Summary of
Financial Results Conference
for Fiscal 2021,
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Asahi Kasei Corporation

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Presentation

P. 2 Focus of FY 2021 results and FY 2021 forecast

Horie: FY 2021 results showed a significant increase in both sales and operating income compared to FY 2020 due to recovery from the impact of COVID-19. On the other hand, operating income fell short of the forecast announced in February 2022.

For FY 2022, we expect operating income to increase year-on-year due to a recovery in the automotive interior materials business and firm performance in “GG10,” the growth driver businesses designated in the new medium-term management plan (MTP), despite a decrease in operating income in the basic materials and other businesses. However, we will closely monitor the impact of further prolongation of the semiconductor shortages, the Russia-Ukraine situation, and the COVID-19 situation in China as risks. This year marks the start of the new MTP, and we will aggressively implement measures to achieve the goals set in the MTP.

Regarding shareholder returns, the annual dividend for FY 2021 was 34 yen per share, resulting in 41% payout ratio over the three-year period of the previous MTP, exceeding the target level of 30–40%. The annual dividend for FY 2022 is forecasted to be 36 yen per share, but we will study additional returns in consideration of operating performance and other factors.

P. 5 Financial results for FY 2021 (consolidated)

Net sales for FY 2021 were 2,461.3 billion yen, a new record high. Operating income was 202.6 billion yen, net income attributable to owners of the parent was 161.9 billion yen, EPS was 116.68 yen, and EPS before goodwill amortization was 137.14 yen.

P. 6 Results by segment (year-on-year)

I will explain the operating income of each segment in comparison to the previous year.

As for Material, the graph shows the Basic Materials business in light blue and other businesses in darker blue. The operating income of the Basic Materials business increased from 14.0 billion yen in FY 2020 to 41.2 billion yen in FY 2021, mainly due to the inventory valuation gain resulting from rising petrochemicals market prices and improved terms of trade for acrylonitrile, AN. Other businesses in Material also posted an increase due to higher shipments of engineering plastics and other products, reflecting the recovery from the impact of COVID-19.

In Homes, despite decreased deliveries of the order-built homes, operating income increased due to factors such as higher average unit prices resulting from the promotion of larger and higher value-added homes, a rise in income from the North American operations due to fluctuations in lumber prices, and the effect of consolidation of McDonald Jones Homes Pty Ltd in Australia.

The operating income of Health Care decreased due to a significant drop in shipments of ventilators, for which demand surged in FY 2020 due to COVID-19, but other businesses showed steady growth.

P. 7 Results by segment (compared to forecast)

Operating income for each segment is explained here in comparison with the forecast announced in February.

Material fell short of the forecast. The Basic Materials business performed well, but other businesses were affected by a slower-than-expected recovery in automobile production due to the shortages of semiconductors and the Russia-Ukraine situation, which affected the automotive interior materials business and separator business among others.

Homes performed well and exceeded the forecast.

Health Care fell short of the forecast due to the supply chain disruption caused by the shortages of semiconductors, etc., which affected parts procurement, production, and shipments of defibrillators in the Critical Care business, as well as an increase in SG&A expenses in the pharmaceuticals business.

P. 8 Change in operating income composition compared to FY 2018

This slide shows the changes in the composition of operating income over the three-year period of the previous MTP. In FY 2018, the year before the start of the previous MTP, the Basic Materials business accounted for 25% of the group’s total income of 209.6 billion yen, at 53.1 billion yen, and the Specialty Solutions business and the Health Care segment, which are positioned as high value-added businesses, together accounted for 36%, at 74.8 billion yen.

In FY 2021, the final year of the previous MTP, the Basic Materials business decreased both in value and percentage to 41.2 billion yen, or 20%. On the other hand, the Specialty Solutions business and the Health Care segment together accounted for 45% of the total at 90.3 billion yen, indicating a structural shift toward higher value-added businesses.

The CAGR of operating income before amortization of goodwill for the Specialty Solutions business and the Health Care segment combined was 7% over the same period.

P. 9 Operating income increase/decrease

I will explain here the factors behind the increase or decrease in operating income from FY 2020 to FY 2021. The sales price difference was 137.0 billion yen positive, partly due to cost pass-through, while the feedstock cost difference was 130.4 billion yen negative, which offset each other, leaving a positive balance and improved terms of trade in each segment. The sales volume difference was positive 27.2 billion yen, resulting in an operating income of 202.6 billion yen, together with other factors.

P. 13 Overseas sales

Overseas sales in FY 2021 totaled 1,184.4 billion yen, accounting for 48% of total sales. Asia accounted for 21%, of which China accounted for less than 10%, the Americas 16%, Europe 6%, and other overseas 5%. Sales to Russia account for less than 1% of total sales, indicating that under the current geopolitical changes, the impact from China and Russia is relatively minor for us.

P. 15 Extraordinary income and loss

This slide shows the extraordinary income and loss that affected the larger increase in net income compared to operating income in FY 2021.

Extraordinary income increased by 15.3 billion yen from the previous year. In addition to an increase in gain on sales of investment securities due to the sale of strategic shareholdings, insurance income related to the fire at the semiconductor plant in Nobeoka was recorded. And upon the acquisition of additional shares and consolidation of McDonald Jones in the Homes business, we recorded a valuation gain on the 40% share in the same company, which we had already held, as the gain on step acquisitions.

Extraordinary losses decreased by 14.9 billion yen from the previous year. This was largely due to the impact of the 22.3 billion yen loss related to the semiconductor plant fire recorded in the previous year.

Overall extraordinary income/loss improved by 30.2 billion yen.

P. 17 Cash flows

Net cash provided by operating activities decreased by 70.4 billion yen from the previous year due to an increase in working capital such as accounts receivable and inventories resulting from higher feedstock prices.

Net cash used in investing activities increased by 63.3 billion yen from the previous year, mainly due to increased expenditures for M&A.

As a result, free cash flow was a net outflow of 37.7 billion yen, a deterioration of 133.7 billion yen from the previous year, but this was offset by increased cash flow from financing activities, including debt financing.

Free cash flows after cash dividends paid are shown for reference, which resulted in cash outflow of 84.9 billion yen, a significant deterioration from the previous year. We will approach FY 2022 with a view to improving cash flows as a major issue.

P. 19 FY 2022 operating performance forecast (consolidated)

For FY 2022, we project net sales of 2,731.0 billion yen, a record high following FY 2021; operating income of 210.5 billion yen; net income of 164.5 billion yen; EPS of 118.58 yen; and EPS before goodwill amortization of 139.63 yen. The assumptions for the forecast are exchange rates of 115 yen to the dollar and 130 yen to the euro, and a domestic naphtha price of 70,000 yen per kiloliter.

Naphtha prices have soared due to the Russia-Ukraine situation, and are currently at a high level of over 80,000 yen, but we intend to basically pass on the cost increase to sales prices.

The exchange rate assumptions also deviate significantly from the current situation. As a reference, the exchange rate sensitivity in the FY 2022 forecast is estimated as follows: a depreciation of 1 yen against the U.S. dollar is expected to result in a 1.6 billion yen increase in operating income, and a depreciation of 1 yen against the euro, a 0.4 billion yen increase.

While exchange rates are expected to be positive factors, there are negative factors such as a decrease in shipments due to a decline in automobile production caused by shortages of semiconductors and supply chain disruptions, so we will closely monitor various risk factors.

P. 20 FY 2022 operating performance forecast (by segment)

Here I explain the operating income forecast for FY 2022 compared to FY 2021.

In Material, the basic materials business is expected to post lower operating income, mainly due to worsening terms of trade for AN and inventory valuation loss for petrochemicals, but the operating income of AN is within the range explained at the management briefing in April.

The figures in this graph for FY 2021 and earlier do not reflect the change in disclosure categories from FY 2022, and the FY 2021 basic materials business includes the nylon intermediates business, which recorded a high performance due to problems at competitors. This business is included in the Mobility & Industrial business from FY 2022, and is expected to be a factor in a decrease in operating income year-on-year.

Other businesses in Material are expected to grow steadily. We expect a recovery in the automotive interior materials business due to the recovery of automobile production, increased shipments in the separator business, and growth in the digital solution products such as electronic devices and electronic materials.

In Homes, operating income is expected to increase with steady growth.

In Health Care, operating income deteriorated slightly in Q4 of FY 2021, but is expected to increase in FY 2022 due to expansion of Envarsus XR immunosuppressant by Veloxis Pharmaceuticals, Inc. and the elimination of supply chain disruptions in the Critical Care business through H2 of the year.

P. 21 Revision of business categories

The change in disclosure categories from FY 2022 is shown here.

P. 23 Operating income forecast by business category

Let me add some explanations for the FY 2022 forecast for Material.

The Environmental Solutions business is expected to see a 6.6 billion yen decline in operating income, with larger decrease in the basic materials business partially offset by an increase in other businesses.

The Mobility & Industrial business is expected to see a 2.0 billion decline in operating income. Although the nylon intermediates business will see a large decline from the high level of FY 2021, this will be partially offset by an increase in the engineering plastics and automotive interior materials businesses.

P. 24 Changes in key indicators

The new MTP places emphasis on capital efficiency, and this slide shows historical ROIC and ROE trends. ROIC and ROE in FY 2021 improved from the previous year to 6.6% and 10.3% respectively, and we will continue to aim for further improvement in capital efficiency in FY 2022.

P. 25 Shareholder returns

Regarding shareholder returns, the annual dividend for FY 2021 was 34 yen per share, resulting in a payout ratio of 41% for the three-year cumulative period of the previous MTP from FY 2019 to FY 2021. Under the new MTP, we intend to return 150 to 180 billion yen to shareholders over the three-year period, and the annual dividend forecast for FY 2022 is 36 yen per share from the perspective of ensuring a payout ratio of 30%. We however will consider further expansion of shareholder returns, including share buybacks, while keeping an eye on operating performance and other factors.

Question and Answer Session

Mr. Takato Watabe, Morgan Stanley MUFG Securities: I would like to ask you about the separator business. Under the new disclosure, the Environmental Solutions business includes the basic materials business, the membrane solutions business, and the synthetic rubber & elastomers business, in addition to the separator business. If we subtract the disclosed operating income of the basic materials business from the operating income of the Environmental Solutions business and assume that the membrane solutions business and the synthetic rubber & elastomers business are both reasonably profitable, the profitability of the separator business does not appear to be very high. Given that one of your competitors has recorded impairment losses, how do you plan to improve profitability? Please elaborate on the current business situation, too.

Onodera: In the separator business, we will continue to work on expanding automotive applications in addition to our existing strength in consumer electronics applications. We are currently working to reduce fixed and proportional costs, centering on wet-process LIB separators, for which we have been increasing production capacity, and we believe that we will be able to improve the profitability of the separator business as a whole in the future.

Mr. Watabe: I would like to ask about the Critical Care business. The operating income level was quite low for Q4 of FY 2021, and is also expected to decrease for FY 2022, year-on-year. I assume that this is partly due to the impact of acquisitions, but please explain more about the situation.

Otsubo: In Q4 of FY 2021, sales remained flat and operating income declined compared to Q4 of FY 2020. The decline in operating income was due to lower shipments of ventilators, the impact of consolidation of Respicardia, Inc. and Itamar Medical Ltd., and depreciation of the yen. In the defibrillator business, orders were strong as the demand was recovering in FY 2021 from the impact of COVID-19, but the shortages of semiconductors and supply chain disruptions had an impact on shipments, and net sales were on par with the same period of the previous year. Sales of LifeVest wearable defibrillator were also on a recovery track in FY 2021, but orders slowed down after the summer due to the resurgence of COVID-19 in the U.S., resulting in sales on par with the same period of the previous year.

In FY 2022, we expect sales to increase as both defibrillators and LifeVest will expand, but operating income is expected to remain flat compared to FY 2021 due to operating losses and PPA amortization of the two acquired companies.

Mr. Mikiya Yamada, Mizuho Securities: I would like to ask about the pharmaceuticals business. The growth rate of Envarsus XR slowed down in FY 2021 due to the impact of COVID-19, but how much growth do you expect in FY 2022? Also, is the fact that abaloparatide, your competitor's formulation, has not yet been launched a factor behind the strong performance of Teribone osteoporosis drug? Can we expect it to grow further due to synergistic effects with its competitor, romosozumab?

Otsubo: As shown on page 34 of the presentation material, the Envarsus XR sales for Q4 of FY 2021 were up 27% year-on-year, and for the full year of FY 2021, up 17% year-on-year. The drop in sales from Q3 to Q4 was largely due to seasonal factors and is within our expectations. The number of new kidney transplants declined from FY 2019 to FY 2020 due to the impact of COVID-19, but grew by about 8% from FY 2020 to FY 2021, and we expect shipments to grow accordingly as the market continues to expand steadily in FY 2022.

The share of Envarsus XR of the prescriptions for new kidney transplant patients is more than 35%, which is higher than initially expected at the time of acquisition. The share of the tacrolimus market has also grown steadily, from about 5% at the time of acquisition to about 12% today. The business is progressing steadily.

Kashiwagi: I will explain about Teribone. Our competitor's abaloparatide was approved in February 2021, but has not yet been launched, and we are closely monitoring the situation. On the other hand, the autoinjector of Teribone is highly regarded for the fact that it can be self-administered at home without a hospital visit under the influence of COVID-19, and the frequency is twice a week. It continues expanding and performing well including a shift from the conventional formulation.

Mr. Yamada: I think the competitiveness of autoinjectors is becoming clearer, but is it possible that the presence of romosozumab contributes to increaseed prescriptions of Teribone?

Kashiwagi: Since romosozumab has a different action mechanism and is not a complete competitor, we can't measure the impact.

Mr. Yamada: I would like to ask about Homes. You explained that terms of trade were positive in FY 2021. Homes contracted in FY 2021 will be delivered and booked as sales in FY 2022, but with prices of steel and other materials rising so much, do you expect terms of trade to be positive as they were in FY 2021? Under the Accounting Standard for Revenue Recognition, which was adopted in FY 2021, the cost difference will be recognized at the time of delivery. How do you see the impact of this?

Kume: In FY 2022, as you have pointed out, soaring steel and material prices are expected to be a greater cost-increasing factor than in FY 2021. However, in addition to internal efforts such as cost reduction activities, we plan to secure profitability by further promoting larger and higher value-added homes, aiming for increased operating income compared to FY 2021.

Mr. Yamada: In FY 2021, the orders are recovering with improvement in composition, so there is no need to worry about profit pressure factors, including cost variance adjustments at the time of delivery in accordance with the Accounting Standard for Revenue Recognition, is that correct?

Kume: Soaring material costs are a factor that will put pressure on profits, but we had factored in this to some extent. However, we will continue to closely monitor the soaring raw materials prices.

Mr. Yamada: Orders are recovering and we have high expectations.

Mr. Go Miyamoto, SMBC Nikko Securities: I would like to ask you about the Critical Care business, which has fallen far short of the February forecast for FY 2021. You explained that this was due to the procurement of parts, but what specific parts were in short supply? The forecast for FY 2022 is a 9.2% increase in sales and a 0.6 billion yen decrease in income compared to FY 2021. To what extent do the acquisitions of Respicardia and Itamar affect the decrease in operating income? We would also like an update on defibrillator market share trends.

Otsubo: The impact on parts procurement is mainly due to a shortage of semiconductors. ZOLL purchases circuit boards with semiconductors, but is experiencing difficulties in procuring some of them. It is difficult to predict when the situation will be resolved, but at least at the moment it is still affecting ZOLL, and we assume that the situation will improve over time from Q1 to Q2, and then to H1 of the year.

As for the impact of the two acquired companies on the FY 2022 forecast, Itamar's operating losses and PPA amortization are expected to total some billions of yen as a factor to decrease operating income year-on-year. In regard to Respicardia, we recorded a gain on accounting treatments associated with acquisition of the company in FY 2021, but this will not occur in FY 2022.

Another factor is that in H1 of FY 2021, there was still a positive impact from increased ventilator production in FY 2020 contributing to lower costs of other products, but this will no longer be the case in FY 2022.

ZOLL's market share for defibrillators is currently around 40% globally. The company has a strong position mainly in the U.S. and Europe, and recognizes that there is no significant change in the competitive situation.

Mr. Miyamoto: Please explain the FY 2022 forecast for Material by subsegment. For example, operating income of the Life Innovation business is expected to increase by 2.6 billion yen year-on-year. Since it includes various businesses including electronic devices and electronic materials, I would like to hear more about it.

Takahashi: The Environmental Solutions business is expected to see a decrease in operating income in FY 2022 year-on-year. The main factor is that the basic materials business will see a decrease of about 10 billion yen, mainly due to worsening terms of trade of AN and the inventory valuation losses on petrochemical products. On the other hand, other businesses are expected to increase operating income by about 4 billion yen in total, with the separator business, synthetic rubber and elastomers business, and membrane solutions business all expected to perform well.

Yamaguchi: The Mobility & Industrial business is also expected to see a decrease in operating income in FY 2022 year-on-year. This is because of the impact of a large decrease from the nylon intermediates business, which was transferred from the basic materials business as a result of organizational changes, due to inventory valuation losses, etc. Excluding this factor, the forecast is for an increase in operating income. With the easing of the semiconductor shortages, we expect recovery in shipments and increased operating income for automotive interior materials, which had been affected by automobile production cutbacks centered on North America. In addition, the progress in pass-through of raw material price hikes to sales prices will also contribute. However, uncertainties regarding the semiconductor shortage situation, the impact of lockdowns in China, etc. are being closely monitored as risk factors.

Igarashi: The Life Innovation business is expected to see a year-on-year increase in operating income in FY 2022. Despite soaring raw material prices and other cost increases, we expect expansion mainly in electronic devices and electronic materials as the semiconductor market continues to be brisk.

Mr. Miyamoto: Regarding the AN price spread, please let us know the actual results for FY 2021 and assumptions for FY 2022.

Takahashi: For Q4 of FY 2021, the AN market price was 1,985 dollars/ton, the propylene market price was 1,127 dollars/ton, and the spread was 858 dollars/ton. Due to the rise in the propylene price, the spread was slightly worse than the February forecast assumption of 950 dollars/ton for H1 of FY 2021.

For FY 2022 assumption, the AN market price is 1,900 dollars/ton in H1, 2,000 dollars/ton in H2, and 1,950 dollars/ton for the full year. The propylene market price is 1,150 dollars/ton in both H1 and H2. The spread is 750 dollars/ton in H1, 850 dollars/ton in H2, and 800 dollars/ton for the full year.

On the other hand, the market price of ammonia has risen considerably and is currently above 1,000 dollars/ton, but progress in adoption of formula-based pricing has considerably reduced the volatility of the AN performance.

Mr. Miyamoto: Is it correct to understand that, including the impact of the sharp rise in the ammonia price, the operating income decline in the basic materials business will be limited to about 10 billion yen?

Takahashi: That's right.

Mr. Shigeki Okazaki, Nomura Securities: I would like to ask you about the Health Care business mentioned on pages 33 and 34 of the presentation material. What are the factors behind the forecast of a large increase in operating income in FY 2022? Is slight decrease in sales of Envarsus XR from Q3 to Q4 of FY 2021 due to seasonality? Please tell us about the sales outlook for FY 2022 of Envarsus XR, Teribone, and Plaquenil immunomodulator, as well as your view of the medical business.

Kashiwagi: In FY 2022, Asahi Kasei Pharma expects to expand sales of Teribone, Plaquenil, Kevzara treatment for rheumatoid arthritis, etc. Sales of Teribone exceeded 38 billion yen in FY 2021, and we plan to achieve its target of 40 billion yen in FY 2022. Plaquenil, which we have being selling since October 2021, will contribute for the full year in FY 2022 and is expected to one of factors to increase sales and operating income.

Otsubo: The decline in Envarsus XR sales from Q3 to Q4 of FY 2021 was due to seasonal factors. In FY 2022, we expect the momentum of year-on-year growth in Q4 to continue.

Mr. Okazaki: May I take it that it will grow at an annual rate of 40–50%?

Otsubo: We do not expect to go that far, but we do expect double-digit percentage growth.

The medical business is also expected to post increased sales and operating income, with sales of Planova virus removal filter, which has been the growth driver for this business, expected to increase steadily, and the acquired biosafety businesses expected to expand. Operating income is expected to increase due to higher shipments of Planova, despite increased SG&A expenses in line with business expansion and higher costs associated with soaring raw material prices.

Mr. Okazaki: In regard with the Homes business, on page 31 of the presentation material, you forecast a 15% increase year-on-year in orders in the order-built homes in FY 2022. What is the response at this point? Also, on page 30, the forecast for FY 2022 by division shows an increase in sales in the "overseas, etc." We assume that this is due to the effect of the new consolidation, but do you have any concerns about the impact of rising interest rates in the U.S.? Please also tell us the background behind the slight decline in operating income projected for this division.

Kume: The forecast for orders in the order-built homes for FY 2022 is approximately 440 billion yen, and the assumption is that average unit price will increase through further promotion of larger and higher added-value homes for both unit homes and apartment buildings.

With regard to overseas operations, in FY 2021, the North American business saw a significant increase in operating income due to lumber price fluctuations, while the Australian business saw a significant increase in sales due to the consolidation of McDonald Jones. In FY 2022, the North American business will see lower sales and operating income than in FY 2021, when sales were high. On the other hand, the Australian business plans to increase both sales and operating income by ensuring that its abundant order backlogs will translate into sales, although the construction period is expected to be extended due to the impact of the flooding in February and labor shortages. For the overseas business as a whole, operating income is expected to be roughly on par with FY 2021. As for interest rate hikes in the

U.S., we expect housing demand to remain strong, as wages are expected to rise along with interest rate hikes in this market.

Mr. Atsushi Ikeda, Goldman Sachs Japan: In the Specialty Solutions business of Material, operating income dropped considerably from Q3 to Q4 of FY 2021. There may be seasonality in electronic devices business, but was the separator business significantly affected by the impact of the automotive-related semiconductor shortages? Also, how much do you expect shipments of LIB separators to grow in FY 2022?

Igarashi: From Q3 to Q4, the performance materials business was affected by the Chinese New Year and soaring raw material prices, as well as a reaction to the concentration of shipments in Q3 of PIMEL photosensitive polyimide, a semiconductor buffer coating.

Onodera: In the separator business, sales remained flat from Q3 to Q4, while operating income declined. Sales of wet- and dry-process LIB separators and lead-acid battery separators remained flat, but operating income declined due to the impact of higher raw material prices and logistics costs for dry-process LIB separators and lead-acid battery separators. As for the wet-process LIB separators, Q4 was also affected by price revisions as before.

Mr. Ikeda: Can you tell us the shipment volume index of LIB separators for H2 of FY 2021 and forecast for FY 2022, please?

Onodera: As for the monthly shipment volume index based on the volume in Q1 of FY 2013 as 100, the result for H2 of FY 2021 was 390. For FY 2022, shipment of LIB separators is expected to grow by about 30% year-on-year.

Mr. Ikeda: Regarding the Critical Care business, how much do you see the supply chain disruption impact? What is your view for FY 2022, including the growth of LifeVest and defibrillators for professional use?

Otsubo: It is difficult to determine the supply chain disruption impact as there are various factors behind it such as semiconductor shortages, COVID-19, etc., so we cannot give a specific amount, but we expect, as the situation normalizes, sales of both LifeVest and other defibrillators to grow as expected.

Mr. Ikeda: Do you have an idea of the annual growth rate?

Otsubo: I don't have a specific figure to give you.
This concludes the briefing. Thank you for your participation.