KURARAY CO., LTD., Summary of Q&A Session for Q1 FY2024 Earning Announcement

[Time & Date] From 15:00pm to 16:00pm, May 14, 2024

[Place] Conference call

[Speakers]

Keiji Taga	Representative Director and Senior Managing Executive Officer Officer Responsible for Corporate Management Planning Office
Shinichi Takizawa	Senior Manager, Corporate Communications Department

1. **Volume growth rates of main products**

	1H FY2023 actual → 1H FY2024 forecast	2H FY2023 actual → 1H FY2024 forecast
Optical-use poval film	less than +10%	about -5%
Water-soluble PVOH film	less than +5%	more than -10%
PVB	more than -5%	less than +5%
EVAL™	about -10%	less than +5%
PVOH resin	about +15%	about +10%
Elastomer	about +10%	about +10%
GENESTAR™	about +10%	about +15%
Activated carbon	less than +10%	about +5%
KURALON™	slightly negative	about +15%

2. Q&As

Q1: Regarding the business results of Vinyl Acetate segment in Q1 2024.

A1: From Q4 2023 to Q1 2024, sales volume increased in optical-use poval film, PVOH resin, and PVB. Operating income for optical-use poval film slightly declined, since we made inventory adjustments in Q4 2023, and part of this impacted in Q1 2024. Operating income of PVB also declined slightly due to sales price adjustment in line with raw material and fuel price changes. Operating income of PVOH resin increased due to a relatively large increase in volume. Sales volume decline in water-soluble PVOH film and EVAL™. As for EVAL™, we are planning a regular maintenance at the plant in the U.S. in Q2 2024. The inventory buildup before the maintenance was a positive contributor to operating income.

Operating income from Q1 2024 to Q2 2024 will be a significant decrease. Its main reason is the regular maintenance at PVOH resin and EVAL™ plants in the U.S.

Q2: Regarding the impact of the PFAS regulation for drinking water in the U.S., that was issued on April 10, on activated carbon business.

A2: The regulation values are as expected. In the new regulation, it is obliged to disclose the result of initial monitoring after 3 years, so we assume measures will be implemented within 3 years especially in the contaminated area. 5 years of period has set to implement solution, but we expect demand growth in first 3 years. Actually, we have received many inquiries from large public water companies. We are currently summarizing various information on how this will affect our business performance. We plan to explain this in detail at the management briefing scheduled in June.

Our new virgin carbon production line has started operation in February 2024. Although it has not reached 100% capacity, it is operating at a very high rate. We expect sales volume to increase steadily and enough profit that covers depreciation cost.

And, today, on May 14, we have announced acquisition of a new base in the U.S. for reactivated carbon for industrial use and we will have a new base in Texas. A location close to customers will be a great advantage in reactivation carbon business. For industrial applications, we expect that guidelines for PFAS regulations will probably be published this fiscal year or next fiscal year, and we have high expectations for these applications as well. We would like to enhance production facility at this base in line with PFAS related demand increase.

Q3: Regarding reason for the upward revision of operating income for H1 2024.

A3: In the Vinyl Acetate segment, optical-use poval film, PVOH resin and EVAL contribute to increase profit while PVB decreases in profit. In the Isoprene segment, GENESTAR™ is the one that contributes to increase profit. Medical increases profit in Functional Material segment.

Q4: Regarding the status of structural reforms.

A4: We cannot disclose details for now, but as a part of sophisticating business portfolio, we are reviewing businesses and product lines. We expect extraordinary losses of several billion yen in 2024.

Q5: Regarding the background of profit improvement in Isoprene segment from Q4 2023 to Q1 2024.

A5: In Q4 2023, profit was impacted by regular maintenance done in July 2023 and loss from lower-of-cost-or-market method. In Q1 2024, we did not have negative impacts from those factors. Additionally, we had positive impact from inventory buildup for regular maintenance scheduled in Q2 2024.

Q6: Regarding the continuity of share buyback.

A6: We would like to enhance shareholder returns with some continuity. Although we have not decided to change the total return ratio policy itself, the policy is just a minimum commitment. In fact, we have achieved more than 35% of shareholder returns in 2022 and 2023.

Q7: Regarding the demand recovery of isoprene chemical and elastomer.

A7: I cannot say it is recovered. Demand for automotive applications has been steady. But, for example, in isoprene chemical business, a chemical product used for construction application mainly in China has been affected by the recession in real estate and construction industry. As for elastomer, competition with other companies has been harsh. We aim to expand our sales keeping a close eye on the balance between profit and volume.

Q8: Regarding the background of volume increase of PVOH resin.

A8: We have many production bases for PVOH resin around the world. Although we see marine transportation problems due to geopolitical situation, we have been able to manufacture our products close to our customers and supply them in a timely manner. Taking advantage of this, we have been able to receive a certain level of favorable orders.

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(Cautionary Statement)

Please note that this document does not transcribe everything that was said at the briefing, but is a basic summary whose content was determined by Kuraray to make it easier to understand.

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