19 pandemic in the first quarter (April-June 2020; "1Q"). The business performance is expected to rapidly expand in the second half. There has been no change to the consolidated business forecasts announced on August 12, 2020.
- The global economy rebounded from the serious downturn it experienced in 1Q and showed increasingly strong signs of recovery in various industries in 2Q, primarily in China and the U.S. From October onward, the pace of recovery is expected to increase overall, despite some lingering uncertainty about factors such as the impact of a second wave of COVID-19 in Europe and the U.S.
- The Kaneka Group delivered steady growth in earnings in the leading-edge business group (E & I, PV, Medical, Pharma, Supplement, Agricultural production support) which has benefited from an expanding range of business opportunities during the COVID-19 crisis.
- The core business group (Vinyl, MOD, MS, Foam, Fiber, Foods) which had been primarily responsible for the downturn in business results in 1Q, has seen steady improvement in stagnant production levels. The Kaneka Group is expected to achieve further improvement in business performance in the second half of the fiscal year.
- The Kaneka Group will implement rigorous cost rationalization, realize "Smart Work," a Company-wide initiative to maximize productivity and accelerate the transformation of the business portfolio.



Net Sales, Operating Income by Segment

(Billions of yen)

	Net sales								Operating income							
	FY2019			FY2020			Differences between the 1st half		FY2019			FY2020			Differences between the 1st half	
	1Q	2Q	1st half	1Q	2Q	1st half	Amount	%	1Q	2Q	1st half	1Q	2Q	1st half	Amount	%
Material Solutions Unit	60.2	60.2	120.4	48.9	55.6	104.5	△ 15.9	△13.2%	5.6	4.6	10.2	2.9	4.5	7.4	△ 2.8	△27.7%
Quality of Life Solutions Unit	38.5	40.4	78.9	29.7	33.9	63.7	△ 15.2	△19.3%	3.7	3.9	7.6	1.2	2.7	3.9	△ 3.7	△48.2%
Health Care Solutions Unit	10.9	11.0	22.0	11.7	12.8	24.5	2.5	11.4%	1.9	2.1	4.0	2.3	2.7	5.0	0.9	22.7%
Nutrition Solutions Unit	38.9	39.1	78.0	35.9	37.6	73.5	△ 4.5	△5.8%	1.2	1.2	2.4	0.8	0.6	1.4	△ 0.9	△39.3%
Others	0.3	0.2	0.6	0.4	0.2	0.6	0.1	9.6%	0.2	0.1	0.3	0.2	0.1	0.3	0.1	18.9%
Adjustment	-	-	-	-	-	-	-	-	△ 5.6	△ 6.1	△ 11.7	△ 5.4	△ 5.6	△ 11.0	0.7	-
Total	148.8	151.0	299.9	126.6	140.1	266.7	△ 33.1	△11.1%	7.0	5.8	12.8	2.0	5.0	7.0	△ 5.8	△45.1%

- The Kaneka Group's net sales and operating income has improving sharply in 2Q, especially from the latter half of 2Q.
- In 2Q, Material solutions unit returned to the previous year's level and Health Care solutions unit expanded net sales and operating income during the COVID-19 crisis.
- From the second half, the core business group will steadily improve and see a clear path for the core business group to return to a trajectory for additional growth. The leading-edge business group such as Pharma, E & I Technology and so on will see stronger momentum than expectation.
- The Company is working to improve productivity and create new business value by applying a "select and concentrate" strategy to Research & Business (R&B) initiatives and by promoting digital transformation (DX).

Business Performance by Segment

Material

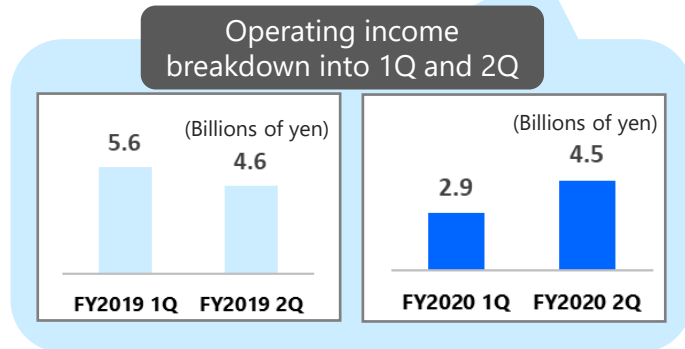
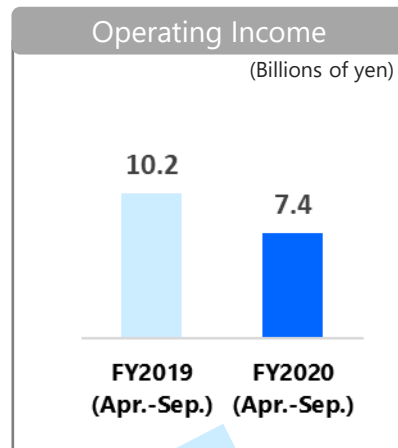
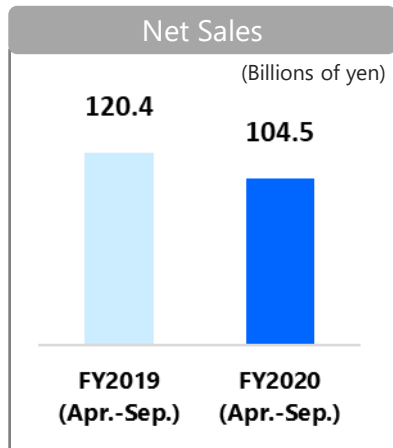
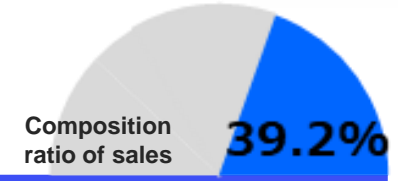
Net Sales

¥ 104.5 billion 【year-on-year Δ 13.2%】

Solutions Unit

Operating Income

¥ 7.4 billion 【year-on-year Δ 27.7%】



Vinyls and Chlor-Alkali

- Exports of general PVC resins increased sharply to India and China and shipments of chlorinated PVC also began.
- Emulsion PVC for hygiene gloves performed well, with the Malaysia plant operating at full capacity.
- In 2Q, profits increased year on year.

Performance Polymers (MOD)

- Demand recovered in Europe, the U.S. and Asia as economic activity restarted.
- From the latter half of 2Q, sales volume has returned to the previous year's level.

Performance Polymers (MS)

- Demand recovered in Europe and the U.S., in addition to demand for construction applications in China.
- In 2Q, performance returned to the previous year's level.

New Business

- Kaneka Biodegradable Polymer PHBH: Conclusive work continue to proceed toward a decision on constructing a plant with a 20,000-t production capacity.

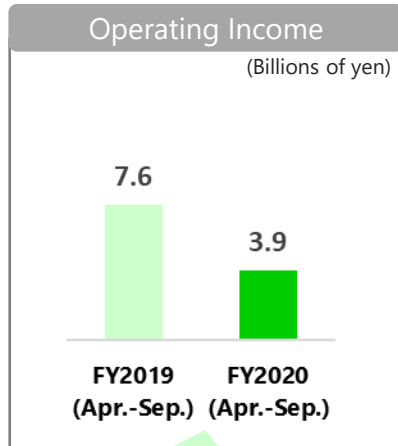
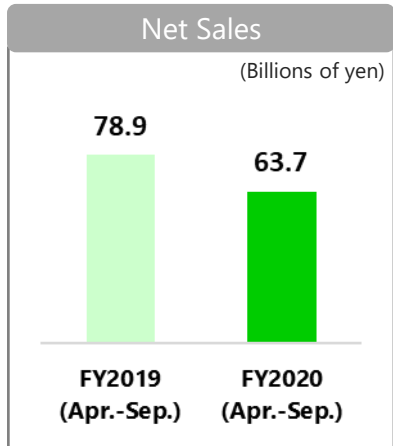
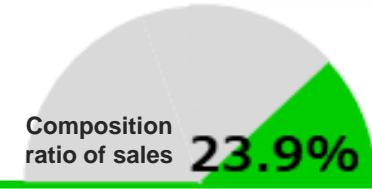
Business Performance by Segment

Quality of Life
Solutions Unit

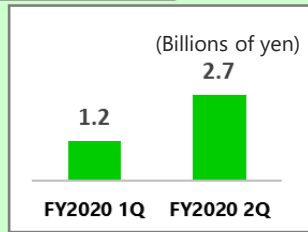
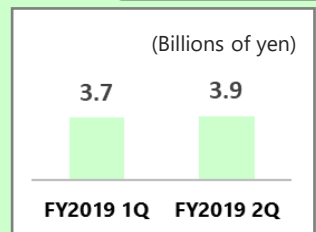
Net Sales
Operating Income

¥ 63.7 billion 【year-on-year Δ 19.3%】

¥ 3.9 billion 【year-on-year Δ 48.2%】



Operating income breakdown into 1Q and 2Q



Performance Fibers

- Demand for hair accessories and flame retardance materials for Africa and the U.S. slumped in 1Q. Demand for hair accessories in Africa have been recovering since July.
- There have been delays in the recovery of demand for flame retardance materials and pile for apparel applications.

Foam & Residential Techs

- Spreads were maintained for expandable polystyrene resin and extruded polystyrene foam boards despite sluggish domestic demands.
- Polyolefin foam saw products for automobiles follow a recovery trend.

PV & Energy management

- Sales volume of high-efficiency photovoltaic module products for homes was firm due to an increase in the adoption rate.

E & I Technology

- PIXEO products recorded an all-time high level of shipments because demand for smartphones increased and materials for tablets and laptop PCs were favorable.
- Sales increased for 5G products. New product development is also progressing steadily.

Business Performance by Segment

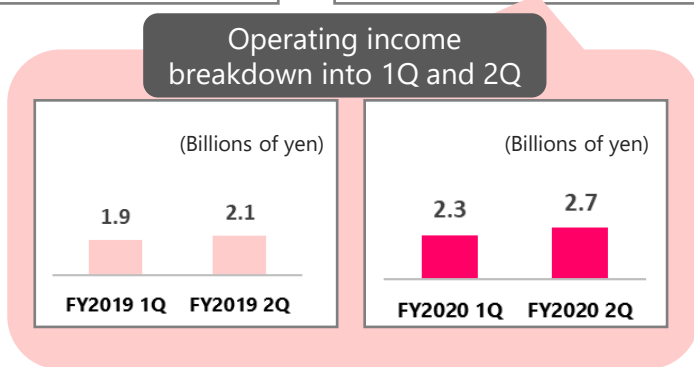
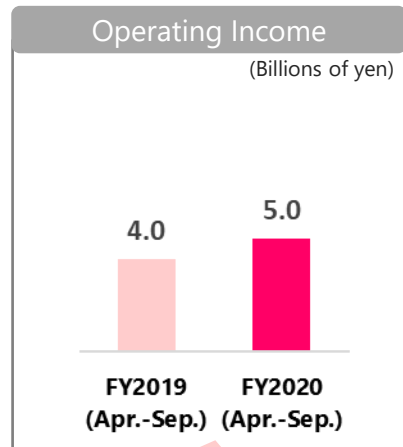
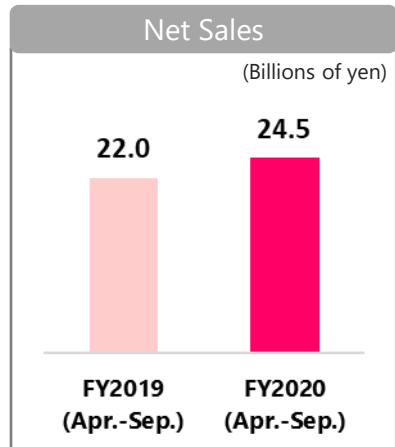
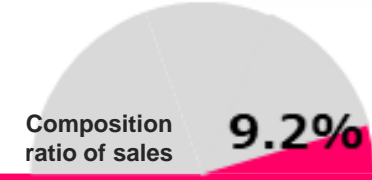
**Health Care
Solutions Unit**

Net Sales

¥ 24.5 billion 【year-on-year 11.4%】

Operating Income

¥ 5.0 billion 【year-on-year 22.7%】



Medical

- The domestic and overseas markets both expanded.
- Coils for embolization of brain aneurysms performed well. Sales of this new product began in the U.S. in September and contributed to earnings growth.
- Sales of a new blood purification system for treatment of arteriosclerosis obliterans (ASO) is scheduled for 2021.

Pharma

- Earnings rose sharply year on year, due to growth in earnings driven by factors such as the start of the supply of active pharmaceutical ingredients for Avigan® Tablet and Kaneka Eurogentec S.A.'s reagents for PCR tests.
- Kaneka Eurogentec S.A. has received a growing number of inquiries from major global pharmaceutical companies, beginning with its contracted production of vaccine intermediates for AnGes, Inc.
- New facilities for enhanced biologics capacity started operation in October. Kaneka Eurogentec S.A. is considering implementing the next phase of capacity enhancement at an early stage.

Nutrition

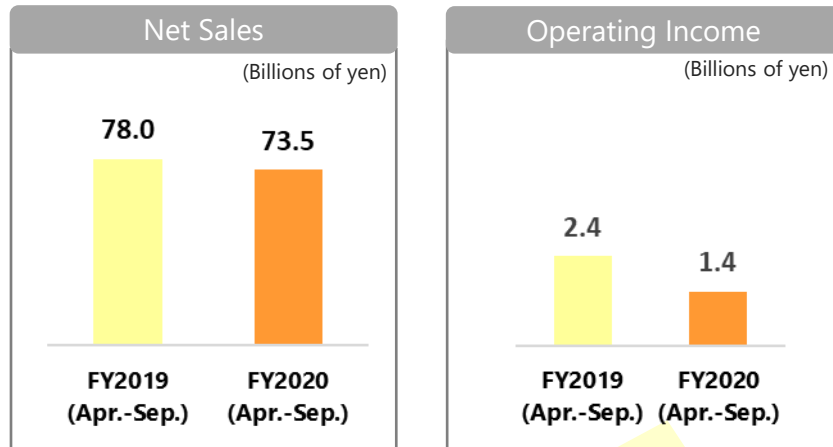
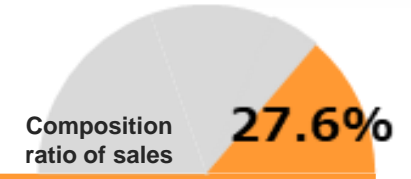
Net Sales

¥ 73.5billion 【year-on-year Δ 5.8%】

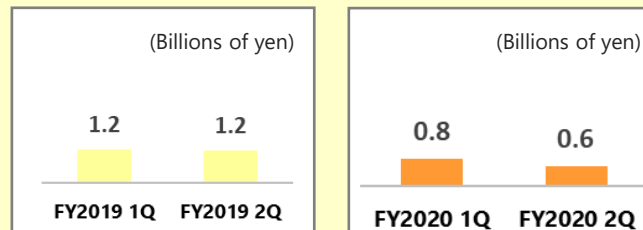
Solutions Unit

Operating Income

¥ 1.4 billion 【year-on-year Δ 39.3%】



Operating income breakdown into 1Q and 2Q



Supplemental Nutrition

- Strong sales were posted for the reduced form of coenzyme Q10 (Kaneka QH) and Kaneka Coenzyme Q10 due to heightened awareness of the importance of increasing immunity in the U.S.
- The Group plans to start sales of lactic acid bacteria in Japan from autumn 2020. These lactic acid bacteria have proven effective in improving the intestinal environment.

Foods & Agris

- Sales of spice products were firm.
- Although demand for bread and confectionery is on a recovery track, the pace of recovery has been slow due to the sizable impact of sluggish inbound tourism demand.
- The Group opened an online shop for Kaneka Group products. Progress is being made on measures to add value to businesses, through such means as expanding e-commerce sales.



Consolidated Balance Sheet

(Billions of yen)

	March 31, 2020	September 30, 2020	Difference
Assets			
Current Assets	306.9	292.0	△ 14.9
Noncurrent Assets	346.4	352.3	5.9
Total assets	653.3	644.3	△ 9.0
Liabilities			
Interest bearing debt	130.8	132.1	1.2
Others	168.3	155.0	△ 13.3
Total liabilities	299.2	287.1	△ 12.1
Net assets			
Shareholders' equity	331.5	334.3	2.8
Others	22.6	22.9	0.3
Total net assets	354.1	357.2	3.1
Total liabilities and net assets	653.3	644.3	△ 9.0
Shareholders' equity ratio	50.7%	51.9%	
Net assets per share	¥5,082.08	¥5,124.40	

* Shareholders' equity : Net assets deducting Noncontrolling interests and Subscription rights to shares

- Total assets decreased due to a decrease in notes and accounts receivable-trade.
- Liabilities decreased due to a decrease in notes and accounts payable-trade.
- Net assets increased due to an increase in valuation difference on available-for-sale securities.



Consolidated Cash Flow

(Billions of yen)

	FY2019 (Apr.-Sep.)	FY2020 (Apr.-Sep.)
Cash flows from operating activities	16.2	28.2
Cash flows from investing activities	△ 20.9	△ 22.8
Free cash flow	△ 4.8	5.4
Cash flows from financing activities	△ 3.3	△ 3.0
Net increase (decrease) in cash and cash equivalents (*)	△ 8.2	2.3
Cash and cash equivalents at end of period	31.8	39.9

* Including Effect of exchange rate change on cash and cash equivalents and Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation

- Net cash provided by operating activities was ¥28.2 billion, mainly due to income before income taxes and depreciation and amortization.
- Net cash used in investing activities amounted to ¥22.8 billion, mainly owing to the purchase of property, plant and equipment.
- Net cash used in financing activities came to ¥3.0 billion, mainly owing to cash dividends paid.



Performance Forecasts

- The core business group, which was heavily impacted by the COVID-19 crisis in 1Q, has seen a faster pace of recovery in demand every month since 2Q. In the second half of the fiscal year, the core business group is expected to achieve full-scale earnings growth.
- The leading-edge business group is expected to steadily expand business in the second half.
- The Company anticipates that business results from October onward will see stronger momentum, driven by a shift from improvement to a stage of resurgent growth.
- The Group will continue applying a “select and concentrate” strategy to R&B initiatives, as it intensively allocate resources to speeding up the adoption of its businesses by society and scaling up businesses.

- People are putting a higher value on health and security amid an unprecedented paradigm shift due to the COVID-19 crisis. The Group will drive dramatic growth in businesses involving healthcare and electronics, where it has intensively allocated resources to date.
- The Group will take steps to establish a robust corporate structure, beginning with cost rationalization measures. At the same time, the Group will intensively allocate management resources to the leading-edge business group and the new business. In the process, the Group will seek to accelerate the transformation of its portfolio.

- There has been no change to the consolidated business forecasts announced on August 12, 2020.

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