

Summary of Questions and Answers at a Briefing on SDK's "Long Term Vision for Newly Integrated Company (2021-2030)"

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

[“Core Growth” business: Electronics]

Q. The semiconductor industry seems not stable due to the new entry of Chinese manufacturers and other factors. How do you think the future of the electronics industry will be?

A. We think the trend of technology in the electronics industry is almost fixed. There are ten-something semiconductor manufacturers in the world, and the rule of competition among them is almost fixed. As a result, the number of players is decreasing gradually. In such a market environment, we think Showa Denko has acquired favorable position and made a good start as a manufacturer of materials for semiconductors.

Q. Regarding your electronics business, you said new entry to the semiconductor industry is rare and the industry is stable. Please explain specifically.

A. In our electronics business, regarding CMP slurry, we are beyond reach in the fields of nano-ceria and high-speed ceria. Regarding copper clad laminates, we recently announced we would establish additional production lines in Taiwan and South Korea in order to respond to the request from our customers for a production increase based on their material attestation. We decided to invest to take the advantage of the favorable development of the situation. The demand for high-end models of smartphones and data centers has been increasing. Therefore, we believe we can expand the scale of our electronics business.

Q. How will your investment in electronics business be in the near future?

A. Our recent annual sales of semiconductor-related materials are about 200 billion yen. We plan to increase this amount to 500 billion yen by 2030, and we need to have capital investment corresponding to this increase. We will invest in promising businesses, and we will give priority to the investment in semiconductor-related business when we make investment decision. We aim to achieve about 10% of growth rate in our semiconductor-related business, which is twice as much as that of semiconductor

market, by making the most of synergy resulting from the integration of the two companies.

[“Core Growth” business: Mobility] (SiC epitaxial wafer for power devices)

Q. Regarding SiC epi-wafer for power devices, which leverages heat management, it is said that the spread of EVs in Europe, China and Japan will be faster than expected. If the shipment volume of EVs increases drastically toward 2030, how will your investment in the production lines for SiC epi-wafer be?

A. The market for SiC epi-wafer for power devices is rapidly expanding due to the improvement in epi-wafer's performance. We are the only SiC epi-wafer manufacturer which provides materials for heat management. We will respond to the needs for heat management caused by electrification of cars through total application of our material, analysis and module evaluation technologies.

[“Next-Generation” business: Life Science]

Q. Do you think you are the best owner of Life Science business? How is your investment plan for your Life Science business while you have to make so much investment in your electronics business?

A. Regarding the regenerative medicine in the Life Science business, we have business sites in all of tripolar regions of the world, namely in the US, Germany, and Yokohama, and has established global pharmaceutical supply system. To the best of our knowledge, there is no other player who have regenerative medicine business sites in all of tripolar regions, and we believe we are the front-runner in this field. We will make decision on investment each time while taking our financial standing into consideration. However, we should manage our investment carefully in order to meet our customers' finalized demand while keeping healthy financial standing. We will invest in a sound way by checking recoverability of each investment program.

[“Stable Earnings” business]

(Graphite electrodes)

Q. Regarding “Stable Earnings” business, do you have any plan to restore market prices of graphite electrodes to normal levels for some years ahead?

A. In our medium-term business plan “The TOP 2021,” we aim to make all of our businesses *KOSEIHA* businesses (individualized businesses). We demanded the businesses in the category of “Enhance” to enhance our corporate value in mature markets. Market prices of graphite electrodes showed cyclical changes in the last three years. However, we believe our graphite electrode business can yield stable profit in terms of relatively long period, namely 3 to 5 years.

Q. To stabilize profit, are you considering further reduction of your production capacity?

A. At present, we are not considering further reduction of our production capacity. Though sales volumes and sales prices in this year are lower than those of the previous year, they are still more than twice as high as those in 2017. Inventory of needle coke purchased with high prices in the past is the factor that squeezes our profit. However, while we are gradually normalizing the amount of our needle coke inventory, market price of needle coke is also declining gradually. Therefore, we think we can secure certain level of profitability.

[The whole company]

Q. It seems that Showa Denko Materials has many “Core Growth” businesses while Showa Denko has the majority of “Stable Earnings” and “Fundamental Technologies/Materials” businesses. Will the majority of businesses to be sold be Showa Denko’s businesses?

A. Both companies started to consider steady restructuring of business portfolios prior to the integration. Therefore, we think there is no disparity in the distribution of businesses to be sold. As you mentioned, it is true that Showa Denko Materials has more “Core Growth” businesses than Showa Denko. Through integration of the two companies, Showa Denko Group has acquired promising businesses that will lead the growth of the group as a whole. On the other hand, “Fundamental Technologies/Materials” businesses are also important. Through provision of technologies and materials for each business portfolio, we can activate technology development and enhance customer

satisfaction in the downstream. We believe we have established a positive relation between “Fundamental Technologies/Materials” businesses and other downstream businesses in which both sides can strengthen one another.

Q. If you incur a loss in your sale of businesses amounting to 200 billion yen, your financial standing may be negatively affected. How do you see this risk?

A. There may be losses in some cases of business divestiture. But in other cases, we may gain profit. We expect we can offset losses and gains in total of our business divestitures.

Q. In your forecast for this year, how do you think about the balancing of improvement in net D/E ratio and sale of assets?

A. We expect that the amount of interest bearing debt will be reduced for about several hundreds of billions of yen from the current level when we achieve net D/E ratio of 1 time. We have not decided which business we will sell. We will choose plans of capital investment carefully, centering on “Core Growth” businesses, while we pursue improvement in net D/E ratio. We will pay special attention to the possible return on investment when we choose investment plans carefully.

Q. You plan to fully integrate as a corporate early in 2023. We suppose you will dissolve the special purpose company (SPC) at that time. How will you treat preferred stocks?

A. We will abolish the SPC when we are fully integrated as a corporate in 2023. We will change preferred stocks into a subordinated loan. That potential subordinated loan is recognized 50% of its total value as “equity credit attributes” by a rating agency. Therefore, we expect the change will be executed under the same condition as we have now.

Q. You keep your forecast of dividend payment at the end of 2020 as “undecided.” How do you think about it?

A. Regarding our forecast of dividend payment, we are carefully looking at how our actual results at the end of this year will be and whether our image of the results for 2021 will be realized or not. If it becomes highly possible for us to realize our 2020 performance forecast and 2021 performance image, we can foresee execution of dividend payment for 2020.

Q. Would you give us your comment on the general situation of each business segment in your image of group performance for 2021?

A. Petrochemicals segment will proceed at cruising speed in 2021. Chemicals segment will have stable commodity market, and electronic chemicals business in 2021 will record more operating income than that for 2020. As for the Electronics segment, sales of HD media will recover to the level of 2019 and before, though 2020 will end as a difficult year. In the Inorganics segment, we expect the sales volume of graphite electrodes for 2021 will increase

to 130,000 tons while that for 2020 will be 100,000 tons. In the Showa Denko Materials segment, electronics business will show good performance, and mobility business will show certain level of performance improvement. Energy (battery-related) business will maintain strong performance. Generally speaking, we expect the Showa Denko Group will show good performance in 2021.

Actual results may differ materially from the forecast contained in this material 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.