Summary of the Q&A Session at the Briefing for Financial Results for the Fiscal Year Ended March 2023 and Medium-Term Management Plan

Date and Time: May 12 (Fri.), 2023 10:00-11:30

Notice: This summary is a reference designed for the convenience of those who could not attend the financial results briefing 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. Please comment on the profit improvements outlined in the new Medium-Term Management Plan (hereafter PSV-27). When I look at the breakdown of the sales target, I felt the message was that Kurita will focus on all areas where it can demonstrate its strength in creating social value, rather than concentrating on the Electronics Industries. The strategy for the Electronics Industries is to expand highly profitable businesses. For the General Industries, do you have profit targets and strategies along the lines of the previous business segmentation such as chemicals and others?

A. For both the chemicals and other businesses, we aim to raise profitability primarily through the growth of the CSV (Creating Shared Value) business. We have numerous front line *gemba* contact points in General Industries but the types of CSV solutions required vary by customer, industry and region. As a result, the key will be swiftly putting together approaches to deliver optimal value for each customer, even when the underlying technologies are the same.

Q. You have taken impairment losses on the goodwill for the Kurita America Inc. (hereafter KAI) chemicals business but my understanding was that margins on KAI's facilities business are lower. Is there currently a risk of impairment losses for the facilities business as well?

A. We have posted impairment losses on goodwill for KAI's chemicals business as a result of U.S. rate hikes and a thorough review of the business plan. The scale of the chemicals business is larger than the facilities business. In the facilities business, in addition to pursuing public sector and general industry demand, we will also undertake initiatives in the electronics industry. Currently, we believe the risk of impairment losses for the facilities business is low.

Q. Please share with us the challenges facing KAI's chemicals business and your strategy for the future.

A. KAI, which is the result of integrating 3 subsidiaries in North America, fell short of our expectations for progress on PMI owing to the pandemic and supply chain disruption over the last few years. The inability to conduct in-person meetings with customers had a major impact. We believe that we can leverage some of the improvement measures implemented in Europe to exit low margin businesses and deploy human resources more effectively. From this fiscal year, an individual with direct experience of the Europe PMI process will lead an integrated team with responsibility for Europe and North America. Improvement initiatives are already under way.

Q. Your forecast for the Electronics Industries in the fiscal year ending March 2024 calls for lower profitability on a deterioration in product mix. How long do you think this situation will persist? Will the current fiscal year be the worst with recovery to come early in next fiscal year? Or, do you think current conditions will continue into next fiscal year?

A. We are expecting Electronics Industries' profitability to decline in the fiscal year ending March 2024 as a result of the increase in revenues generated from orders received for facilities in the previous fiscal year, which includes projects that were important to win from a strategic standpoint. In addition, we expect the precision tool cleaning business to be impacted by semiconductor market conditions. The semiconductor market is likely to be challenging up to 1H of this fiscal year, but we expect to see an improvement from 2H. Also, a large proportion of the order backlog as of the beginning of this fiscal year will be converted to sales during the current fiscal year. After this, the ratio of facilities orders is expected to decline. As such, we believe that the dip in profitability will be a one-off just for the fiscal year ending March 2024.

Q. Under PSV-27, service businesses for the Electronics Industries are expected to grow but I was under the impression to date that expanding the customer base for the Ultrapure Water Supply business was challenging. You indicated that the service has been highly rated for its scalability and ability to adapt content, in line with customer needs. Are you targeting existing customers to drive future growth, or are you targeting new geographies or new customers? Please discuss your expectations for growth going forward.

A. We will continue to place great importance on our existing customers. With regard to other customers, we believe that we can expand our customer base in future through a wide array of water supply solutions' proposals, based on the positive feedback already received on the value of the service.

Q. The profitability of the precision tool cleaning business is declining on a near term deterioration of business conditions and the impact of higher costs. Under PSV-27, one of the themes is to build a framework that is less impacted by market conditions. Please describe how you expect to achieve this and comment on the industries, regions or customer characteristics that you will target.

A. First, in addition to winning business from customers where the Kurita Group's business was limited to date, we aim to leverage high value-added technologies to build a precision cleaning business in new fields. We will also focus on automation for tool cleaning and implementing measures to pass on the higher costs.

Q. Please provide an overview of Arcade, which you are planning to acquire in Europe, and the expected contribution to earnings in the fiscal year ending March 2024.

A. As the transaction hasn't closed yet, we have not factored Arcade's earnings contribution into our earnings forecasts for the fiscal year ending March 2024. The scale of revenue is several billions of yen and it already generates a certain level of profit, but we believe that there is room for further improvement.

Q. What is the expected profitability of the General Industries business during PSV-27? Given the high proportion of sales coming from the high-margin chemicals business, optically, the profitability of the other parts of the business appears weak. Is there room to further raise the target level for business profits?

A. While there is room to improve profitability for the General Industries business, there are also challenges. We are targeting a 4%-point improvement to the business profit margin. In addition to growing the CSV business which mainly focuses on chemicals, we will swiftly implement profit-improving measures for KAI and the industrial and social infrastructure businesses, which are facing some issues.

Q. When looking at the breakdown of sales growth for Electronics Industries under PSV-27, the facilities business is largely unchanged from the current level, with growth coming from the service businesses. You also indicated you are planning to enter the electronics industry facilities business in Europe and the U.S. Will service businesses be the driver for growth from the outset?

A. Directionally, we are aiming to grow the service businesses; our plan does not assume growth in the scale of the facilities business. We will be selective about the facilities business we undertake, concentrating on projects that will lead to opportunities for service business.

Q. The target for the precision tool cleaning business in the fiscal year ending March 2028 is 45 billion yen. Currently, a high proportion of sales is generated in the U.S. What is your image for the regional breakdown going forward? Will this business continue to be concentrated in Japan and the U.S.?

A. Currently, the precision tool cleaning subsidiary in Japan only operates domestically but the U.S. subsidiary does business in regions outside of the U.S. Going forward, if we feel that there are areas where we can provide value, we could choose to enter new geographies.

Q. You discussed expanding the electronics industry facilities business into Europe and the U.S. but I believe Asia, including China, South Korea and Taiwan, is a very important geography. Please describe your view of the facilities business in Asia for the fiscal year ending in March 2024 and whether you expect to be able to raise your market share over the medium- to long-term.

A. In the previous fiscal year, we won orders for facilities business in China and South Korea, mainly from the semiconductor industry. We expect sales to increase as a result of progress on construction for existing orders in the current fiscal year. Over the medium- to long-term, we expect China will further strengthen the semiconductor industry but as a result of U.S.-China trade friction and the high likelihood that this will have an impact on component procurements of devices originating from the U.S., we are now focused on building a business framework where fabrication can be fully completed within China, including component procurements.
In South Korea, investment appetite, chiefly for semiconductors, remains high. We aim to grow our business with not only facilities projects but through value propositions that tie into service businesses. We are not fixated on raising our share by winning facilities projects; our focus is on growing the service business.

Q. What made it difficult to grow the customer base for the Ultrapure Water Supply business up to this point? How is this factor reflected in the PSV-27 measures?

A. Up to now, the core of our value proposition for the Ultrapure Water Supply business had been the reduction of initial costs and the easing of the operational management burden. However, for customers with a different focus, this was not a compelling proposition. To grow the customer base going forward, one key point will be the building of a diverse array of solutions proposals in the Ultrapure Water Supply business. For instance, customers aiming to realize a circular economy or strengthen initiatives related to non-financial metrics have rated highly our proposals which go beyond water supply to incorporate reuse of waste or liquid waste and other elements. We are assuming these types of initiatives under PSV-27 will lead to an expansion of the customer base.

Q. What were the results for the service contract-type business and the solutions model for the fiscal year ended March 2023?

A. On a non-consolidated basis, we generated sales of around 5.2 billion yen in service contract-type business and solutions model sales of around 2.1 billion yen.

Q. I believe that Kurita has focused on improving profitability by transforming its business model, such as integrating the facilities and chemicals business. My impression is that the CSV business is a key word for PSV-27. However, I am concerned that the CSV business is a product/technology/business model where margins aren't necessarily high. If that is the case, it suggests the business that should be the focus of your plan is the service contract-type business. How important is this business and what are the KPIs? Has there been a change in direction for the service contract-type business?

A. The basic approach for PSV-27 is to pursue service businesses. The CSV business includes services such as the total solutions business. We aim to propose high value solutions through a diverse array of combinations of chemicals and facilities, and outright sales and services. There hasn't been a significant directional change from the previous Medium-Term Management Plan.

Q. What are the KPIs you will be focusing on going forward? Can you share your image of the magnitude of the CSV business expansion and its expected contribution to improving profitability?

A. To date we had focused on orders received in tracking the CSV business. From the fiscal year ending March 2024, we will track sales, which should enhance visibility into the contribution to earnings. Our sales target for the CSV business in the fiscal year ending March 2024 is 50 billion yen; we expect to this to grow to 100 billion yen in the fiscal year ending March 2028. We note that profitability has been a focus in identifying CSV business so margins are already high. However, in addition to improving the contribution to overall profitability on the back of increased scale, we will also be implementing initiatives to improve the profitability of the CSV business itself.