May 2021

Kureha Corporation

FY2020 Earnings Briefing: Q&As

Q. How do you address growing demand for PVDF in terms of capacity enhancement?

A. Although we had to control our PVDF production during the first half year of FY2020 when automobile manufacturing was temporarily disrupted due to the pandemic, in FY2021, while expecting no such disruption, we are planning full-capacity production at our PVDF plants in both Japan and China. Our China Changshu plant has also started to supply PVDF specialty grades since last year, supporting to address the growing demand for auto LiB binders. Meanwhile, we are currently debottlenecking the manufacturing processes of our Iwaki plant in Japan, which is scheduled to complete in January 2022. This will likely contribute to production and sales volume increases in FY2022 and beyond. Furthermore, we have plans underway for a new PVDF plant. We are aiming to start production at this new plant in FY2024.

Q. What are price trends for PVDF?

A. Raw materials prices have been rising since early this year. To pass along the high raw materials cost onto our selling prices, we are currently negotiating with customers.

Q. What are price trends for PGA frac plugs?

A. Shale oil and gas development activities have decreased sharply after crude oil prices plunged last year. As a countermeasure, we have implemented a new pricing strategy to expand the sale of PGA frac plugs, in which we offer discounted prices for volume purchase to customers who, for example, will use PGA frac plugs for not only the toe part of a well but the entire wellbore. We have seen positive reactions to our volume-based prices and will maintain the prices consistent throughout FY2021.

Q. Can you maintain price competitiveness against other frac plugs in the market?

A. We used to think our competitors were non-PGA dissolvable frac plugs, but now we must compete against un-dissolvable composite plugs in order to expand the market. We believe our current prices are adequate and competitive as our PGA frac plugs can offer added functional value, allowing customers to eliminate drill-out operation cost associated with un-dissolvable plugs.

Q. What is the outlook for PGA products sales in FY2021?

A. We are projecting sales of ¥5.5 billion in the PGA business. Approximately 80% of the sales is expected to be generated via our US subsidiary who sells PGA frac plugs directly to oilfield service providers, and the remaining 20% is through sales of PGA stock shapes (to manufacture frac plugs) to our sales agent.

Q. Why are you projecting compressed profit growth for PGA in FY2021, which appears somewhat disproportional to its revenue growth? Also, what are expected profit levels in and after FY2022?

A. In FY2021, there are two key factors for limited profit growth for PGA: First, profit margins will narrow due to lower prices, as we shifted to a volume-based pricing strategy to drive sales starting from FY2020 3Q. Secondly, during FY2021, we are still selling high-cost products in inventory from prior years, which we aim to clear out by the end of FY2022. As we continue to improve per-unit fixed cost by increasing production volumes, we expect to eliminate PGA-related operating loss and turn the business profitable in FY2023.

Q. Can you update on the US shale market, including the number of active drilling rigs?

A. The number of active shale oil and gas drilling rigs has returned to 40% of the 2019 level. Rig counts and production volume in the gas producing areas have been relatively steady amid the pandemic, but we hear that the rig counts in some oil producing areas dropped almost 50% from their peaks. However, we are expecting to see an overall gradual recovery in the shale market going forward.

Q. In your FY2021 forecast, the Specialty Plastics segment is expected to record lower operating profit year on year. Is this because of higher raw materials cost or higher expenses related to promotion and advertisement?

A. About the half of the decrease in profit is attributed to higher expenses while we enhance marketing activities after the pandemic.

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