

# Quarterly Financial Summary

## 1st Quarter, Ended June 30, 2020

August 12, 2020  
**Kaneka Corporation**

# Contents

---

<b>Summary</b>	<b>1</b>
<b>Net Sales , Operating Income by Segments</b>	<b>2</b>
<b>Business Performance by Segments</b>	<b>3</b>
<b>Consolidated Balance Sheet</b>	<b>7</b>
<b>Performance Forecasts</b>	<b>8</b>

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 1Q	FY2020 1Q	Difference	
			Amount	%
Net sales	148.8	126.6	△ 22.2	△ 14.9%
Operating income	7.0	2.0	△ 5.0	△ 71.0%
Ordinary income	5.5	0.8	△ 4.7	△ 85.0%
Net income attributable to owners of parent	3.5	0.4	△ 3.1	△ 87.5%
Net income per share	¥53.53	¥6.70		

- In topics for the quarter under review (April – June 2020), the most prominent is the COVID-19 pandemic. The COVID-19 threat has spread around the world, causing an unprecedented situation in which economic activity across all industries has been hit reversely, almost to the point of stopping. Unfathomable shocks continue to rock the global economy.
- Crude oil briefly dipped to negative \$37.63. U.S. GDP growth dropped to negative 32.9% year on year, the steepest decline on record. GDP in Japan was also recorded negative 27%, the largest fall since World War II. The scars of an extremely deep, serious depression are spreading across the globe.
- In this business environment, the Kaneka Group's business performance for the first quarter (April 1, 2020 to June 30, 2020) was as follows. Consolidated net sales amounted to ¥126,644 million (down 14.9% year on year), operating income was ¥2,029 million (down 71.0% year on year). Ordinary income was ¥823 million (down 85.0% year on year). Net income attributable to owners of parent was ¥437 million (down 87.5% year on year).



# Net Sales, Operating Income by Segments

(Millions of yen)

	Net sales				Operating income			
	FY2019 1Q	FY2020 1Q	Difference		FY2019 1Q	FY2020 1Q	Difference	
			Amount	%			Amount	%
Material Solutions Unit	60,176	48,894	△ 11,281	△18.7%	5,590	2,855	△ 2,734	△48.9%
Quality of Life Solutions Unit	38,468	29,738	△ 8,729	△22.7%	3,728	1,236	△ 2,492	△66.8%
Health Care Solutions Unit	10,949	11,698	748	6.8%	1,905	2,298	393	20.6%
Nutrition Solutions Unit	38,908	35,938	△ 2,969	△7.6%	1,200	827	△ 373	△31.1%
Others	320	373	53	16.8%	180	248	67	37.7%
Adjustment	-	-	-	-	△5,600	△5,436	163	-
<b>Total</b>	<b>148,822</b>	<b>126,644</b>	<b>△ 22,178</b>	<b>△14.9%</b>	<b>7,004</b>	<b>2,029</b>	<b>△ 4,975</b>	<b>△71.0%</b>

- The first feature is that the leading-edge business group (E & I • PV • Medical • Pharma • Supplement • Agricultural production support ) which has been the priority for investment of R&B resources, has continued to record year on year growth in sales and profits, despite the severe downturn of the global economy due to the COVID-19 crisis. The second feature is that core business group belonging to the Material and Quality of Life Solutions Units (Vinyls • MOD • MS • Foam • Fibers ) experienced a sharp decrease in demand which caused a drop in production as a result of the COVID-19 pandemic. This is the largest factor behind the significant decrease in sales and profits in the first quarter.
- According to recent announcements by the American Chemistry Council and business sentiment surveys of the global manufacturing industry, the global chemical sector has seen a contraction in production during the COVID-19 crisis in the same way as other manufacturing industries, but the production decrease is reported to have bottomed out in March, with a contraction in April and May , before production began to increase in June.
- Incidentally, the Company's core business group belonging to the Material and Quality of Life Solutions Units, which had seen production drop, began to improve and increase production from June after hitting bottom in May.
- While production is not likely to return to pre-COVID-19 levels right away, production in the core business group is expected to improve at a gradual pace in the third and fourth quarters, with earnings increasing through the year thanks to production increases.
- Furthermore, the Company has taken the paradigm change during the COVID-19 crisis as an opportunity to implement measures to boost productivity by strengthening back office functions. These include applying “select and concentrate” of R&B initiatives and introducing a new work culture, exemplified by remote working. (Cost cuts: ¥500 million in the first quarter)

# Business Performance by Segments

**Material**

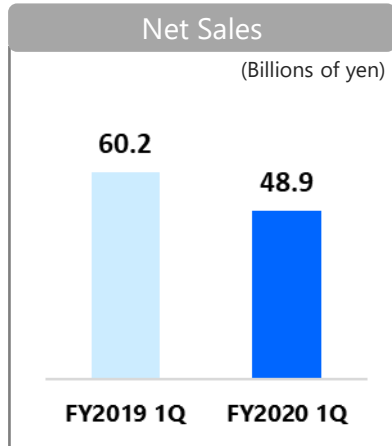
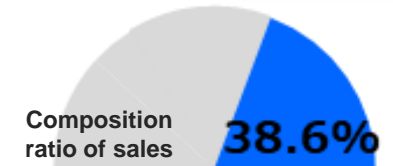
**Net Sales**

¥ 48.9 billion 【year-on-year  $\Delta$ 18.7%】

**Solutions Unit**

**Operating Income**

¥ 2.9 billion 【year-on-year  $\Delta$ 48.9%】



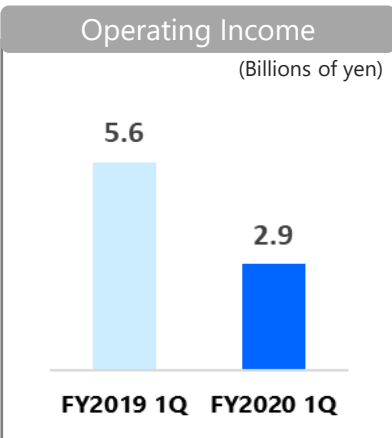
## Vinyls and Chlor-Alkali

- PVC resins and caustic soda: Sales and profits decreased due to a lockdown in India.

## Performance Polymers (MOD)

## Performance Polymers (MS)

- MOD and MS: Sales and profits decreased due to a drop in demand in Europe and the U.S.
- Epoxy masterbatch: Application development continued and facilities for boosting capacity operated as planned.



## New Business

- Kaneka Biodegradable Polymer PHBH: Joint development continued steadily with a large number of brand holders in Japan and overseas. The conclusive works for productivity increases and cost reductions are proceeding toward a decision on constructing a plant with a 20,000 t production capacity.

# Business Performance by Segments

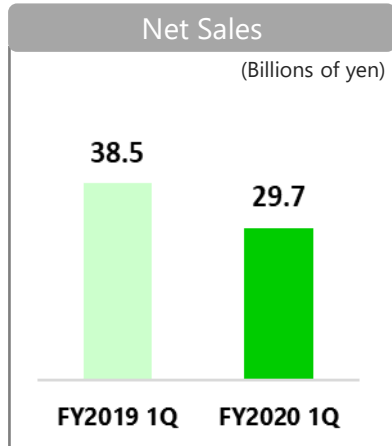
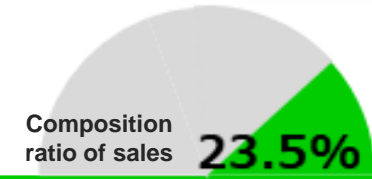
Quality of Life  
Solutions Unit

Net Sales

¥ 29.7 billion 【year-on-year  $\Delta$ 22.7%】

Operating Income

¥ 1.2 billion 【year-on-year  $\Delta$ 66.8%】



## Performance Fibers

- Performance Fibers: Demand for hair accessories fell sharply due to lockdowns in Africa. Demand for pile and flame retardance materials is also sluggish due to the COVID-19 crisis. The newly established Product Development Center in Ghana will be used to achieve an early recovery in sales.

## Foam & Residential Techs

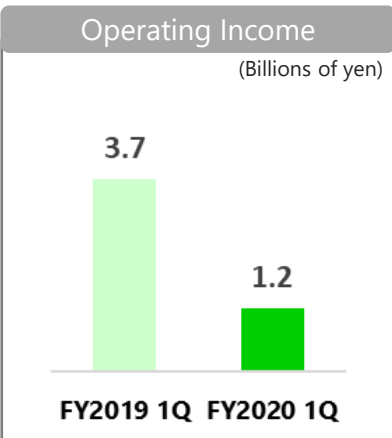
- Foam & Residential Techs: Expandable polystyrene resin and extruded polystyrene foam boards slumped due to a decrease in fishing coolers and construction and civil engineering activity. Polyolefin foam demand was heavily impacted by the global decrease in automobile production.

## PV & Energy management

- PV & Energy management: High-efficiency photovoltaic module products for residential use saw firm sales. Proceeded with joint development of wall surface and see-through photovoltaic modules for buildings and automobiles.

## E & I Technology

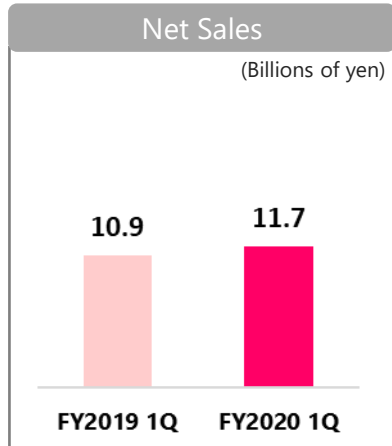
- E & I Technology: Polyimide films and graphite sheets saw a gradual recovery in the smartphone market. Sales is strong. The Group bolstered development of original products for OLEDs and 5G applications.



**Health Care  
Solutions Unit**

**Net Sales**                      **¥ 11.7 billion** **【year-on-year 6.8%】**  
**Operating Income**            **¥ 2.3 billion** **【year-on-year 20.6%】**

Composition  
ratio of sales            **9.2%**

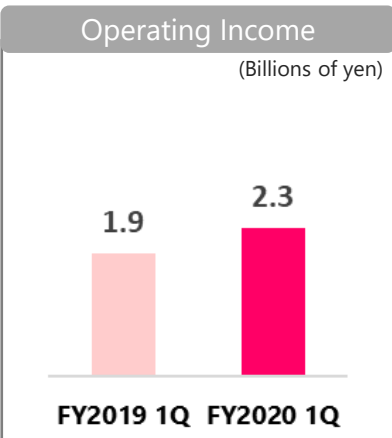


## Medical

- **Medical:** Sales of catheters are increasing after a temporary halt due to the COVID-19 crisis. Embolism coils performed well, and the Group plans to sell them in the U.S. The Group decided to triple the current production capacity at its Vietnam plant. The Group is proactively advancing technology and capital alliances in new therapeutic fields. The Group started breast reconstruction treatment that uses culture adipose derived from stem cells.

## Pharma

- **Pharma:** Capacity expansion at Osaka Synthetic Chemical Laboratories, Inc. and Kaneka Eurogentec S.A. contributed to sales. The Group started supplying active pharmaceutical ingredients for Avigan® Tablet and reagents, both for COVID-19. The Group is engaged in contracted production of vaccine intermediates for AnGes, Inc. using leading-edge advanced technology such as plasmid DNA.
- The Group started an infection research team to focus on the infectious diseases domain.



**Nutrition**

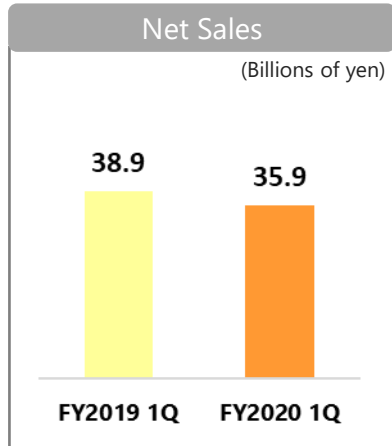
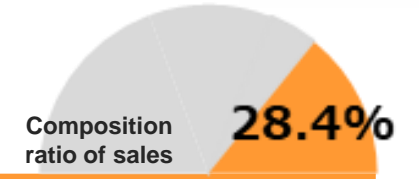
**Net Sales**

**¥ 35.9billion** 【year-on-year  $\Delta$ 7.6%】

**Solutions Unit**

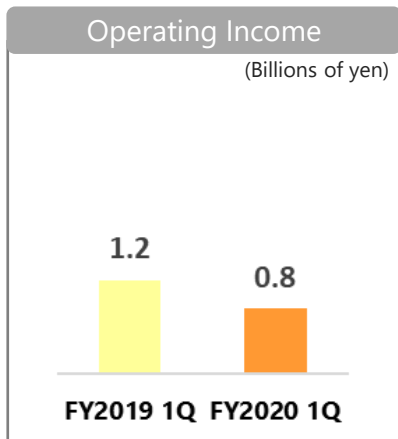
**Operating Income**

**¥ 0.8 billion** 【year-on-year  $\Delta$ 31.1%】



## Foods & Agris

- **Foods & Agris:** Demand for bread and confectionery slumped due to a downturn in restaurant dining and inbound tourism. An increase in people eating meals at home drove favorable performance at Kaneka Sun Spice Corporation. Dairy product sales were firm, and the Group commenced organic dairy farming. The Group established a dairy farming agricultural production company in Betsukai, Hokkaido Prefecture.



## Supplemental Nutrition

- **Supplemental Nutrition:** Reduced form of coenzyme Q10 performed strongly in the U.S. due to increased awareness of preventative care. Sales of probiotics were favorable in Europe and the Group started sales in the U.S. The Group will strengthen dissemination of scientific information and develop its brand strategy through diverse supplements.





# Consolidated Balance Sheet

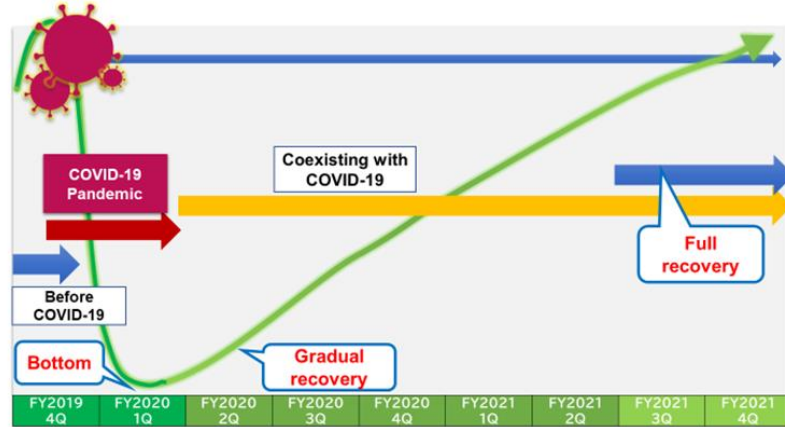
(Billions of yen)

	March 31, 2020	June 30, 2020	Difference
<b>Assets</b>			
Current Assets	306.9	299.3	△ 7.6
Noncurrent Assets	346.4	351.3	4.9
<b>Total assets</b>	653.3	650.6	△ 2.6
<b>Liabilities</b>			
Interest bearing debt	130.8	138.5	7.6
Others	168.3	158.0	△ 10.3
<b>Total liabilities</b>	299.2	296.5	△ 2.7
<b>Net assets</b>			
Shareholders' equity	331.5	331.3	△ 0.2
Others	22.6	22.9	0.2
<b>Total net assets</b>	354.1	354.2	0.1
<b>Total liabilities and net assets</b>	653.3	650.6	△ 2.6
<b>Shareholders' equity ratio</b>	50.7%	50.9%	
<b>Net assets per share</b>	¥5,082.08	¥5,079.53	

\* 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.

## ① World Economic Outlook



The impact of COVID-19 is expected to have peaked during the first quarter, with business performance to begin gradually improving from the second quarter, making a full recovery from the second half of the fiscal year ending March 31, 2022.

## ② Forecast for Consolidated Business Performance for the Fiscal Year Ending March 31, 2021

(Billions of yen)

	FY2019 result	FY2020 forecast	Change	
			Amount	%
Net sales	601.5	560.0	△ 41.5	△6.9%
Operating income	26.0	21.0	△ 5.0	△19.3%
Ordinary income	20.2	16.4	△ 3.8	△18.7%
Net income attributable to owners of parent	14.0	10.0	△ 4.0	△28.6%

\* The forecasts are based on exchange rates of ¥108 to the U.S. dollar, ¥120 to the euro and a domestic naphtha price of ¥28,000 per kiloliter.

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.



## Forecast for Consolidated Business Performance by segments for the Fiscal Year Ending March 31, 2021

(Billions of yen)

	Net Sales			Operating Income		
	FY2019 result	FY2020 forecast	Change	FY2019 result	FY2020 forecast	Change
Material Solutions Unit	241.8	215.5	△ 26.3	20.6	15.5	△ 5.1
Quality of Life Solutions Unit	154.8	136.6	△ 18.2	14.2	9.4	△ 4.8
Health Care Solutions Unit	46.4	52.5	6.1	8.9	11.5	2.6
Nutrition Solutions Unit	157.4	154.4	△ 3.0	5.6	5.3	△ 0.3
Others	1.1	1.0	△ 0.1	0.5	0.6	0.1
Adjustment	-	-	-	△ 23.9	△ 21.3	2.6
<b>Total</b>	<b>601.5</b>	<b>560.0</b>	<b>△ 41.5</b>	<b>26.0</b>	<b>21.0</b>	<b>△ 5.0</b>

- The core business group (Vinyls and Chlor-Alkali • MOD • MS • Foam & Residential Techs • Performance Fibers) stopped production in the COVID-19 crisis, but production is now expected to improve at gradual pace in the third and fourth quarters, with revitalized production to drive an improvement in earnings for the year.
- The leading-edge business group (E & I • PV • Medical • Pharma • Supplement • Agricultural production support), a driving force for growth is expected to continue a strong earnings growth trend.
- Furthermore, the Company will engage in high productivity business management, such as strengthening back office functions. These include applying “select and concentrate” of R&B initiatives and introducing a new work culture, exemplified by remote working. (Cost cuts: ¥3,000 million)

### ③ Dividends forecasts for the Fiscal Year Ending March 31, 2021

- Based on the above performance forecasts for the fiscal year ending March 31, 2021 and a basic policy of continuing to make stable profit returns, the Company has maintained its annual dividend of ¥100 (interim ¥50, year-end ¥50).

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.



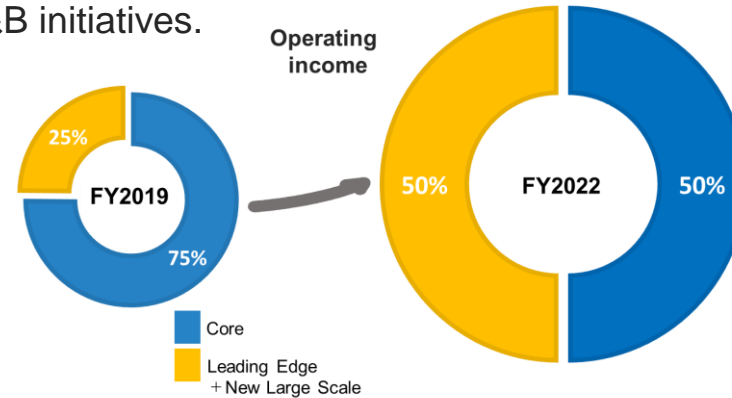
④ Growth toward the fiscal year ending March 31, 2023

- From the second half of the fiscal year ending March 31, 2022, the Company expects to see production activities surpass to pre-COVID-19 levels. The performance recovery is expected to be delayed by 1 year.

Net sales    ¥700 billion    Operating income    ¥53 billion

- Amid a rapid paradigm shift in society sparked by the COVID-19 crisis, the Company will bolster the competitiveness of the leading-edge business group (E & I • Medical • Pharma • PV • Supplement, etc.).

The Company will invest resources intensively in its focal new large-scale business group, such as Kaneka Biodegradable Polymer PHBH, and accelerate reaping the fruits of its R&B initiatives.



- The Company will hone the unique business characteristics of its core business group (Vinyls • MOD • MS • Foam • Fibers • Foods & Agris), and build them into a strong platform supporting management as a business base.
- New large-scale business Kaneka Biodegradable Polymer PHBH:  
This is the large-scale business opportunity of the group in its history. Amid a multitude of new business groups, this project will receive a prioritized investment of management resources.  
The Company will expedite the development of technology for uniquely combining its two technology sources (yeast fermentation technology and high molecule polymer technology) to realize large scale commercial operations at an early stage.
- Expedite management digital transformation  
The Company will convert to a robust corporate structure by making efficient investments of management resources.



**KANEKA CORPORATION**  
<https://www.kaneka.co.jp/en/>