Summary of the Q&A Session at the Financial Results Conference Call for the Fiscal Year Ended March 2022

Date and Time: May 9, 2022 (Mon.) 10:00 - 11:10

Notice: This summary is a reference designed for the convenience of those who could not attend the financial results conference call stated above. Please note that this is not a word-for-word transcript of all remarks made at that session, but is a summary prepared by Kurita Water Industries Ltd.

Q. With regard to the large-scale water treatment facilities order for the domestic electronics industry received in 4Q of the fiscal year ended March 2022, can you provide specifics on the content and profitability of the order? Also, you indicated your intention to leverage Kurita's strengths overseas. Please discuss the expected direction of the business going forward.

A. I cannot disclose the names of individual customers but we successfully won an order for an extremely large semiconductor fab project. The project focuses on areas where we can demonstrate competitive superiority, such as wastewater treatment and reclamation. From the perspective of further deepening our relationship with this customer, the project creates opportunities for the customer to fully understand the Kurita Group's strengths. I believe this order has the potential to generate further opportunities at the customer's other fabs along similar lines.

Q. In the previous fiscal year, the water treatment chemicals business was impacted by a deterioration in the cost of sales. I understand you expect the positive impact from raising your selling prices to materialize in the current fiscal year. However, the forecasts appear to show a slow pace of margin improvement relative to progress on price hikes. How should we think about the impact of both the deterioration of cost of sales and higher selling prices in the current fiscal year?

A. There are differences in customers and market characteristics when comparing the domestic and overseas businesses; the pace of progress on raising selling prices also differs. We were able to respond swiftly to mitigate the impact of surging raw materials costs with higher selling prices particularly in Europe and Southeast Asia.

That said, rising materials costs in 2H of FY ended March 2022 went beyond petroleum derivatives to include a wide array of inputs such as phosphate and energy costs, so our efforts to raise prices have not been able to keep up. In response to higher logistics and energy costs, we will be applying a surcharge in the European and US markets this fiscal year. We will also implement other measures to give us greater flexibility, such as shortening the period of validity for estimates.

In contrast, selling price initiatives in the domestic business are slightly lagging Europe, the US and Southeast Asia. I believe rising raw materials and energy costs must be passed on in the form of higher selling prices; we should start to see an impact from the second half of the fiscal year. However, because the cost increases are broad-based, I don't believe we can fully cover all of the impact. Our plan for the current fiscal year assumes what can be covered by our current efforts.

Q. Could you comment further on how competition is changing in the area of the electronics industry? Kurita has successfully won large-scale orders from Asian semiconductor-related players. Please discuss where you feel Kurita was able to leverage its strengths versus its peers. Was it superiority in terms of price, supply chain, the ability to offer a short delivery time or other factors?

A. Kurita has been operating the ultra-pure water supply (UPWS) business for close to 20 years. Over this time, we have accumulated significant skills in areas such as ensuring stable operations for our customers or rapid ramp ups, maintenance and waste water reclamation. Even when we are competing on an EPC basis, we are able to leverage these skills to differentiate ourselves. I believe that we have successfully won orders by proactively highlighting our strengths to customers that are less familiar with Kurita.

In terms of the competitive environment, there are a limited number of manufacturers of water treatment facilities for semiconductors. Given the strong demand, water treatment facility industry production capacity is running at high levels of utilization. This is driving an increased need for short delivery times and rapid ramp-ups. This is an environment which further highlights Kurita's competitive advantages such as its ability to ramp up facilities quickly.

Q. What were sales for the service contract-type business and the solutions model in FY ended March 2022?

A. On a non-consolidated basis, the service contract-type business generated sales of approximately 3.7 billion yen, while solutions model sales were approximately 1.8 billion yen.

Q. In developing the domestic service business for general industry, are you experiencing a shortage of human resources?

A. With regard to the shift toward services in the domestic business for general industry, there were significant overlaps in the previous domestic sales organization between the sales subsidiary, which was chiefly focused on chemicals, and direct sales by Kurita Water. Since last year, however, we have been transferring maintenance business human resources into the sales subsidiary. As epitomized by the decision to eliminate the word chemical from the sales subsidiary's name, we have been gradually developing a framework capable of handling solutions and service contracts. This framework should be significantly stronger this fiscal year.

Q. Have you seen technology synergies emerge in the tool cleaning business as a result of the acquisition of Pentagon Technologies?

A. Pentagon Technologies' business is primarily concentrated in the US and takes a different approach to Kuritec Service, the domestic tool cleaning business. There are unique features to Pentagon's technology, production framework and products. Since last year, we have launched collaborations to expand on this throughout the group. However, partly because Pentagon has yet to become a wholly-owned subsidiary, the pace has been slower than we had initially anticipated. Pentagon will become a wholly-owned subsidiary from July 2022. We would like to make more progress on adopting technology and production systems in order to boost profitability.

Q. In your explanation of plans to improve the profitability of Kurita America, you indicated that you were considering entering the water treatment facilities business for the electronics industry in the US. Are you considering a business focused on hardware or a service-based business, focused on maintenance services or UPWS?

A. With regard to the US electronics industry business, we feel we need a deeper understanding of the market. We are currently conducting a feasibility study. Going forward, we believe that investments in the electronics industry will continue in many countries and regions, concentrated around semiconductors, which are a key building block for industry. If we can confirm the development of a broad-based electronics industry, including semiconductors as well as electronic components, in the US, we must then give due consideration to which fields we should target and the competitive superiority we can leverage, based on an understanding of which of our services and products might meet the needs of customers. Depending upon the result of the study, Kurita could potentially consider entering a number of businesses, such as EPC, standardized facilities, maintenance and services or UPWS.

Q. This fiscal year's forecast for the business profit margin falls short of the medium-term management plan target of 15%. Please discuss the expected magnitude of the contribution from each of the 3 initiatives you highlighted to improve profitability. If possible, can you disclose specific numerical targets?

A. We are not disclosing specific numerical targets but I can tell you that we expect to see the most immediate improvement from our efforts to boost the profitability of Kurita America. This would be followed by a further strengthening of the electronics industry-related business. With regard to initiatives for the general industry business, we will concentrate first on reforming the facilities business, before making the shift to a focus on service businesses. We have clearly set out the directions for various businesses, identifying which services and models should be targeted at which customers, as a lead-in to the next medium-term management plan this fiscal year. However, progress has been slower than expected as a result of the pandemic, which restricted our ability to show the effectiveness of our services at our customers' sites. We expect the strength of the business model to materialize in the next fiscal year and beyond.

Q. I believe that the large-scale domestic and overseas orders for the electronics industry that Kurita won in the last fiscal year will be one factor depressing profits in the current fiscal year. Kurita has undertaken many initiatives to eliminate the margin volatility associated with facilities projects but when I hear Kurita has won a large-scale order, my impression is that Kurita reverts to its previous patterns. For the large-scale orders recently won, does Kurita have visibility into potential follow-on business? What has changed from before?

A. It is true that we hesitated somewhat in considering this order given we are in the midst of shifting our focus away from EPC. On the recently won domestic order, we focused on the fact that not only are we competitive in the EPC business because we have all of the functionalities required for EPC domestically, but that this was an opportunity for the customer to better understand our competitive advantages.

There is a necessary progression where the customer must get to know the functionality and operability of the facility we supply and understand how to operate and maintain the facility before we can move on to the next phase of providing services. We made a strategic decision to accept this order based on this perspective. Unlike the past, where we pursued large-scale opportunities simply because the opportunities were there, our decision to accept this business was based on our view that there was potential for further business in the future.

Q. Where do you think there may be potential upside to the forecasts for this fiscal year?

A. The pandemic did result in slow progress on evaluating the on-site value of our solutions by our customers, but there were also positives. As a result of higher energy costs, the increased value of remote monitoring and the need for responses to labor shortages, customers have come to better appreciate the value of services that they had previously chosen not to adopt even if they did understand the benefits. Near term, responses to such services are increasingly positive. This makes it possible for our sales force to promote the product on the basis of value. As such, we would expect to see the traction of our services improve gradually going forward.

Q. Please discuss your image of FY ending March 2023. Even if there were to be a lull in orders, can we expect profit growth that is not driven by topline expansion, such as the initiatives to improve profitability at Kurita America?

A. This fiscal year will be impacted by the weakening of the yen and the rise in large-scale investments, but from next fiscal year onward, we expect to revert to a pattern where profit will grow faster than the topline.

Q. How should we think about the impact on the balance sheet when Kurita has made progress on shifting toward services in the general industry area?

A. For general industry, unlike the electronics industry, even with businesses where Kurita owns the assets, the scale of capex for individual projects is small. For example, with a service contract-type business which combines chemicals with sensing devices, the scale of assets owned by Kurita would be small. We believe that we can make the transition to service businesses without significantly altering the structure of the balance sheet.

Q. Is it possible that a shift from a strong yen to a weak yen could lead to changes in the global supply chain or business styles?

A. We would need to consider how to globally procure the key components for the water treatment chemicals and water treatment facilities businesses. However, for other components and materials, we can procure locally for local production. Where we can benefit from a horizontal approach, we would procure globally. I don't think we would need to make major changes to our current structure.

Q. What is the sensitivity of a 1 yen weakening of JPY versus USD?

A. Based on last fiscal year's results, it has a positive 380 million yen impact on sales. The impact on business profit is negligible.