

Summary of the Q&A Session
Financial Results Briefing for 3Q of the Fiscal Year Ending March 31, 2024

Date and Time: February 13 (Tue.), 2024 10:00 - 10:50

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 describe capacity utilization conditions at ultrapure water supply (UPWS) and precision tool cleaning customers' plants. What are current conditions? Are there signs of improvement? Please also comment on the outlook.
- A. Our view is that capacity utilization for semiconductor-related customers should improve in the next fiscal year. For the UPWS business, we haven't seen a significant change in capacity utilization near term, but we believe there are signs of bottoming out. For the precision tool cleaning business, conditions have remained tough this fiscal year, but given progress on new projects, we expect a recovery from the next fiscal year onward.
- Q. I believe that the profitability of the Electronics Industry segment is starting to recover as the proportion of revenue from large-scale domestic projects relative to overall revenue declined in 3Q. Should we view the BPM for the second half of the fiscal year ending March 2024 as the starting point in thinking about profitability levels for the next fiscal year? I understand that the impact of facilities projects depressed this fiscal year's profitability. Please comment on your image of trends and margin levels in terms of a recovery toward the BPM of the fiscal year ended March 2023.
- A. We are making progress on improving profitability as the proportion of revenue derived from strategically acquired large-scale domestic projects fall. We expect the improvement to continue into 4Q and the next fiscal year, but prefer not to comment on an image of margin levels for next fiscal year at this time.
- Q. There continues to be news flow on construction of semiconductor fabs in Japan. Can we assume that Kurita will not accept orders that would depress profitability again? Please discuss your stance on orders.
- A. The large-scale domestic projects where revenue is being recognized this fiscal year were orders that we strategically chose to accept for the purpose of developing contact points with the customer. Going forward we will prioritize profitability in pursuing orders.
- Q. I want to ask about demand conditions for facilities in the electronics industry. Please comment on inquiry flow and new projects by region. Also, please provide an update on the status of the Electronics Industry facility business in North America.
- A. With regard to the trends in the semiconductor markets by region, in the Japanese market, while a recovery in demand for memory-related semiconductors is lagging, we are starting to see signs of a recovery in capacity utilization at fabs. Investment trends continue to be firm for power and analog semiconductors. In addition, overseas chip

makers are making plans to build fabs in Japan and there are also plans to expand wafer production capacity.

In South Korea, some chip makers are continuing to invest, mainly in DRAM and NAND, but there are signs of a resumption of investments by those chip makers that had paused investment plans. We continue to see active investments in the China semiconductor market, on strong demand to develop homegrown production capability, as a result of the US-China trade tensions.

With regard to the facilities business in North America, negotiations with local chip makers are ongoing. There are positive signs but we haven't been able to lock in orders yet. We are in the final stages of negotiations. We hope to grow our Electronics Industry business in North America by winning such projects.

Q. There was a news report from South Korea suggesting the emergence of domestically developed ultrapure water production systems. Will this have an impact on Kurita? Please talk about how you are thinking about the impact over the medium- to long-term.

A. We had already been aware of such activity so the news reports did not come as a surprise. In the short term, we do not expect this to have an impact on near term orders or revenues in the next fiscal year. While there is a non-zero possibility it could become a competitive threat in future subject to customer decisions, Kurita has cultivated strong relationships with customers over a long period of time and has many points of contact at customer sites. We have strengths, given our capabilities in data analysis for water treatment as a whole, our accumulated technologies and our ability to provide an integrated solution encompassing ultrapure water to waste water treatment. In addition, we believe we can make high value-added proposals with a diverse array of services such the CSV business. As such, we believe that we can continue to maintain our presence in the South Korean market.

Q. I view the progress on improving the profitability of the Electronics Industry business as positive. I believe that it is primarily driven by the maintenance and recurring contract-based service businesses but please discuss how you assess your progress relative to plan and the background to the progress you have made.

A. In the Electronics Industry business, order wins for facilities exceeded our assumptions and we have been able to make solid progress on construction. From a profit perspective, an improved mix into 2H has contributed to better profitability compared to 1H. The scale of maintenance revenues is a function of the timing of projects. The recurring contract-based service business is tracking in line with plan.

Q. Do you expect demand for maintenance in the next fiscal year to match this fiscal year's scale? Or, do you view this fiscal year as having benefited from the concentration of one-off factors?

A. Progress on construction for maintenance projects can vary depending upon the content of individual projects which makes it slightly difficult to read, but we expect near term conditions to continue.

- Q. With regard to improving the profitability of the General Industry segment, I believe there has been a contribution from improved profitability at Kurita America. Is it possible to quantify the progress?
- A. I won't comment on specific numbers for individual subsidiaries, but despite exiting some businesses, Kurita America's 3Q chemicals revenues have recovered to a level very close to matching revenue levels for the same quarter in the previous year. On top of this, the cost of sales ratio improved on enhanced procurement cost control as a result of activities such as the integration of product specifications. Kurita America is making solid progress on improving its profitability.
- Q. Please comment on your assessment of progress with the CSV business.
- A. With regard to the CSV business, I believe the full-year forecast has become a little more challenging, as progress on sales of chemicals, which accounts for a large part of CSV revenues, has been slower than expected. We are focused on initiatives to horizontally expand sales of successful solutions and the creation of new CSV businesses and are aiming for solid growth.
- Q. With regard to the maintenance business in the Electronics Industry, as a part of revisions to segmentation, refurbishing and capacity expansion projects were supposed to be reclassified into the facilities business, but when I look at maintenance revenue trends by quarter, it is quite lumpy. What is the most common maintenance contract term? Are the contracts quarterly or monthly?
- A. It depends on the content of the individual maintenance contracts but many are annual contracts. There are also some multiyear contracts. As a result, depending upon the timing of the actual maintenance work, there can be variance in quarterly revenues.
- Q. You indicated that product price increases in response to rising raw materials costs contributed to the improved profitability of the General Industry chemicals business. Can you comment more specifically on the scale of price hikes, the regions where prices were raised and the sustainability of the impact of price hikes going forward?
- A. Price actions were mainly concentrated in Japan and the US, the regions where we had been slow to respond in the previous fiscal year. For Europe and other regions, we were able to raise prices relatively early. It is difficult to quantify the scale of price hikes, but we believe we have been able to largely offset the impact from surging raw materials costs.
- Q. I understand that profitability for the precision tool cleaning business is still very challenging but despite a rebound in sales overseas, there doesn't appear to have been a contribution to profits. Assuming that Kurita will expand its capacity in anticipation of new projects emerging in the US, fixed costs are likely to rise. I am concerned that Kurita will not be able to maintain the previous margin levels for this business if revenue scale remains the same. Please talk about how you expect to see topline growth and cost reductions contribute to improved profitability going forward, and your image of profitability compared to historical levels.

- A. In the short term, on the one hand we are focused on controlling costs. At the same time, in order to grow the topline, we obviously need to continue to expand our production capacity in anticipation of a recovery in demand. Also, we aim to expand the use cases for products that leverage superior technology. As a result of the above, we aim to improve profitability and are focused on returning to previous levels of profitability.
- Q. 4Q business profits look weak to me. What is the background to this? Were there particularly positive factors contributing to 3Q results, or are you expecting a temporary loss in 4Q? Or, are the forecasts simply conservative?
- A. Sequentially, the profitability for both Electronics Industry and General Industry are projected to decline. For Electronics Industry, the main factor is the impact of lower sales. The decline is expected to be mainly in maintenance, but is more a reflection of the timing of projects, which impacts the quarterly cadence. It is not the result of a major change in the operating environment. For General Industry, we have factored in the risk of incurring additional costs related to biogas power generation.
- Q. Please comment on the scale of orders and revenue from China as well as the change from the previous fiscal year.
- A. On a nine-month basis for Electronics Industry, China accounted for approximately 20% of overall segment orders and sales. The operating environment is unchanged with continued high levels of investment. However, if we compare this fiscal year to last fiscal year, where levels were similarly high, orders declined year-on-year while sales increased year-on-year. For General Industry, China's share was several percentage points. Reflecting the weaker overall economic backdrop, chemicals sales declined. As a result, both orders and sales were down on a year-on-year basis.
- Q. Has there been any change in the competitive environment in China? Is there a risk that local makers are becoming increasingly competitive?
- A. As I mentioned in response to the question about the competitive environment in South Korea, we believe Kurita has competitive strengths in its technological capabilities, accumulated data and analytical capabilities. We do not believe there has been a significant change in the competitive environment.
- Q. This fiscal year's full-year sales target for the CSV business was revised down by 5 billion yen when Kurita announced 1H results but I feel progress has been slow relative to the revised target. This is a key focus for achieving the Medium-term Management Plan targets. Should we consider the 100 billion yen sales target for the final year of the medium-term plan to be very ambitious? Please comment on how you feel about achieving this target.
- A. As a medium-term target, there is an element of setting an ambitious target but through our activities to grow this business over the last year, we have been able to expand on many different initiatives. By continuing to pursue these activities, we aim to achieve the targeted scale in the final year.

- Q. Recently, there was a press release about the collaboration with the city of Hamamatsu for a recycling system for used disposable diapers. Please comment on the kinds of projects within the CSV business where you are making tangible progress.
- A. With regard to the recycling of used disposable diapers, we are making progress on new business in the area of resource recycling. Given it is an attractive product, we expect this will develop into a large market, focused on Japan. In addition, we have been expanding business in the area of oil refining and petrochemicals with Kurita Dropwise Technology, which is a chemical that contributes to enhancing the efficiency of heat exchange. In particular, we are having success with this in South Korea. If we can make progress in expanding these further, such solutions have the potential to develop into significant business volume. If we can expand on our successes, we believe this can contribute to earnings growth.

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