KURARAY CO., LTD.

1Q FY2024 Earnings Announcement

Presenters:

Keiji Taga — Representative Director and Senior Managing Executive Officer, Officer Responsible for Corporate Management Planning Office

May 14, 2024

FY2024 1Q Results

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(Billion yen)

	FY2024 1Q	FY2023 1Q	Difference
Net Sales	**192.2**	185.0	7.2
Operating Income	**28.8**	21.3	7.5
Ordinary Income	**27.9**	20.4	7.5
Net Income Attributable to Owners of the Parent	**21.6**	8.2	13.5
Reference			
JPY/USD (average)	149	132	
JPY/EUR (average)	161	142	
Domestic naphtha (JPY 1,000/kl)	73	68	

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Taga: Hello, everyone. I am Taga. Thank you for taking time out of your busy schedule to participate in our conference call today. I will now explain the financial results for Q1 of FY2024.

In Q1 of FY2024, the US economy remained strong due to solid consumer spending, but the economic stagnation in Europe and China continued, and the world economy showed only moderate growth overall. As a result, as shown in the slide, net sales increased by JPY7.2 billion YoY to JPY192.2 billion, operating income increased by JPY7.5 billion to JPY28.8 billion, and net income attributable to owners of the parent increased by JPY13.5 billion to JPY21.6 billion.

The actual results for foreign exchange, and raw material and fuel are as shown here.

Net Sales and Operating Income by Segment

(Billion yen)

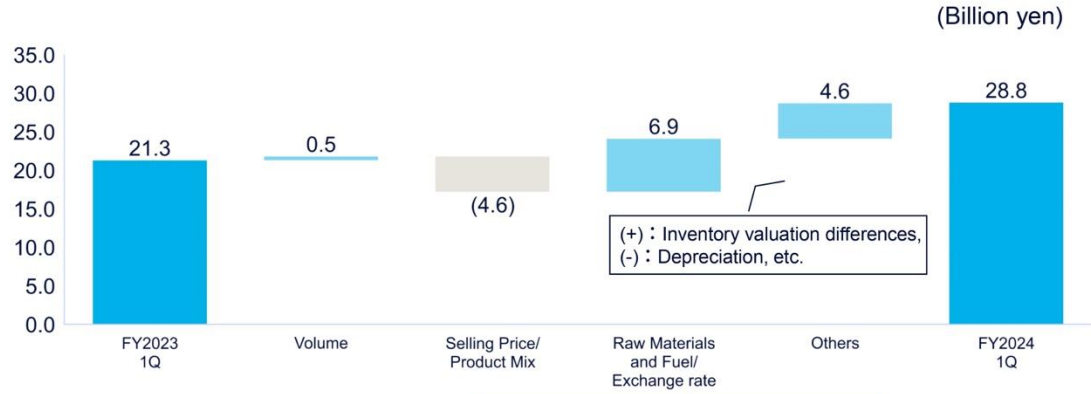
	FY2024 1Q		FY2023 1Q		Difference	
	Net Sales	**Operating Income**	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	**99.0**	**24.8**	97.8	17.8	1.2	7.0
Isoprene	**17.2**	**0.0**	15.8	0.2	1.4	(0.2)
Functional Materials	**48.7**	**3.2**	45.4	3.5	3.4	(0.3)
Fibers & Textiles	**13.8**	**(0.2)**	13.5	0.2	0.3	(0.5)
Trading	**15.3**	**1.3**	13.8	1.1	1.5	0.2
Others	**11.7**	**0.4**	11.3	0.1	0.4	0.4
Elimination & Corporate	**(13.6)**	**(0.8)**	(12.7)	(1.6)	(0.9)	0.9
Total	**192.2**	**28.8**	185.0	21.3	7.2	7.5

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This page shows net sales and operating income results for each segment compared to the same period last year.

While the vinyl acetate recorded a significant increase in income, other segments posted slight gains or losses.

Factors Affecting the Change in Operating Income



	FY2023 1Q	FY2024 1Q
JPY/USD (average)	132	149
JPY/EUR (average)	142	161
Domestic naphtha (JPY 1,000/kl)	68	73

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This page shows a company-wide summary of the factors contributing to the increase or decrease in operating income.

Volume was a factor of JPY0.5 billion in the increase due to the economy growing only moderately. Selling price and product mix were affected by price adjustments in line with changes in raw material and fuel prices, which led to a JPY4.6 billion decrease in income. On the other hand, raw materials and fuel, and exchange rate were factors contributing to an increase of JPY6.9 billion due to lower raw material and fuel prices and the effect of a weaker yen on foreign exchange rates. In others, while the inventory valuation difference that lowered income last year was eliminated this year, depreciation and expenses increased, resulting in a total JPY4.6 billion increase in income.

Vinyl Acetate

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(Billion yen)

	FY2023 1Q	**FY2024 1Q**	Difference
Net Sales	97.8	**99.0**	1.2
Operating Income	17.8	**24.8**	7.0

【Factors Affecting the Change in Operating Income 】



PVOH resin	Despite disruptions in logistics to Europe, sales volume increased due to our stable global supply system.
Optical-use poval film	The sales volume increased as the effects of the previous year's inventory adjustments disappeared.
Water-soluble PVOH film MonoSol	The sales volume decreased due to the effects of protracted economic stagnation in Europe.
Advanced Interlayer Solutions	The sales volume decreased due to the effects of economic stagnation on construction applications in Europe.
EVAL™	Although sales for automotive applications remained firm, the sales volume decreased due to a drop in demand for food packaging applications that has continued from the latter half of the previous year. We decided to construct a new plant in Singapore (slated to begin operating by the end of 2026).
Main reason of increase/ decrease	While selling prices were adjusted in line with fluctuations in raw material and fuel prices, the impact of inventory valuation differences, which was a major factor in decreasing profits last year, disappeared, resulting in a significant increase in profits for the entire segment.

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From here, I will explain our business by segment.

First is the vinyl acetate segment. Both net sales and income in this segment increased YoY. Please see the comments in the upper right corner for the status of sales in each business.

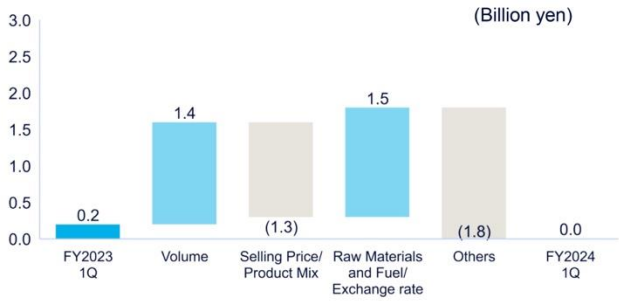
Operating income increased by JPY7 billion YoY. Volume was a negative factor of JPY0.9 billion due to the impact of lower sales volumes of water-soluble PVOH film MonoSol, advanced interlayer solutions, EVAL, and other products. Price adjustments and sales mix in line with changes in raw material and fuel prices caused a JPY2.7 billion decrease in selling price and product mix. Raw materials and fuel, and exchange rate were factors contributing to an increase of JPY4.1 billion. In addition, the inventory valuation difference that lowered income last year was eliminated this year, resulting in a JPY6.5 billion increase in others. As a result, the segment as a whole secured an increase in income.

Isoprene

(Billion yen)

	FY2023 1Q	**FY2024 1Q**	Difference
Net Sales	15.8	**17.2**	1.4
Operating Income	0.2	**0.0**	(0.2)

【Factors Affecting the Change in Operating Income】



Isoprene Chemicals and Elastomers	The sales volume increased as demand recovered, especially for automotive applications.
GENESTAR™	Signs of a recovery in demand emerged for electric and electronic device applications in addition to stable demand for automotive applications.

Main reason of increase/ decrease	Although sales volume increased due to sales expansion with the start of operations in Thailand, profits for the segment as a whole decreased due to sales price adjustments in line with fluctuations in raw material and fuel prices, depreciation costs, and inventory valuation differences.

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This shows the Isoprene segment.

This segment saw an increase in net sales and a slight decrease in income YoY. Please refer to the comments listed for the status of sales for each business.

Volume was a factor of JPY1.4 billion in increase, mainly due to sales expansion associated with the operation of a base in Thailand. Price revisions in line with changes in raw material and fuel prices, as well as changes in the sales mix, caused a JPY1.3 billion decrease in selling price and product mix. In raw materials and fuel, and exchange rate, lower raw material and fuel prices and a weaker yen contributed to an increase of JPY1.5 billion. On the other hand, in others, factors such as an increase in the depreciation burden at the Thai plant and the impact of inventory valuation differences led to a JPY1.8 billion decrease.

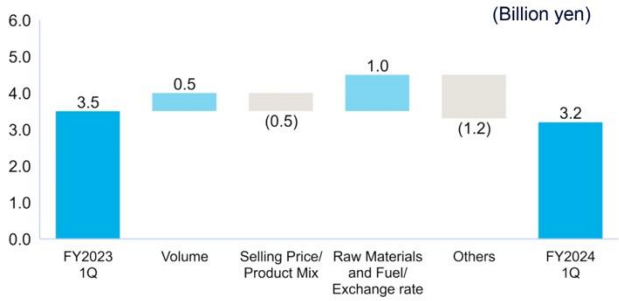
Sales volumes of isoprene chemicals and elastomers have been increasing, and demand for GENESTAR has shown signs of recovery in electrical and electronics applications, its main application. We will strive to further expand sales in Q2 and beyond.

Functional Materials

(Billion yen)

	FY2023 1Q	**FY2024 1Q**	Difference
Net Sales	45.4	**48.7**	3.4
Operating Income	3.5	**3.2**	(0.3)

【Factors Affecting the Change in Operating Income 】



Methacrylate	The sales volume increased amid signs of a recovery in demand, especially for electric and electronic devices.
Medical	Sales of cosmetic dental materials, mainly in Europe and the United States, remained brisk.
Environmental Solutions	Sales of activated carbon remained steady, especially for drinking water applications in North America. A new activated carbon facility came on line in the United States in the first quarter under review.

Main reason of increase/ decrease	Although sales volume of medical products increased, profits decreased due to increased expenses such as depreciation in activated carbon business and sales expenses in medical business.

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In the functional materials, net sales increased and income slightly decreased YoY.

The status of sales in each business is as commented here.

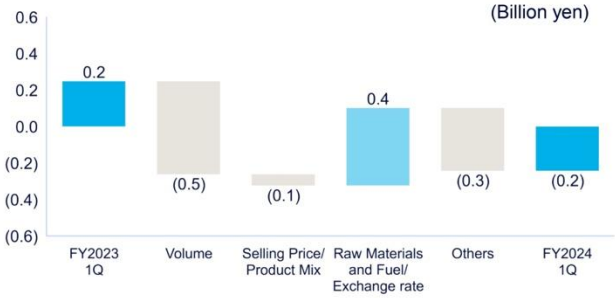
Raw materials and fuel, and exchange rate were factors contributing to an increase of JPY1 billion. In others, increases in depreciation and expenses led to a JPY1.2 billion decrease in income. Sales volumes increased in all businesses, and the medical business performed particularly well. In addition, an increase in depreciation expenses due to the operation of a new activated carbon facility in the US in the environmental solutions and an increase in expenses due to sales expansion in the medical resulted in a slight decrease in overall segment income.

Fibers and Textiles

(Billion yen)

	FY2023 1Q	**FY2024 1Q**	Difference
Net Sales	13.5	**13.8**	0.3
Operating Income	0.2	**(0.2)**	(0.5)

【Factors Affecting the Change in Operating Income 】



CLARINO™	The sales volume increased amid a continued recovery in demand for automotive and sports applications.
Fibers and Industrial Materials	Although signs of a recovery emerged in demand for automotive applications, sales in Europe for construction material applications were weak.
Consumer Goods and Materials	Demand for KURAFLEX™ and MAGIC TAPE™ was weak.

Main reason of increase/ decrease	While there was a recovery in automotive applications, sales were weak in Europe and other countries, resulting in a decline in segment profits as a whole.

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The fibers and textiles segment reported higher net sales and lower income YoY.

The status of sales in each business segment is as commented.

Volume was a negative factor of JPY0.5 billion, mainly due to weak sales in Europe. In raw materials and fuel, and exchange rate, the calm in raw material and fuel prices and the depreciation of the yen were factors contributing to an increase of JPY0.4 billion in income. Although there was a recovery in automotive applications, sales were weak in Europe and other regions. All the three businesses reported lower income, and overall operating income in the segment declined by JPY0.5 billion.

Balance Sheet [1]: Assets

(Billion yen)

	Mar. 31, 2024	Dec. 31, 2023	Difference
Current Assets	**571.8**	551.7	20.1
Non-current Assets	**721.2**	702.8	18.5
Total Assets	**1,293.0**	1,254.5	38.6

	Mar. 31, 2024	Dec. 31, 2023
JPY/USD (end of period)	151	142
JPY/EUR (end of period)	163	157

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This page shows the assets section of the balance sheet compared to the end of last year.

Current assets increased by JPY20.1 billion. This was mainly due to a JPY29.5 billion increase in inventories, reflecting foreign exchange and the buildup of inventories before scheduled repairs. Non-current assets increased by JPY18.5 billion. This was mainly due to the effect of the depreciation of the yen.

Balance Sheet [2]: Liabilities and Net Assets

(Billion yen)

	Mar. 31, 2024	Dec. 31, 2023	Difference
Current Liabilities	**198.3**	200.6	(2.2)
Non-current Liabilities	**314.1**	317.8	(3.7)
Total Liabilities	**512.5**	518.3	(5.9)
Net Assets	**780.6**	736.2	44.4
Total Liabilities and Net Assets	**1,293.0**	1,254.5	38.6
Equity Ratio	**59.0%**	56.9%	2.0%

	Mar. 31, 2024	Dec. 31, 2023
JPY/USD (end of period)	151	142
JPY/EUR (end of period)	163	157

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This page shows the liabilities and net assets sections of the balance sheet.

Liabilities decreased by JPY5.9 billion, mainly due to repayment of loans. Net assets increased by JPY44.4 billion, mainly due to a JPY33.4 billion increase in foreign currency translation adjustments. As a result, the equity ratio increased by 2% to 59%.

Forecast for FY2024 (vs. Original Forecast)

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(Billion yen)

	FY2024 Revised Forecast			FY2024 Original Forecast			Difference		
	1H	2H (Original)	FY*	1H	2H	FY	1H	2H	FY
Net Sales	**410.0**	**430.0**	**840.0**	400.0	430.0	830.0	10.0	0.0	10.0
Operating Income	**42.0**	**43.0**	**85.0**	40.0	43.0	83.0	2.0	0.0	2.0
Ordinary Income	**39.0**	**40.0**	**79.0**	37.0	40.0	77.0	2.0	0.0	2.0
Net Income Attributable to Owners of the Parent	**25.0**	**24.0**	**49.0**	23.0	24.0	47.0	2.0	0.0	2.0
(Reference)									
JPY/USD (average)	150			145					
JPY/EUR (average)	160			160					
Domestic naphtha (JPY 1,000/kl)	74			75					

*The revised forecast for the full year is the sum of the revised first half forecast and the second half forecast announced in February 2024.

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This page shows our revised forecast for FY2024 and how it compares to our original forecast announced in February.

Based on the Q1 results and current business trends, we have revised our H1 forecasts to net sales of JPY410 billion, up JPY10 billion from the original forecast, operating income of JPY42 billion, up JPY2 billion, and net income attributable to owners of the parent of JPY25 billion, up JPY2 billion. The forecast for H2 has not been revised at this time, and will be revised as necessary after the Q2 results are finalized.

Building more Sophisticated Business Portfolio

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Business	Announce date	Topic
Medical	Mar. 25, 2024	Decided to end the manufacture of bone-graft substitutes by the end of September 2024
EVAL	Mar. 26, 2024	Decided to invest in a production plant for EVAL™ in Singapore
Environmental Solutions	Apr. 30, 2024	Decided to transfer diatomite and perlite business handled by European subsidiary of Calgon Carbon Corporation. Engaged in exclusive negotiations with Imerys S.A. , a French company
Environmental Solutions	May 14, 2024	Decided to acquire industrial reactivated carbon business from Sprint Environmental Services, LLC (U.S.). This site will be a strategic base covering the Midwest region of the U.S. We are also considering expanding production facilities in response to PFAS regulation tightening at various sites including this one.

As for growth investment, the facilities that have been constructed so far are now in operation;
1Q : Water-soluble PVOH film plant in Poland, New activated carbon facility in the U.S.
2Q : Optical-use poval film production facility in Kurashiki, Japan

We will continue building more sophisticated business portfolio.

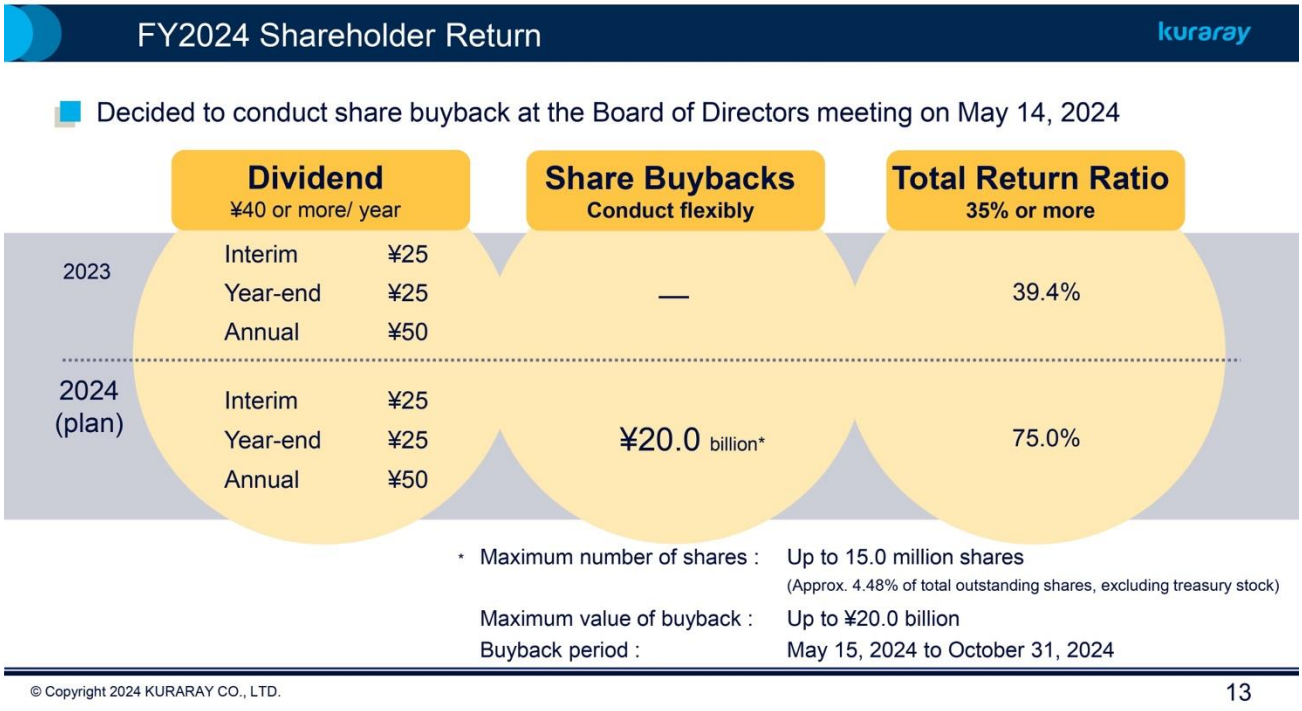
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This shows the progress of portfolio upgrades that have been determined and implemented so far this fiscal year.

Today, I would like to explain some measures in the environmental solutions. First, as announced on April 30, we have decided to transfer diatomite and perlite business handled by European subsidiary of Calgon Carbon Corporation, and have signed a basic agreement with Imerys S.A., the world's largest filter aid manufacturer, to sell that business.

We purchased this business together with Calgon Carbon when it acquired the activated carbon business in Europe in 2016. Their products are made from mineral resources extracted from mines, and the synergy with our activated carbon business was small, so this business was not necessarily one in which the Group could make use of its strengths. The decision to sell the business has been made from the perspective of the best owner.

Moreover, as announced today, we have decided to acquire the reactivated carbon business from Sprint Environmental Services, LLC in the US. We expect the industrial reactivated carbon business in the US to grow significantly in the future. In addition, while Calgon Carbon's production facilities for reactivated carbon have been concentrated in the eastern part of the US, the business acquired through this acquisition is located in the Gulf Coast region and will be an important strategic base covering the Midwest region of the US. We are also looking to expand its facilities for reactivated carbon for use in drinking water, for which demand is expected to increase due to stricter PFAS regulations, making this place an important base for the future growth of the activated carbon business.



As also announced today, the Company will repurchase up to 15 million shares of its own stock with a total amount of up to JPY20 billion. The Company regards the distribution of profits to shareholders as one of its most important management issues. Its Medium-Term Management Plan, PASSION 2026, sets a basic policy of a total return ratio of 35% or higher and an annual dividend of JPY40 per share or more, with an aim to enhance shareholder returns through earnings growth.

For FY2024, we plan to pay an interim and year-end dividend of JPY25 per share each, in addition to share buybacks, for a total return ratio of 75%. To further improve capital efficiency, the Company is pursuing various measures, including the upgrading of its business portfolio. Furthermore, we will enhance shareholder returns in the future.

【Ref.】 Forecast for FY2024 (vs. FY2023)

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(Billion yen)

	FY2024 Revised Forecast			FY2023			Difference		
	1H	2H (Original)	FY*	1H	2H	FY	1H	2H	FY
Net Sales	**410.0**	**430.0**	**840.0**	381.0	399.9	780.9	29.0	30.1	59.1
Operating Income	**42.0**	**43.0**	**85.0**	41.0	34.5	75.5	1.0	8.5	9.5
Ordinary Income	**39.0**	**40.0**	**79.0**	38.5	30.5	69.0	0.5	9.5	10.0
Net Income Attributable to Owners of the Parent	**25.0**	**24.0**	**49.0**	21.8	20.6	42.4	3.2	3.4	6.6
(Reference)									
JPY/USD (average)	150			135		141			
JPY/EUR (average)	160			146		152			
Domestic naphtha (JPY 1,000/kl)	74			68		68			

*The revised forecast for the full year is the sum of the revised first half forecast and the second half forecast announced in February 2024.

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Page 14 and beyond provide detailed counting information. Please take a look at them for reference.

【Ref.】 Net Sales and Operating Income by Segment (vs. Original Forecast)

(Billion yen)

	FY2024 Revised Forecasts				FY2024 Original Forecasts				Difference			
	1H		FY*		1H		FY		1H		FY	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	209.0	43.0	422.0	85.0	203.0	42.0	416.0	84.0	6.0	1.0	6.0	1.0
Isoprene	36.0	(5.5)	76.0	(8.5)	36.0	(6.0)	76.0	(9.0)	0.0	0.5	0.0	0.5
Functional Materials	105.0	7.0	215.0	14.0	100.0	6.5	210.0	13.5	5.0	0.5	5.0	0.5
Fibers & Textiles	33.0	1.0	71.0	4.0	34.0	1.0	72.0	4.0	(1.0)	0.0	(1.0)	0.0
Trading	31.0	2.5	66.0	5.5	31.0	2.5	66.0	5.5	0.0	0.0	0.0	0.0
Others	21.0	1.0	43.0	2.0	21.0	1.0	43.0	2.0	0.0	0.0	0.0	0.0
Elimination & Corporate	(25.0)	(7.0)	(53.0)	(17.0)	(25.0)	(7.0)	(53.0)	(17.0)	0.0	0.0	0.0	0.0
Total	410.0	42.0	840.0	85.0	400.0	40.0	830.0	83.0	10.0	2.0	10.0	2.0

*The revised forecast for the full year is the sum of the revised first half forecast and the second half forecast announced in February 2024.

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【Ref.】 Net Sales and Operating Income by Segment (vs. FY2023)

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(Billion yen)

	FY2024 Revised Forecasts				FY2023				Difference			
	1H		FY*		1H		FY		1H		FY	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Vinyl Acetate	209.0	43.0	422.0	85.0	198.9	40.2	406.8	86.3	10.1	2.8	15.2	(1.3)
Isoprene	36.0	(5.5)	76.0	(8.5)	31.8	(2.7)	65.7	(10.9)	4.2	(2.8)	10.3	2.4
Functional Materials	105.0	7.0	215.0	14.0	93.4	5.7	189.8	10.3	11.6	1.3	25.2	3.7
Fibers & Textiles	33.0	1.0	71.0	4.0	30.2	0.7	61.9	1.8	2.8	0.3	9.1	2.2
Trading	31.0	2.5	66.0	5.5	29.0	2.3	61.6	5.2	2.0	0.2	4.4	0.3
Others	21.0	1.0	43.0	2.0	22.9	0.6	45.7	0.5	(1.9)	0.4	(2.7)	1.5
Elimination & Corporate	(25.0)	(7.0)	(53.0)	(17.0)	(25.1)	(5.9)	(50.4)	(17.8)	0.1	(1.1)	(2.6)	0.8
Total	410.0	42.0	840.0	85.0	381.0	41.0	780.9	75.5	29.0	1.0	59.1	9.5

*The revised forecast for the full year is the sum of the revised first half forecast and the second half forecast announced in February 2024.

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【Ref.】 Quarterly Net Sales by Segments

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(Billion yen)

	FY2023					FY2024		
	1Q	2Q	3Q	4Q	FY	1Q	2Q (Forecast)	1H (Forecast)
Vinyl Acetate	97.8	101.1	103.9	104.0	406.8	99.0	110.0	209.0
Isoprene	15.8	16.0	15.0	18.8	65.7	17.2	18.8	36.0
Functional Materials	45.4	48.0	46.3	50.1	189.8	48.7	56.3	105.0
Fibers & Textiles	13.5	16.6	14.8	16.9	61.9	13.8	19.2	33.0
Trading	13.8	15.2	15.8	16.8	61.6	15.3	15.7	31.0
Others	11.3	11.5	11.1	11.7	45.7	11.7	9.3	21.0
Elimination & Corporate	(12.7)	(12.4)	(13.5)	(11.8)	(50.4)	(13.6)	(11.4)	(25.0)
Total	185.0	196.0	193.4	206.6	780.9	192.2	217.8	410.0

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【Ref.】 Quarterly Operating Income by Segments

(Billion yen)

	FY2023					FY2024		
	1Q	2Q	3Q	4Q	FY	1Q	2Q (Forecast)	1H (Forecast)
Vinyl Acetate	17.8	22.4	23.5	22.6	86.3	24.8	18.2	43.0
Isoprene	0.2	(2.9)	(1.4)	(6.8)	(10.9)	0.0	(5.5)	(5.5)
Functional Materials	3.5	2.3	2.4	2.2	10.3	3.2	3.8	7.0
Fibers & Textiles	0.2	0.4	1.1	0.1	1.8	(0.2)	1.2	1.0
Trading	1.1	1.2	1.4	1.4	5.2	1.3	1.2	2.5
Others	0.1	0.5	0.0	(0.1)	0.5	0.4	0.6	1.0
Elimination & Corporate	(1.6)	(4.2)	(6.3)	(5.6)	(17.8)	(0.8)	(6.2)	(7.0)
Total	21.3	19.6	20.7	13.8	75.5	28.8	13.2	42.0

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Here, I would like to make one additional comment on the reference information. Please turn to page 18.

On this page, we show our operating income by quarter. Comparing Q1 and Q2 of FY2024, there is a difference of JPY15.6 billion from JPY28.8 billion to JPY13.2 billion, and I would like to give a supplementary explanation on this figure.

First, the vinyl acetate segment sees a JPY6.6 billion decrease in income. This is mainly due to scheduled repairs at the plant for EVAL in the US, scheduled for Q2. In addition to the large amount of repair expenses in Q2, Q1 saw a large step up in inventory before the scheduled repairs.

Next, the isoprene segment also sees a JPY5.5 billion decline in income. The main factor here, too, is scheduled repairs. In addition to the maintenance of the Kashima Plant, this year, we are carrying out regular maintenance at the plant in Thailand in Q2.

The elimination & corporate in the bottom section is also a factor of a JPY5.4 billion decrease in income. The main factor is the change in the elimination of unrealized income related to intra-group transactions, with a smaller elimination in Q1 and a larger elimination in Q2. However, for the H1 total, the amount remains almost unchanged.

This concludes my explanation. Thank you very much.