

## Interview with the President



### Q. How do you view the management environment and results for the first year of the Maximize Value Proposition 2022 (MVP-22) plan?

The management environment in the fiscal year ended March 31, 2019 saw firm production activity overall in the Japanese manufacturing industry, but from the third quarter onward a slowdown in the Chinese economy and a stall in smartphone sales weighed on production activity in related industries. In the electronics industry, which is the Kurita Group's main market, we saw brisk capital investment in the fields of semiconductors, electronic components, and wafers, along with firm demand for renewal of aging facilities in the steel and petrochemicals industries. At the same time, it was also a year with frequent natural disasters that seem to be caused by climate change, such as droughts, torrential rains, and typhoons, which drove an increase in demand for water treatment for business continuity plans (BCPs).

Overseas, as in Japan, the manufacturing industry generally saw firm production activity. On the other hand, the electronics industry in East Asia, such as China, South Korea, and Taiwan, capital investment slowed from the middle of the year onward. Moreover, with the impact of the trade dispute between the United States and China, the outlook for capital investment in flat-panel displays (FPDs) and semiconductors in China became unclear.

In this environment, we were able to maintain firm

operating results. With regard to orders, there was an increase in orders in the Water Treatment Chemicals business due to consolidating 11 months of results of Hansu Co., Ltd., which became a consolidated subsidiary during the fourth quarter of the fiscal year ended March 31, 2018. However, orders for Water Treatment Facilities business decreased due to a drop in orders received for facilities overseas. Net sales grew atop the increase in orders for the Water Treatment Chemicals business, while the Water Treatment Facilities business also recorded higher sales due to progress on construction work for large projects. Operating income increased due to the effect of higher sales, which absorbed a deterioration in the cost of sales ratio and an increase in selling, general and administrative expenses. After recording other income and expenses associated with streamlining of our businesses and assets, income before income taxes was higher year on year, but net income attributable to owners of parent decreased slightly due to a temporary increase in tax expenses resulting from recording other expenses.

Looking back on our performance in the first year of the MVP-22 plan, we made steady progress on our priority measures, 1) Development of CSV business, 2) Enhancement of total solutions, 3) Rebuilding of manufacturing

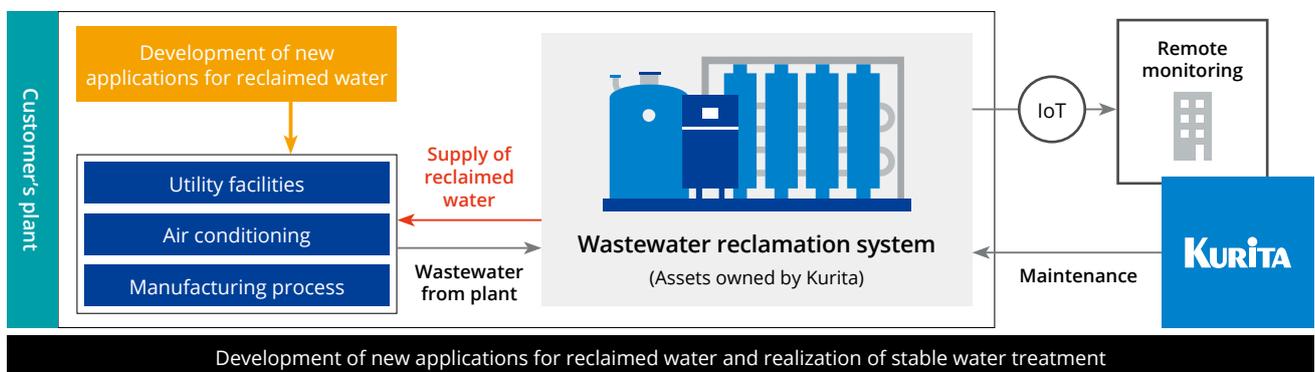
system for water treatment facilities, and 4) Streamlining of low-margin businesses and assets. I think we have really made headway on our target of establishing an earnings base.

First, with regard to development of the CSV business and enhancement of total solutions, we developed a prototype for the solution model that will form the core. Specifically, it is a service contract-type business model that shares benefits with customers based on contracts, such as recycled water supply contracts or steam-use reduction contracts. For example, with recycled water

supply contracts, we own the wastewater reclamation system that reclaims and recycles wastewater from the customer's plant, then supplies the recycled water to utilities, air conditioning, and manufacturing processes. By dramatically improving the water reclamation rate for the entire plant and realizing stable water treatment, the model solves water resource issues and resolves customers' labor shortages, thereby realizing value creation for society and customers.

Next, with regard to rebuilding our plant production system, amid vigorous capital investment by customers

### Service contract-type business that shares benefits with customers

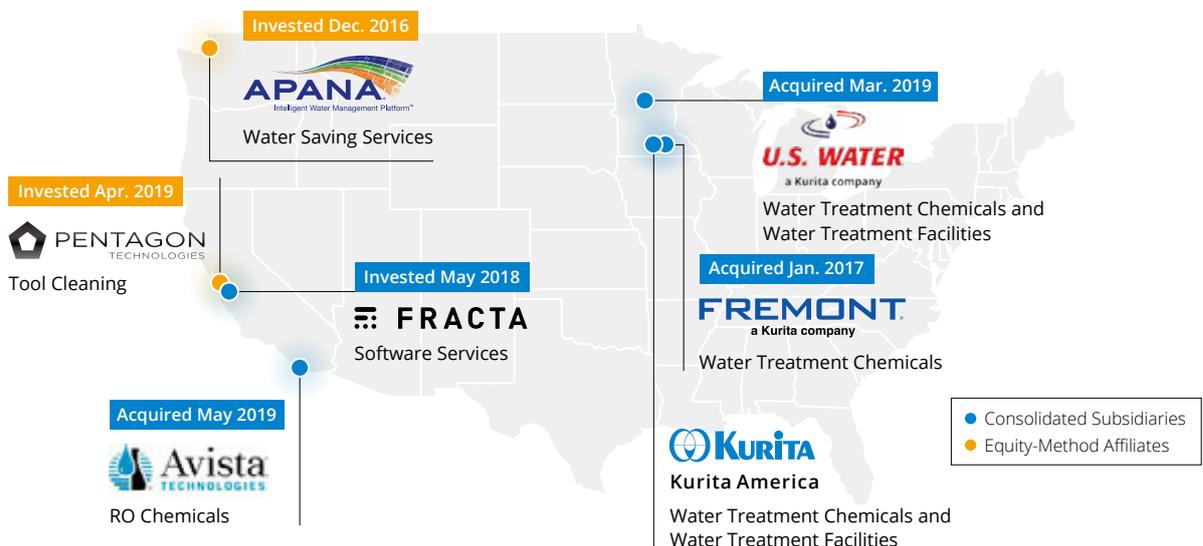


in Japan, issues have emerged in our Water Treatment Facilities business with tight production capacity and additional costs, and we have accelerated progress on our measures. We strengthened the manufacturing system for water treatment facilities through measures to enhance the accuracy of design and production, such as introducing a work allocation system for the design process, databasing case examples where faults occurred, and

introducing ICT tools.

Furthermore, in streamlining low-margin businesses and assets, we sold the aluminum compound business of Kurita Europe GmbH, which was a non-core business, and proceeded with the sale of shares in other listed companies. By reducing our balance sheet and investing management resources in growth businesses, we increased capital efficiency.

### Providing total solutions from a network expanding across the United States



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We also actively pursued M&As. First, in May 2018 with the aim of creating a new digital business in using artificial intelligence (AI) and machine learning (ML) in the fields of water and the environment, we acquired shares of Fracta, Inc. (currently Kurita Fracta Holdings, Inc.), a U.S.-based provider of software services to predict the deterioration of water mains, making it a subsidiary. In March 2019, we acquired U.S. Water Services, Inc. in the United States, which manufactures and sells water treatment chemicals and water treatment facilities. We also acquired 25% of the shares of Pentagon Technologies Group, Inc., which operates a tool cleaning business for semiconductor production equipment. With these M&As, we proceeded to prepare a business foundation for deploying total solutions in the United States.

The acquisition of U.S. Water Services is expected to lift our overseas sales ratio to 40% for the fiscal year ending March 31, 2020. We started a series of M&As in 2015 with the acquisition of a water treatment chemicals business in Europe aiming to dominate the competition globally. We believe it has now resulted in the creation of a balanced business base across Japan, Asia, Europe, and North and South America.

We also worked to strengthen corporate governance as a framework supporting Group management. Based on the results of the evaluation of the effectiveness of the

Board of Directors for the fiscal year ended March 31, 2018, we took steps to enhance objectivity of selections for the Company's directors, and the transparency of the selection process. Specifically, we built a system for developing and evaluating management-level personnel, which has been slower to develop than systems for auditing and remuneration. We brought in expertise from external institutions and structured the systems for development and selection of successors for president and directors, while establishing a new Successor Planning Committee comprised mainly of external directors and members of the Audit & Supervisory Board.

In this way, the first year of the MVP-22 plan has been a very fruitful one. However, we have also recognized various issues. In development of the CSV business and enhancement of total solutions, we are not entirely satisfied with the speed of our progress in terms of the timeline from establishing a prototype solution model to developing it in detail for commercial application and expanding sales. As for the organization for developing total solutions, we have made steady changes in the form of the organization, but we do not see sufficient change in the conduct and awareness of individual employees. What we need most of all right now is not to secure short-term earnings, but to create the business model and human resource base for realizing sustainable growth over the medium to long term.

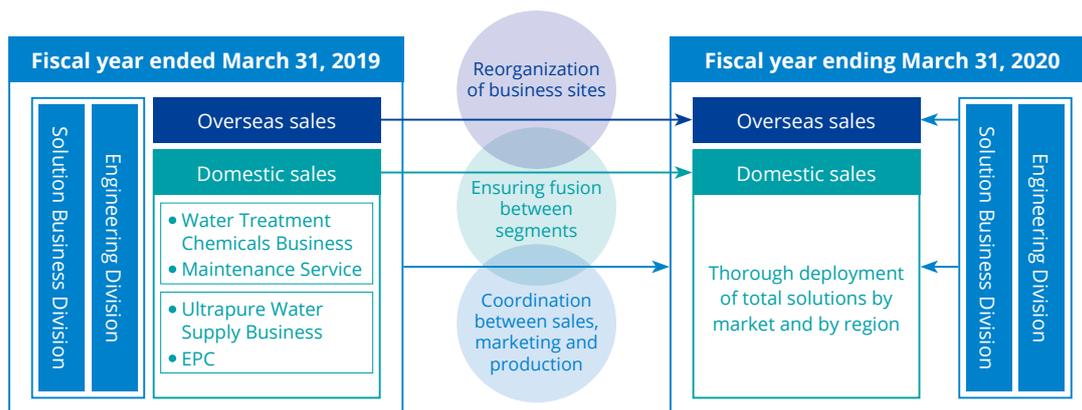
### Q. What policies and measures have you adopted for the fiscal year ending March 31, 2020?

The top priority for the fiscal year ending March 31, 2020, the second year of MVP-22 plan, is to accelerate the deployment of total solutions. In the first year of the plan, we worked on development of new solution models, and created dozens of prototypes. Moreover, in the second half of the first year, we started creating and integrating the details of technologies, products, services and sales methods for developing individual contracts from these prototypes. In the second year, we will continue creation

and integration of details, start the delayed horizontal deployment of the total solution models, and aim to deliver results with between five to ten models that have the potential to become core earnings drivers.

The essence of total solutions is the development of new applications for technologies, products, and services from the customer's perspective. It must begin with a deep understanding of the customer. The basic policy of the MVP-22 plan is to "Maximize customer intimacy by

#### Transformation of sales system aimed at provision of total solutions





dismantling preconceived ideas and dramatically raising the quality and speed of our work.” To produce new ideas from the customer’s perspective, we must break down our traditional thinking based on a vertical business structure and preconceived notions based on success experienced in the past. Each individual in the Kurita Group must transform their mindset.

Moreover, to provide total solutions, it is vital to coordinate sales, marketing, production, and development. To strengthen this coordination, in April 2019 we changed the domestic sales system from a two-division to a single sales division system. We also developed the system further by market and region from the customer’s perspective. We expect these organizational changes to inspire changes in the mindset of our personnel.

At the same time, we have made further progress on integrating our production and sales sites overseas as well, and will change to a structure that combines water treatment chemicals and water treatment facilities to offer total solutions. In particular, the fiscal year ending March 31, 2020 will be an important year for setting up our business structure in the United States. In our post-merger integration (PMI) of U.S. Water Services, we will integrate the production, purchasing, and sales functions of Kurita America, Inc. and Fremont Industries, LLC and develop the technologies and business model for the reverse osmosis (RO) chemicals of Avista Technologies, Inc., which we acquired in May 2019. Our goal in this is to build a system that can efficiently supply total solutions throughout the United States. By providing new services based on a deep understanding of local customers’ challenges

and needs, we aim to see a contribution to earnings from the fiscal year ending March 31, 2021 and onward.

The acquisition of Avista Technologies demonstrates one of our directions for M&As going forward. Although the scale of this company is small in terms of sales, at a few billion yen, it has distinctive technologies and business model in the RO chemicals field, and has achieved high profitability with businesses established in both the United States and the United Kingdom. The Kurita Group will expand these technologies and business model throughout Europe, the Middle East, Asia, and the United States with a view to capturing the top global share of the RO chemicals market, which is expected to grow going forward. As in this example, our policy for M&As going forward is to target companies that have distinctive technologies and products that we do not have.

In the fiscal year ending March 31, 2020, we will take steps to reorganize non-core businesses and downsize low-margin businesses. Naturally, with businesses that are not profitable right now, our preference is to help them become profitable through improvement measures, such as shifting to service contract-type businesses. However, where there is no prospect for improvement, we need to decide on reorganization or downsizing. An effective method for evaluating the profitability of a business and determining to reorganize or downsize it is ROIC management, which we introduced in the fiscal year ended March 31, 2019. Establishing ROIC targets and creating ROIC trees makes it an even more effective tool that we hope to use for improving capital efficiency in each business.

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### Q. What kind of management aims do you have for the medium to long term?

The increasing inequalities caused by the globalization of the economy and technological innovation are giving rise to social division and political instability. The rise of bloc economies and increasing trade dispute have made the outlook for business uncertain, creating a risk that invested management resources may not be recoverable.

Looking at the water treatment market, the digitalization of society and industry is driving market expansion in the electronics industry, such as FPDs, semiconductors, wafers, and electronic components, while new water treatment markets using the IoT and AI to realize smart factories are presenting major business opportunities. At the same time, however, those who are too late to catch the wave of innovation face the risk that existing business models will stultify. The Kurita Group has achieved stable growth in the fortuitous field of water and the environment over the 70 years since its founding by creating a business model that uses knowledge and technological capabilities to secure a competitive advantage. However, there is a risk that this business model will become ineffective, and we could find ourselves driven out of the market.

In these uncertain times, we must overcome the challenge of a dramatically changing management environment and seize the opportunity for the Group to make a dynamic leap forward. This can only be achieved by fully executing the transformation that we have now set in motion.

We feel that total solutions through water treatment have the potential to create significant social value towards the realization of a sustainable society, and that this realization is what society expects of the Kurita Group.

Providing solutions to issues related to water and the environment and contributing to the development of society and industry are the real purpose of the Kurita Group. Now, as we reflect on our founding spirit, we will strive through water treatment to contribute to solutions for social issues such as lack of fresh water, climate change, and depletion of natural resources, which are expressed by the Sustainable Development Goals (SDGs), aiming to realize our corporate philosophy by creating shared value with society.

Furthermore, to enable the Kurita Group to leap forward as a corporate group providing services globally, we believe it is necessary for management to emphasize diversity and localization. We aim to break away from a closed, self-contained approach and move toward hiring and appointing human resources who can drive open innovation. At the same time, we must optimize our value creation process and method for achieving profits tailored for each region as we develop our solutions in various countries around the world. We will promote diversity and localization to create a corporate group that can respond to the rapidly changing environment and grow.



## Q. What is your policy on use of funds and shareholder returns?

We will use the funds that we have received from shareholders to invest aggressively in growth businesses for establishing a solid earnings base. In the fiscal year ended March 31, 2019, we invested in the ultrapure water supply business and the tool cleaning business, which have high earning potential. We also proactively allocated funds to M&As for acquiring business bases and new technologies. We sourced these funds not only from operating cash flow, but also the sale of shares in other listed companies, as well as using cash on hand.

Looking ahead, we plan to continue investing actively in growth businesses. As we make these investments, we will take a disciplined approach and remain mindful of capital efficiency. We will source investment funds in the same way as before, through operating cash flow and continued sales of shares in other listed companies. We will also work towards diversifying sources of funds, including the option of debt to finance further funding requirements.

Turning to shareholder returns, we will strive to continue increasing dividends as much as possible, aiming for a dividend payout ratio of 30–50%. Our dividend paid from capital surplus for the fiscal year ended March 31, 2019 represented a dividend increase for the 15th consecutive year. Being mindful of capital efficiency in management, we will also consider repurchases of shares if capital surplus accumulates, while taking the share price status into account.

We will strive to establish a firm earnings base for the Kurita Group and to return the fruit of these efforts to our shareholders. I thank you all for your continued support for Kurita's ongoing reform initiatives.

July 2019

**Michiya Kadota**

President and Representative Director

### Active Investment in Growth Businesses and Diversification of Sources of Funds (Fiscal Year Ended March 31, 2019)

