

Kureha Formulates New Mid-term Management Plan: “Kureha’s Challenge 2020”

Kureha Corporation (“Kureha”) today announced a two-year extension of its mid-term management plan Kureha’s Challenge 2018 (FY2016–2018) (henceforth referred to as “KC2018”). Guided by the KC2018 plan, Kureha has pursued growth as a company built on technology, with the aim of developing differentiated products in the specialty chemicals field and becoming a high value-added enterprise that continually contributes to society. Over the next two years, Kureha will reinforce this strategic direction under the extended management plan, renamed Kureha’s Challenge 2020 (FY2019–2020).

1. Review of Kureha’s Challenge 2018

Kureha designated the three-year period of KC2018 as a period to lay the foundation for future expansion and focused its business operations on achieving the plan’s five management goals: 1) Enhance competitiveness and earnings capacity in existing businesses; 2) Expand the PGA business; 3) Explore new business themes; 4) Promote CSR management; and 5) Strengthen management foundations.

As a result, operating profit in FY2018 (ended March 31, 2019), the final year of KC2018, amounted to 17.2 billion yen, significantly surpassing the initial target of 14.0 billion yen. However, some of the management goals were only achieved partway, including 2) Expand the PGA business; 3) Explore new business themes; and 5) Strengthen management foundations.

The current status is summarized in the following chart.

Review of KC2018

Management Goals	Results after Three Years
Enhance competitiveness and earnings capacity in existing businesses	Profitability has been achieved for carbon fiber, and earnings expanded in home products, but sales expansion targets for packaging materials have yet to be achieved.
Expand the PGA business	Expansion targets have not been reached, and the business is still showing losses.
Explore new business themes	The market-led approach has been insufficient.
Promote CSR management	Expansion to group companies is incomplete.
Strengthen management foundations	Cost reduction targets have been met, but measures to enhance efficiency are insufficient.

Consequently, Kureha decided to extend the KC2018 plan by two years in order to complete the management goals that have not been fulfilled as intended, and to adapt to changes in the social structure and business environment. This new medium-term management plan has been named “Kureha’s Challenge 2020 (FY2019–2020).”

2. Kureha’s Challenge 2020 (Product Differentiation and New Business Creation)

Positioning

The new plan carries over the vision set out in KC2018. Kureha will, in accordance with its corporate philosophy, seek to grow as a company built on technology, develop differentiated products in the specialty chemicals field, and become a high value-added company that continually contributes to society.

By completing the management goals left over from KC2018, Kureha will pursue business restructuring that shifts the pillar for earnings from pharmaceuticals and agrochemicals to advanced materials. At the same time, we recognize the need to adapt to changes in the business environment and address new issues from a long-term perspective, including the advancement of digitization in society, marine pollution caused by plastic wastes, and countering global warming.

Kureha is positioning the next two years as a “period to solidify the foundation for future expansion,” and will steadily achieve the management goals and quantitative targets in Kureha’s Challenge 2020, realizing sustainable growth and greater enterprise value.

Management Goals and Priority Measures (Asterisks indicate a new priority measure)

- (1) Expand the PGA business and generate earnings
 - Increase and stabilize sales of Kureha’s original frac plugs, and establish a business foundation
- (2) Strengthen the PVDF business for further expansion
 - Advance the development of high-performance LiB binders with competitive advantages
 - Secure raw materials and raise production capacity to support business expansion
- (3) Optimize the business models for existing businesses
 - Revise business strategies and alliances to better respond to changes in the business environment*
 - Develop new applications for downstream business; expand existing business in different markets and application fields*
- (4) Explore and develop new businesses in Japan and overseas
 - Seek out new application business themes in Japan and overseas*

- Assess the themes already identified, prioritize the necessary resources, and utilize outside resources to accelerate commercialization
 - Cultivate the personnel needed for downstream business development; invest the resources needed to accelerate technological innovations*
- (5) Strengthen management foundations
- Build a value chain management structure led by business divisions
 - Enhance efficiency of administrative tasks and group management
 - Reinforce performance-based personnel and pay systems; promote talented middle-age/young employees and recruit senior workers; cultivate and strengthen human resources
 - Enhance productivity by utilizing digital technologies; build smart operation models for production and R&D*
 - Strengthen corporate social responsibility (CSR) management to encompass Sustainable Development Goals (SDGs); ensure strong governance particularly for safety, quality, and environment (SQE) management*

Table 1: Quantitative Targets (Billions of yen, except where stated)

	FY2018 Result	FY2020 Plan	Variance
Revenue (Overseas proportion)	148.3 (30%)	157.0 (33%)	+8.7 (+3%)
Operating profit (Operating margin)	17.2 (11.6%)	18.0 (11.5%)	+0.8 (-0.1%)
Profit (loss) attributable to owners of Kureha	13.9	14.0	+1

(Presumptions) Forex: ¥110/\$, ¥125/€, ¥16.5/yuan; Crude oil: \$70/bbl

Table 2: Breakdown by Business Segment (Billions of yen, except where stated)

	FY2018 Result		FY2020 Plan		Variance	
	Revenue	Operating profit	Revenue	Operating profit	Revenue	Operating profit
Total	148.3	17.2	157.0	18.0	+8.7	+0.8
Advanced Materials	45.7	4.6	55.0	7.6	+9.3	+3.0
Specialty Chemicals	27.3	3.3	26.0	2.1	-1.3	-1.2
Specialty Plastics	45.1	6.7	46.0	6.2	+0.9	-0.5
Construction	12.4	0.7	12.5	0.3	+0.1	-0.4
Other Operations	17.6	2.1	17.5	1.8	+0.1	-0.3
Adjustments, Other Income & Expenses	—	-0.2	—	0	—	+0.2

Capital Investment

Kureha is planning a total of 38.0 billion yen in capital expenditures for FY2019–2020. The expenditures will mainly focus on:

- (1) Production capacity enhancements utilizing innovative processes and technologies (PVDF: FY2023 capacity increase (tentative); PPS: Capacity increase to be completed in Q4 FY2020)
- (2) Research and development related to new business creation, etc.
- (3) Maintenance and renewal of facilities and equipment to ensure stable earnings

R&D Expenditures

Kureha is planning a total of 13.0 billion yen in R&D expenditures for FY2019–2020. Areas for additional investment include exploration of new business themes and strengthening processing technologies for downstream business development.

Table 3: Capital Investment, Depreciation and R&D Expenditures (Billions of yen)

	FY2018 Result	FY2019–2020 Plan (2yrs)
Capital investment	13.2	38.0
Depreciation	10.3	23.0
R&D expenditures	5.3	13.0

Basic Capital Policy

Kureha will aim for sustained growth that leads to longer-term increases in enterprise value. We will steadily achieve the management goals and quantitative targets outlined in Kureha's Challenge 2020, while maintaining financial stability and enhancing earnings capacity and capital efficiency.

Table 4: ROA, ROE, and Interest-bearing Debt

	FY2018 Result	FY2020 Plan
ROA	7.1%	Same level as FY2018
ROE	9.0%	8.0%

Basic Policy on Shareholder Returns

Kureha's basic policy on the distribution of earnings is to strengthen the company overall to achieve longer-term growth, provide for future business expansion, enhance retained earnings, and pay a stable and continued dividend. Kureha will also consider the acquisition of its own shares as an option to flexibly adjust to varying financial conditions.

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