FY2024 3Q Results

February 10, 2025

KUREHA CORPORATION

Key Takeaways

KUREHA CORPORATION

FY2024 3Q Results

Revenue and profit

(billion yen)

	FY24 3Q	FY23 3Q	差異	FY24 forecast
Advanced Materials	**43.3**	49.4	-6.0	57.0
Specialty Chemicals	**22.4**	24.5	-2.1	30.0
Specialty Plastics	**33.0**	36.5	-3.5	40.0
Construction	**9.9**	9.3	0.7	15.0
Other operation	**13.4**	13.2	0.1	18.0
Revenue	**122.0**	132.9	-10.8	160.0
Advanced Materials	**1.3**	6.1	-4.8	-0.5
Specialty Chemicals	**0.5**	0.9	-0.5	0.9
Specialty Plastics	**6.5**	7.0	-0.6	6.0
Construction	**0.8**	0.8	0.0	1.0
Other operation	**2.0**	1.8	0.2	2.1
Core operating profit	**11.0**	16.7	-5.6	9.5
Adjustments	**-0.6**	-1.2	0.6	0.5
Operating profit	**10.5**	15.5	-5.0	10.0
Profit*	**8.1**	10.2	-2.1	7.0

*Profit attributable to owners of the Company

FY2024 3Q YoY changes: Main Factors

- EV market is experiencing stagnation, particularly in Europe, and sales and profit of PVDF for LiB binders decreased.
- The PGA profit decreased due to less gain on reversal of the loss on valuation of inventories.
- Despite lower PPS sales, operating profit increased due to improvement in equity in earnings.

Progress of the Earnings Forecast and Outlook for 4Q

- Overall, the company is making steady progress against the earnings forecast disclosed in November 2024.
- In the Q4, we expect that
  (PPS U.S. business)
  - Profitability of PPS equity in earnings deteriorates due to a temporary adjustment in demand and a subsequent low factory utilization.

  (PVDF business)
  - The PVDF plant, which is currently on hold, is scheduled to resume operations in March for new ESS application. The production will result in increased loss due to bearing all fixed costs during the suspension period, which will lead to a loss on valuation of inventories.

Initiatives to achieve performance targets:

- Regarding PVDF, new ESS project in North America is underway. We plan to start shipping products for ESS in early FY2025.
- Sales of PGA low-temperature plugs are gradually increasing. We are working to expand full-bore adoption in medium-temperature fields and full-scale sales in low-temperature fields.
- Special items for household wraps have been introduced to increase sales volume. We will continue to implement promotional measures with a focused targets.
- Regarding cost reductions, we reduced costs by 1.3 billion yen by 3Q by carefully examining information systems and DX expenses and revising research themes in new business development to reflect their priority. This progress is one for 1.1 billon yen disclosed in November.

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The Status of Initiatives Toward Key Performance Indicators (ROE/PBR) for Fiscal Year 2025

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Initiatives for the Current Fiscal Year Toward Fiscal Year 2025
(Improvement of Profitability)

・Aiming to improve profitability through existing business and additional cost reduction measures amid market stagnation in PVDF and PGA.

-[PVDF] Conducted initiatives such as sales and marketing and sample provision to promote adoption across diverse applications beyond European automotive batteries.

-[PGA] Achieved the run history required for the plugs used in low-temperature fields.

-[Home Products] Implemented measures to boost sales volume, such as offering a longer-sized product (60-meter items).

-[Agrochemicals] Completed the re-registration of Metconazole in Europe. Prepared supply system to meet expected demand expansion for fiscal year 2025 or after when the inventory adjustment phase is completed.

-[Environmental Engineering] Improved sales revenue and profit by expanding waste treatment volume.

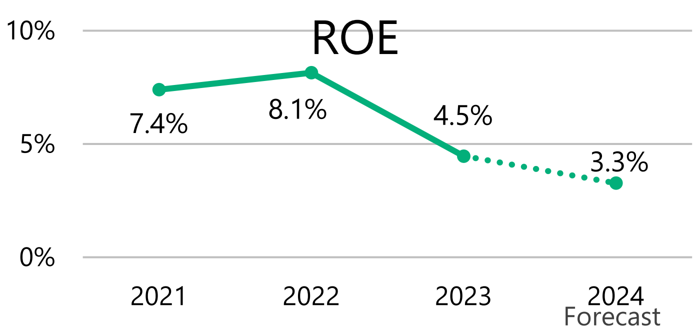
・By the end of the 3Q, we reduced expenses by 1.3 billion yen compared to the cost assumptions underlying the earnings forecast disclosed in May 2024.

(Capital Efficiency)

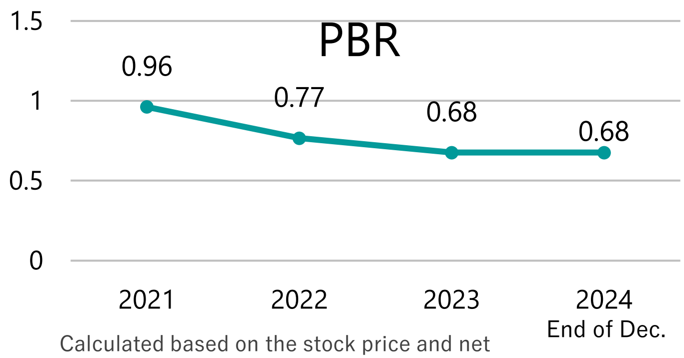
・The ongoing buyback program for FY 2024 (totaling 15 billion yen) reached 12.7 billion yen as of December 2024, progressing as planned.

・Declared an interim dividend of 43.35 yen per share, half of the annual minimum dividend of 86.7 yen per share set through FY 2025.

・Sold 5.1 billion yen in policy shareholdings, reducing their ratio to consolidated net assets to 8.9% as of December 2024 (target: below 10%).



There is no changes from the forecast disclosed on November 11, 2024.

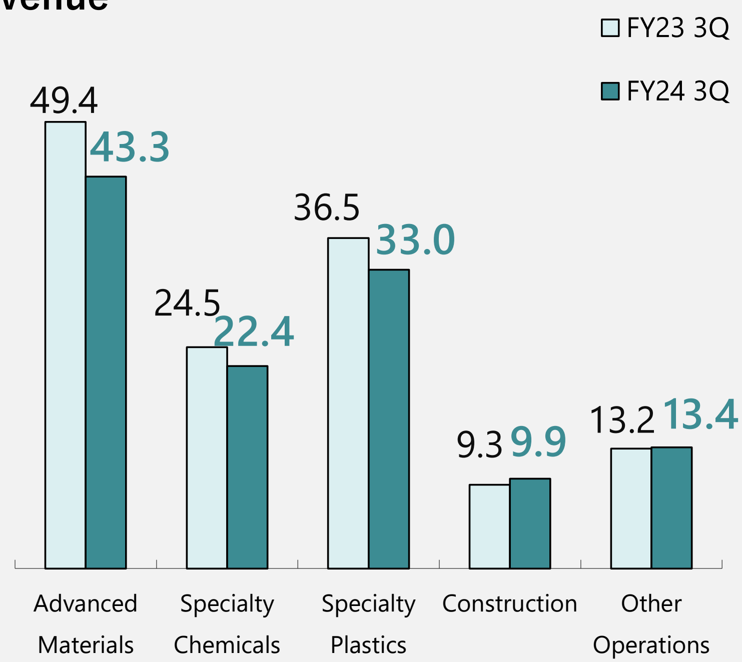


Calculated based on the stock price and net assets per share at each fiscal year-end.

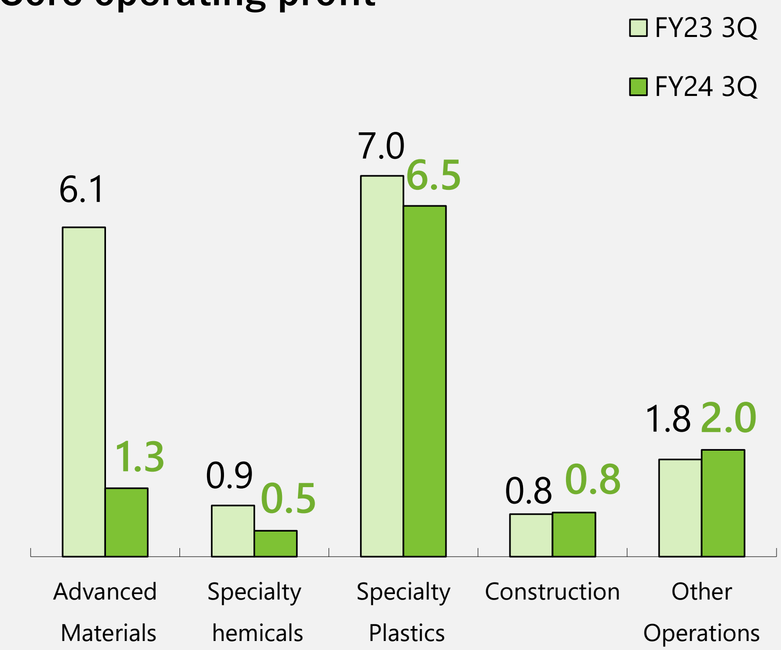
3Q Results by Segment: YoY Change

(billion yen)

Revenue



Core operating profit



Factors Affecting Operating Profit: FY2024 3Q Results

The PVDF business experienced a decline due to the slowdown in the EV market. The PGA business also saw a drop in profits due to less gain on the reversal of the loss on valuation of inventories. However, other existing businesses maintained profits at approximately the same level as the previous year.

YoY Change

(billion yen)

Key Items: PVDF Business

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< LiB Market >

EV Applications

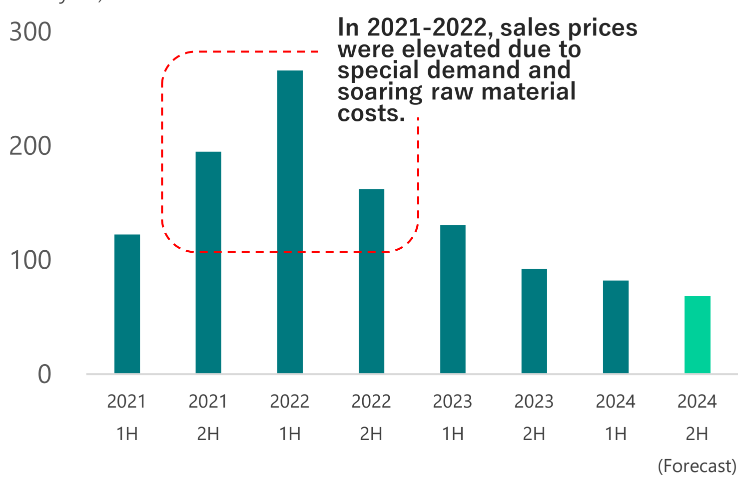
The European EV market, which is the primary market for our customer LiB manufacturers, is expected to remain flat from FY2024 to FY2025. A substantial recovery is anticipated for FY 2026.
The North American EV market is expected to experience a full-scale launch in FY2026.

Energy Storage System (ESS) applications (stationary storage batteries)

The ESS market is expected to expand at a rate of 15-30% in North America due to the surge in AI-related data centers and the growth in renewable energy utilization.

< Revenue >

(billion yen)



Overview and Strategies

LiB Applications

- We will closely monitor the impact of the new US administration's review of the IRA(Inflation Reduction Act) and customs duties.
- ESS for data centers is increasing, mainly in North America, and we plan to start shipping products for ESS from the beginning of FY2025. We expect sale of ESS to grow to a maximum of just under 20% of our PVDF sales volume in FY2025.
- In China, steady growth is continuing, centered on automotive batteries. Utilizing our Japan-China R&D Center, joint development and sample evaluation with LiB manufacturers are progressing. We aim to adopt our products for use in high performance LFP LiB.
- Japanese LiB manufacturers are prioritizing building domestic supply chains due to geopolitical risks and economic security, and we are continuing to strengthen our proposal activities to these companies.
- PVDF production in our Iwaki Plant had been suspended since December due to inventory adjustments but is scheduled to resume operations in March for ESS grade production. With the resumption of operations within the current fiscal year, the products will bear all the fixed costs for the suspended period. Consequently, the loss on valuation of inventories is expected to increase compared to the assumption at the time of Q2.

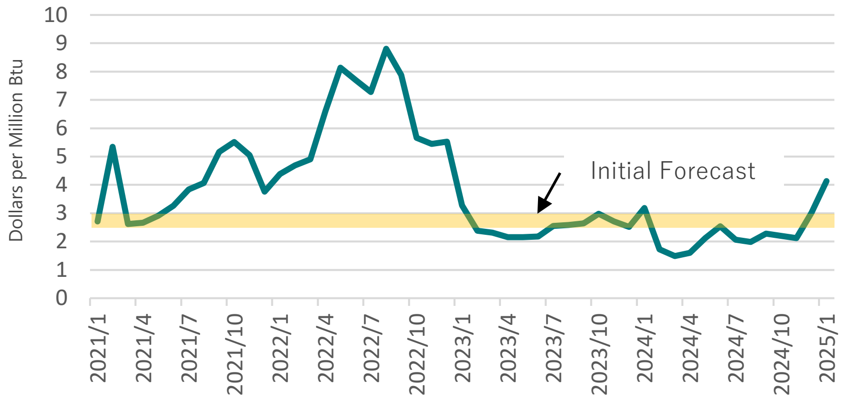
Industrial Applications

- For support of ongoing sales growth, we are implementing marketing strategies for pipes used in oil drilling, fittings and pipes used in semiconductor manufacturing equipment, and water treatment membranes.

Despite the sales expansion measures, we expect to incur a loss for the current fiscal year. This is due to the sluggish EV market and the impact of year-end accounting procedures, etc.

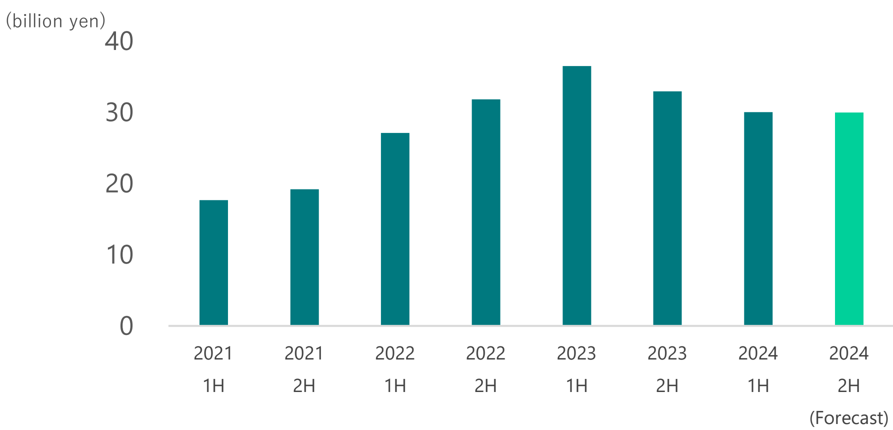
Key Items: PGA Business

< Market (Gas Prices) >



Source: Henry Hub Natural Gas Spot Price (EIA)

< Revenue >



Overview and Strategies

Medium- to High-Temperature Regions

- The Shell oil and gas drilling market is expected to experience revitalization due to the shift in energy policy under the new U.S. administration.
- Although North American gas prices have recovered to the expected levels, current gas inventory levels remain high. We anticipate a substantial recovery in gas-centered fields in the second half of FY2025, driven by the policy shift and the anticipated surge in exports to Europe, which will coincide with the launch of large-scale liquefaction facilities and other infrastructures.
- Sales volume in the third quarter exhibited a nearly 20% year-on-year increase.

Low- to Ultra-low- Temperature Regions (new product)

- Low-temperature plugs: Sales results have expanded to approximately 10 companies. With enough run histories requested by major customers, we have initiated a comprehensive sales expansion strategy for medium-temperature fields (full-bore adoption, i.e., implementation in the entire well) and low-temperature fields, such as the Permian Basin. Furthermore, we introduce another size of the product in 4Q.
- Ultra-low-temperature plugs: We aim to conduct field tests in ultra-low-temperature fields in the first half of FY2025 and to launch sales in the second half of FY2025.

In addition to promoting the full-scale sale of low-temperature plugs, we will also aim to expand our business by seizing the opportunity presented by the shift in energy policy under the new U.S. administration

Key Items: Home Products Business
Agrochemicals Business

<Home Products Business>

Market Outlook

- The household wrap market is currently stable, and we anticipate sustained slight growth driven by the rising popularity of cooking styles that prioritize efficiency and time-saving. This positions the market as a robust and resilient one.

Ongoing and future measures

- Promotional items for wraps had introduced in October and November to drive sales volume. We will continue to implement sales expansion measures with a focused targets.
- To expand the wrap business, we are reviewing and strengthening all marketing measures and sales strategies, including product development, sales promotion, advertising, and data analysis. We will renew the NEW Krewrap tagline to emphasize our unique strengths.
- In addition to the existing sales channels, we will strengthen e-commerce sales by utilizing social media.
- For global expansion, we will develop products and make sales proposals tailored for each country with medium- to long-term perspective.

Our Unique Strengths

- Krewrap is the first household plastic wrap launched in Japan in 1960, and it has continued to be a pioneer in the plastic wrap industry. We pursue customer satisfaction and continually improve our film and packaging.
- It is made from PVDC, a high-performance plastic that offers gas barrier properties, heat resistance, adhesion, and ease of cutting.

<Agrochemicals Business>

Current Business

- Although sales temporarily decline this fiscal year due to inventory adjustments, we expect sales to recover from FY2025 onwards due to the completion of inventory adjustments and re-registration of Metconazole in Europe.

New Product Development

FY2024	FY2025	FY2026 - FY2030 and beyond
●The application completed for the generic name of agrochemicals (ISO common name)		
		Application for registration●
		Sales launch●

- Agricultural fungicides targeting crops such as cereals, corn, fruits, and vegetables.
- New agrochemicals designed to meet stricter regulations worldwide, especially in Europe.
- We project that peak annual sales will exceed 20 billion yen or more (FY2030 and beyond)

Segment Performance: Advanced Materials

(billion yen)

	FY24 3Q	FY23 3Q	Change Amount	Change %
Advanced plastics	**28.1**	35.2	-7.1	-20%
Carbon products	**5.9**	6.0	-0.1	-1%
Other	**9.3**	8.2	1.1	13%
Revenue	**43.3**	49.4	-6.0	-12%
Operating profit	**1.3**	6.1	-4.8	-79%

<YoY Change>

Sales revenues ↓ Operating profit ↓

Advanced plastics

Despite an improvement in equity in earnings from PPS, revenue and profit for PVDF used in automotive LiB binders declined due to a sluggish EV market. Additionally, the PGA profit decreased due to less gain on the reversal of the loss on valuation of inventories. As a result, both revenues and profits decreased.

Carbon products

Bead-shaped activated carbon revenue increased due to large-scale sales, while carbon fiber sales for high-temperature furnace insulation for SiC semiconductor applications decreased. Overall sales revenue remained consistent with the previous year, while operating profit decreased.

Segment Performance: Specialty Chemicals

(billion yen)

	FY24 3Q	FY23 3Q	Change Amount	Change %
Agrochemicals	**4.7**	6.6	-1.9	-29%
Pharmaceuticals	**2.2**	2.7	-0.6	-21%
Industrial chemicals	**7.4**	8.1	-0.7	-9%
Other	**8.1**	7.0	1.1	16%
Revenue	**22.4**	24.5	-2.1	-8%
Operating profit	**0.5**	0.9	-0.5	-50%

<YoY Change>

Sales revenues ⬇ Operating profit ⬇

Agrochemicals and pharmaceuticals

Sales on agrochemicals decreased due to the inventory adjustment on the customer side. Sales on pharmaceuticals also decreased due to revision of NHI drug prices and adjustment to customer inventories. Weak sales leads to lower operating profit.

Industrial chemicals

Sales volumes of major inorganic and organic chemical products decreased, leading lower operating profit.

Segment Performance: Specialty Plastics

(billion yen)

	FY24 3Q	FY23 3Q	Change Amount	Change %
Home products	**17.9**	19.0	-1.1	-6%
Fishing lines	**4.0**	3.7	0.3	9%
Packaging materials	**8.1**	11.1	-3.0	-27%
Other	**3.0**	2.8	0.3	9%
Revenue	**33.0**	36.5	-3.5	-10%
Operating profit	**6.5**	7.0	-0.6	-8%

<YoY Change>

Sales revenues ↓ Operating profit ↓

Home products and fishing lines

Sales revenue from fishing lines increased with strong demand in overseas markets. Sales volume of household wraps decreased due to intensifying competition. As a result, revenue and profit decreased.

Packaging materials

The discontinuation of heat-shrinkable multilayer film resulted in a decline in revenue and profits.

Segment Performance: Construction, and Other Operations

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(billion yen)

	FY24 3Q	FY23 3Q	Change Amount	%
【Construction】				
Revenue	**9.9**	9.3	0.7	7%
Operating profit	**0.8**	0.8	0.0	4%
【Other Operations】				
Environmental engineering	**8.6**	8.4	0.2	2%
Logistics	**1.2**	1.2	-0.1	-5%
Hospital operations	**3.4**	3.2	0.2	5%
Others	**0.3**	0.4	-0.2	-40%
Revenue	**13.4**	13.2	0.1	1%
Operating profit	**2.0**	1.8	0.2	10%

<YoY Change>

Construction
Sales revenue ↑　Operating profit →

Sales in both private and public sector increased, resulting in an overall rise in sales revenue. However, operating profit remained consistent with the same period last year, largely due to a sales composition.

Other operations
Sales revenue ↑　Operating profit ↑

The environmental engineering business achieved higher revenue and profit, supported by increased volumes of industrial waste treatment.

Sales revenue and operating profit for other operations remained unchanged compared to the previous year.

Financial Position

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Assets

	Dec. 31, 2024	Mar. 31, 2024	Change	
Cash and cash equivalents	**24.8**	23.1	1.6	
Trade and other receivables	**30.1**	40.6	-10.5	※1
Inventories	**49.8**	51.2	-1.4	
Other current assets	**6.2**	4.9	1.3	
Total current assets	110.9	119.9	-9.0	
Property, plant and equipment	**164.4**	140.5	23.8	※2
Intangible assets	**5.3**	5.0	0.3	
Investments and other assets	**63.8**	65.2	-1.3	
Total non-current assets	233.5	210.7	22.8	
Total assets	344.4	330.6	13.7	

Liabilities and Equity (billion yen)

	Dec. 31, 2024	Mar. 31, 2024	Change	
Trade and other payables	**24.5**	20.5	4.0	
Interest-bearing debt	**74.6**	54.9	19.7	※3
Provisions	**7.1**	11.3	-4.2	
Other liabilities	**21.4**	20.8	0.5	
Total liabilities	**127.6**	**107.5**	**20.1**	
Shareholders' equity	**18.2**	18.2		
Capital surplus	**14.7**	14.7		
Less: Treasury stock	**-13.5**	-9.6	-3.9	※4
Retained earnings	**174.9**	177.3	-2.4	※5
Other components of equity	**20.8**	20.8	-0.0	
Non-controlling interests	**1.8**	1.8	0.0	
Total equity	**216.8**	**223.1**	**-6.3**	
Total liabilities and equity	344.4	330.6	13.7	

*1 … Completion of the collection of large accounts receivable recorded at the end of the last fiscal year.
*2 … Construction in progress for the expansion of PVDF at Iwaki (+25.9bn yen), etc.
*3 … Corporate bonds (+20bn yen), etc.
*4 … Retirement of treasury shares (+8.7bn yen), purchase of treasury shares (-12.7bn yen), etc.
*5 … Retirement of treasury shares (-8.7bn yen, following transfer from capital surplus), net profit (+8.1bn yen), dividends (-4.7bn yen), etc.

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Cash Flow

(billion yen)

	FY24 3Q	FY23 3Q	Change
Profit before income taxes	**11.1**	16.3	-5.2
Depreciation	**9.5**	8.7	0.9
Other	**5.1**	-14.3	19.4
Cash flow from operating activities	**25.7**	**10.7**	**15.0**
Cash flow from investing activities	**-26.0**	**-32.5**	**6.5**
Free cash flow	-0.3	-21.8	21.5
Cash flow from financing activities	**1.4**	**14.2**	**-12.7**
Effect of exchange rate changes on cash and cash equivalents	**0.5**	0.6	-0.1
Increase/decrease in cash and cash equivalents	**1.6**	-7.0	8.6
Cash and cash equivalents at beginning of period	**23.1**	32.2	-9.1
Cash and cash equivalents at end of period	**24.8**	25.2	-0.5

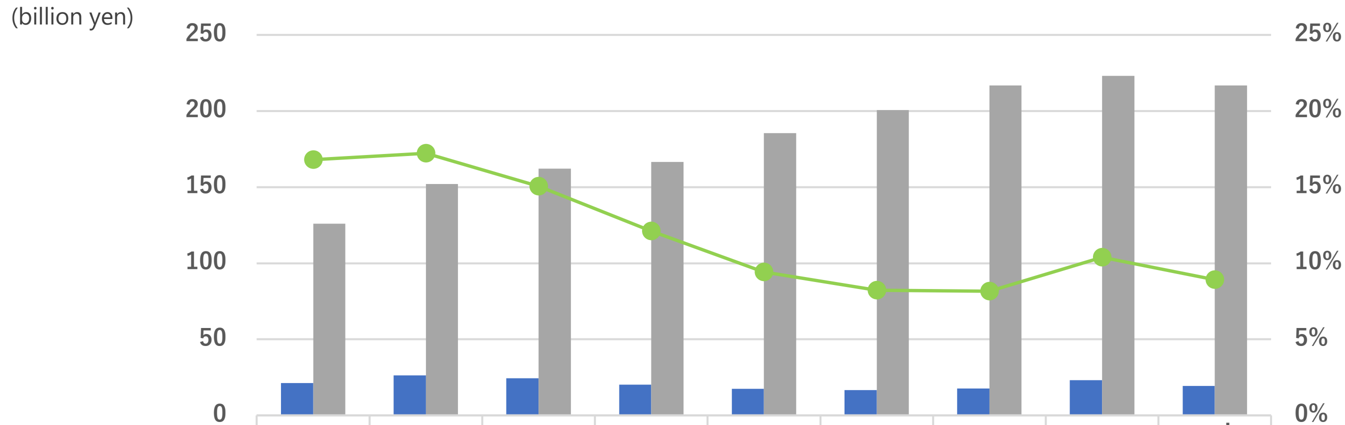
Main drivers of change

Operating CF:+15.0bn yen
Improvement in working capital: +18.7bn yen

Investing CF: +6.5bn yen
Income from sale of investment securities: +4.8bn yen

Financing CF: -12.7bn yen
Increased funding from interest-bearing debt: -10.5bn yen

Policy Shareholdings



	end-FY2016	end-FY2017	end-FY2018	end-FY2019	end-FY2020	end-FY2021	end-FY2022	end-FY2023	end-FY2023/3Q
Policy shareholdings	21.2	26.2	24.4	20.2	17.5	16.5	17.7	23.2	19.3
Consolidated net assets	126.0	152.0	162.2	166.6	185.5	200.7	216.8	223.1	216.8
Ratio (right axis)	16.8%	17.2%	15.1%	12.1%	9.4%	8.2%	8.2%	10.4%	8.9%
Number of listed companies held	43	41	40	40	37	36	34	32	22

Policy concerning Cross-Shareholdings

The Board of Directors comprehensively considers the purpose, benefits and risks, and the cost of capital associated with such cross-shareholdings and reviews the appropriateness of future holding of such shares of stock. Keeping to the standard that the amount held (in total) should be less than 10% of consolidated net assets, Kureha will gradually reduce the number of shares that are no longer significant for Kureha or whose holdings are excessive based on a comprehensive consideration of factors such as dialogue with the companies in business relationships, the impact on the market, and availability of effective use of funds.

Disclaimer

- This document is intended solely for the purpose of providing a better understanding of our Company and is not intended as a solicitation to invest or take any other action.

- This document has been prepared based on currently available information. Please note that actual results may differ from forecasts due to a variety of factors.

- Please use this material at your own discretion and responsibility.