Kuraray Co., Ltd., Summary of Q&A session for Q1 FY2023 Earning announcement

[Time & Date] From 12pm to 12:53pm, May 12, 2023

[Place] Conference call

[Speakers]

Keiji Taga	Director and Managing Executive Officer Responsible for Corporate Management Planning Office
Tomoyuki Watanabe	Managing Executive Officer President of Vinyl Acetate Resin Company Officer Responsible for Electronics Materials Promotion Division
Shinichi Takizawa	Senior Manager, Corporate Communications Department

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

	H1 FY2022 actual → H1 FY2023 forecast	2H FY2022 actual →1H FY2023 forecast
Optical-use poval film	about -20%	a little over +30%
Water-soluble PVOH film	a little less than -5%	a little more than - 5%
PVB	slightly negative	slightly positive
EVAL	flat	about -5%
PVOH resin	more than -20%	flat
Elastomer	flat	over +10%
GENESTAR	less than +5%	more than +10%
Activated carbon	about +5%	flat

2. Q&As

Q1: About Vinyl Acetate, I would like to ask changes in profits for each business unit, including the impact of inventory valuation differences, from Q4 FY 2022 to Q1 FY 2023.

A1: Regarding optical-use poval film, the volume increased slightly, but there were inventory valuation differences carried over from last year to Q1, resulting in a decrease in profit. As for PVOH resin, although the volume increased slightly, profit decreased due to negative impact of inventory valuation differences in Q1. In the PVB film, an increase in sales volume and price revision in Q1 offset negative impact of inventory valuation differences, and profit increased. As for EVAL, profit increased because continued effect of price revision covered negative impact of

slightly volume decrease and inventory valuation difference. Demand for water-soluble PVOH film has declined slightly, resulting in a decrease in volume and in profit. The positive and negative effects of these factors caused both sales and operating income to drop for the segment as a whole.

Q2: Does negative impact from inventory valuation differences remains in Q2?
A2: For some long inventory-month products, it is carried over to Q2, but major part was realized in Q1.

Q3: Is the decrease in profit from Q1 FY2023 to Q2 basically due to the regular maintenance for the Isoprene plant? Also the change of elimination and corporate from Q1 to Q2 is quite big, could you please explain this as well?
A3: Yes, as for Q2, regular maintenance for the Isoprene plant in Kashima is planned as usual, so the difference between Q1 and Q2 will be large. In addition, another factor is depreciation of Thai plant. The plants for GENESTAR and Elastomer started operation in February and Isoprene Chemical to be started in Q2, therefore depreciation in Q2 will be larger than Q1.

As for the elimination and corporate, common expenses for the regular maintenance planned in Q2 that cannot be allocated to each segment are expected, so there is difference between Q1 FY2023 and Q2.

Q4: Please explain the difference between Q4 FY2022 and Q1 FY2023 in elimination and corporate.
A4: In Q4 FY2022, there was negative impact from utility cost which cannot be allocated to each segment , but not in Q1 FY2023.

Q5: As for Vinyl Acetate, an increase in income of more than JPY3 billion from Q1 FY2023 to Q2 is expected. Is it because there will be no negative inventory valuation differences? Please explain including the situation of products and application.
A5: The negative inventory valuation difference in Q1 was significant, but since we sold out higher-cost inventories in Q1, we expect positive difference in Q2. Other factors are an upward trend in volume for high value-added products such as PVOH resin, EVAL and water-soluble PVOH film. For these factors, we are expecting positive results from Q1 to Q2.

Q6: Regarding the demand for optical-use poval film. I would like to know trend from Q1 FY2023 to Q2 and your assumption for H2.
A6: The result from Q4 FY2022 to Q1 FY2023 showed an increase of more than 10%. This means minus 20% compared to the same period last year. Since H1 FY2022 was very strong, the Q1 FY2023 is still at a low level. For Q2 FY2023, we are looking at flat growth from Q1, and minus 20% compared to the same period of last year. As overall, we believe that inventory adjustments in the supply chain have done and now the demand to us meet our customer's production level. On the other hand, unfortunately, demand for large LCD TVs has not yet reached the stage of a full-fledged recovery. Q1 result was slightly better than original plan, but we are still looking at the H2 as being the time when we see full recovery. Inventory adjustment in supply chain has been done, so we expect higher shipment if customer production getting better.

Q7: The operating income of Vinyl Acetate for the H1 FY2023 has been revised upward, JPY4 billion. Could you explain what contributes to the revision? Please also tell us about any other quantitative changes other than optical-use poval film, if any?
A7: PVB film makes positive contribution. Its price revision was a little delayed but soaring raw material and fuel prices impacted significantly, we have continued negotiation and our customers have accepted. As for EVAL, the volume is flattish, but the price revision is in progress, and supply- demand balance is tight, so we expect increase in profit. On the other hand, we expect negative impact from water-soluble PVOH film due in part to a decrease in the volume.

Q8: As for EVAL, it is in a very tight supply-demand situation, and we probably won't see any large-scale investments until around FY2025. What is supply and demand situation?

A8: Supply and demand of EVAL are relatively tight at present. In FY2022, the supply chain was affected by the cold wave in the US, and we were not able to fully meet customer demand. Automobile production did not recover yet last year, but now it is improving with the easing of semiconductor shortage, and demand for gas tank application is increasing this year. It is true that shift to EVs pushes down demand for gas tank application however, demand for automobiles in emerging countries has been growing, and we expect a gradual increase until FY2025 or 2026. In addition, there are two major momentums in food packaging applications. One is recycling of plastic packages, where very thin EVAL is good to use. Another is extension of expiration date to reduce food loss. Those are following wind for us. We are currently manufacturing at three sites in Japan, the US, and Europe. We are trying to increase total production volume by producing appropriate grade at each site, and reducing switching in the production. In that way, we believe we can manage to supply enough to support customer demand until around FY2025.

Q9: I estimate that the operating profit margin of EVAL is improving. Is there still room for it to go up?

A9: We need to continue to increase our production capacity and thus need to make investments including for debottlenecking. In the medium to long term, we intend to maintain the current level.

Q10: Please explain background of downward revision of operating income by JPY3.5 billion in Isoprene segment. Also what is your estimation when inventory adjustment of GENESTAR will be over?

A10: Compared to the original plan, all Isoprene Chemical, Elastomer and GENESTAR have seen a decline in volume due to the impact of the economic slowdown, resulting in a decrease in sales and profit. Another factor is negative impact from lower production rate of Thai plants than original plan. Inventory adjustment of GENESTAR and overall demand situation is more severe than originally expected. We are now examining the situation and full year forecast will be explained when we disclose H2 2023 result.

Q11: What is the impact of the price decline in natural gas in Europe, especially on EVAL and PVOH resin?

A11: PVOH resin and EVAL that have manufacturing sites in Europe are benefited, and this is one of reasons of upward revision of Vinyl Acetate segment profit. We expect some price adjustment for the products which have introduced surcharge mechanism, however there is a time lag. And also, we do not have to adjust price of all products.

Q12: About Functional Material segment, what is background of good result in Q1 FY2023 and a sharp decline in profit in Q2?

A12: One of the reasons is dental materials in Medical business. In addition to brisk exportation to Europe in Q1 FY2023, there is seasonality that is more profit in Q1 and Q3 and less profit in Q2 and Q4. The reason of lower profit in Q2 FY2023 is seasonality.

Another factor is activated carbon in the Environmental Solution business. There was a certain amount of shipment due to project work, this caused higher profit in Q1. Since the price of some coal-based activated carbon has a formula linked to raw material, the price revision has progressed from Q1, by which margin level was a bit higher. In Q2, raw material cost will increase, so margin level will go back to normal. This means that there will be a slight gap.

Q13: As a result of downward revision of net profit, current dividend payout ratio is about 34%, which is close to the 35% total return ratio committed by the company. What do you think about dividend payout ratio?

A13: At the beginning of the year, we set JPY48 as minimum level. We will keep discussion including buy-back and make an announcement when we disclose Q2 FY2023 result.

Q14: What is the company view on lower PBR, less than 1x.

A14: We are very much aware of this, and of course, we would like to set a target of more than 1x.

Break down of PBR is ROE and PER.

ROE reached certain level, 9% last year. We keep working to raise it to 10% in FY2026.

As for PER, it will be about future expectations. It is not something we can control everything, but we keep upgrading business portfolio or developing new business at Innovation Networking Center and try to increase expectations by communicating out initiatives properly.

Although we are not considering improving PBR through shareholder returns alone, we are discussing this as one of our initiatives to improve PBR. Regarding the return policy, including share buybacks and dividend increases, we will proceed with consideration so that we can announce it at the time of the announcement of the 2Q 2023 financial results.

End of document

(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.

In addition, forward-looking statements such as performance forecasts contained in this document are based on information currently available to the Company and certain assumptions deemed reasonable. Please note that it may vary significantly.