Summary of Management Briefing
Progress and Outlook of Medium-term Management Plan 2024

April 11, 2023

Asahi Kasei Corporation

Participants

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Presentation

P. 2 Executive Summary

Kudo: We announced our current mid-term management plan (MTP) in April 2022. Although changes in the business environment have made our current performance stagnant, the direction Asahi Kasei is heading in remains unchanged, and today I would like to explain our progress and specific measures.

With the prolonged semiconductor shortages and the lockdowns in China, resulting in sluggish demand, as well as soaring feedstock prices, our operating income forecast for FY 2022, the first year of MTP, stagnates at 125 billion yen. Although the business environment is expected to gradually improve, the operating income target for FY 2024 has been changed to 200 billion yen or more, taking into account the delay from the initial plan. The initial target of 270 billion yen will be achieved with a delay of two to three years.

In response to this situation, we will work to strengthen our profit structure by improving productivity and reducing costs. Specifically, we will begin to reduce SG&A expenses, targeting an annual reduction of approximately 20 billion yen, in order to raise the level of profits. Most importantly, we will further accelerate structural transformation. During the MTP period, we aim to complete reforms in businesses with total sales of 100 billion yen or more. In the petrochemical chain-related business, where volatility is high and carbon neutrality is a challenge, we are studying the prospects to raise the value of the business through alliances with other companies. The total sales of the petrochemical chain-related business are in the order of 600 billion yen. We are currently discussing with various stakeholders and hope to reach a conclusion on the course of action during the MTP period. We will make the most of the technologies and business foundations we have developed over the years to create innovations that contribute to carbon neutrality and pursue an optimal petrochemical chain.

On the other hand, the 10 Growth Gears (GG10), which were designated as growth-driving businesses, are developing in line with the initial strategy, although there are delays in profit generation, and we have entered the biopharmaceutical CDMO business and decided to increase capacity in the electronic materials business. While there is no change in our policy of continuing to invest in growth going forward, in light of the impairment loss in the separator business, etc., we will further narrow down the areas of investment within GG10 and apply more exacting scrutiny when making investment decisions.

Regarding shareholder returns, we will continue our policy of emphasizing stable dividends, and plan to maintain and increase dividends per share for the remainder of the MTP period. With regard to strengthening the business platform, we will continue to work from the perspective of Green/Digital/People and the maximum use of intangible assets, and pursue substantial results by closely examining cost-effectiveness.

P. 3 Review of Asahi Kasei's Business Portfolio Evolution

Here is a review of the transformation of Asahi Kasei's business portfolio, the most important aspect of its management, over the past 20 years. In response to the weak performance, Asahi Kasei initiated a structural transformation of its businesses in the early 2000s under the concept of selective diversification. We have downsized or withdrawn from some businesses in the fiber- and petrochemical-related areas, and have also implemented divestment of businesses in which we are not the best owner, such as the liquors operations and salt business. While the last 10 years may give the impression of business portfolio transformation centered on M&A, we have also been constantly implementing business structural transformation: in FY 2022, we have decided to transfer our photomask pellicles business and integrate our spunbond nonwovens business with that of Mitsui Chemicals, Inc., and just recently we announced the closure of the Iwakuni AAC Plant of the Construction Materials business. The key to the remaining two years of the MTP period will be how we can accelerate our structural transformation.

P. 4 Asahi Kasei's approach to reach what we want to be

Even in a challenging business environment, our stance of aiming for growth from a medium-term perspective has not changed. We will return to a growth trajectory by focusing on results and ensuring execution through our core technologies, culture to seek transformation, and diverse personnel, toward "Care for Earth–carbon neutral sustainable world," and "Care for People–active life in the new normal."

Progress of the medium-term management plan (overall)

P. 6 Operating income, ROIC, ROE

In FY 2022, the first year of MTP, earnings were significantly affected by the prolonged semiconductor shortages, the lockdowns in China, and soaring feedstock prices. Operating income is expected to be 125 billion yen, down from FY 2021. In addition, the impairment of Polypore International resulted in net loss and a significant decline in ROE to -6.3%.

P. 7 Status by business sector

In Health Care, operating income fell below the initial forecast due to the impact from semiconductor shortages, etc. in Critical Care. On the other hand, we took strategic measures toward medium-term growth, including the acquisition of Bionova Scientific, a biologics CDMO.

In Homes, the domestic businesses maintained earnings by promoting high value-added products despite a difficult market environment. In addition, the overseas operations continued to expand through acquisitions and steadily grew profits.

Material is generally facing difficult conditions, but Life Innovation has secured a reasonable level of earnings, although demand for some products in Digital Solutions is sluggish. We have decided to increase the capacity of electronic materials for business expansion.

Mobility & Industrial is lagging behind the initial forecast due to the slowdown in the growth of automobile production.

And very severe is Environmental Solutions. Weak market prices and demand in Basic Materials, as well as sluggish sales in the separator business, are expected to result in a loss in FY 2022.

FY 2022 was generally a difficult year for all businesses to navigate.

P. 8 Business portfolio and medium-term direction

In light of the difficult situation in the first year of MTP, we will once again summarize the position of each business and its medium-term direction. The chart on the left shows ROIC on the horizontal axis and income growth rate on the vertical axis. The dotted line represents the current situation, the solid line is the target for the next several years, and the size of the circle indicates the scale of operating income.

Health Care performed below expectations in FY 2022, but this was due to a number of temporary factors, and the initial goal of MTP will be achieved approximately one year behind the schedule. We will thoroughly reap the fruits of the aggressive investments made to date, and will also continue to search for inorganic growth opportunities.

Homes is a stable and highly cash-generating business that plays an important role for the Asahi Kasei Group. While maintaining a high ROIC, we would like to take advantage of any growth opportunities, especially overseas.

For Material, a breakdown into five businesses is shown on the right. Digital Solutions is a business that can expect high growth while maintaining a high ROIC, and will implement aggressive expansion measures, including inorganic growth opportunities. For other businesses, it is difficult to be optimistic about the outlook, and it is necessary to accelerate structural transformation. In particular, we need to take drastic measures for commodity products centered on Basic Materials.

In Environmental Solutions, the separator and hydrogen-related businesses have high medium-term growth potential, but it will be difficult to achieve significant profit growth in the next two to three years. While upfront investments will continue for the time being, we intend to thoroughly implement measures such as productivity improvement in order to improve profitability in the short term.

P. 9 Operating income target

Taking the current business situation into account, the operating income targets for Health Care and Material have been revised downward. For the entire group, the operating income target for FY 2024 has been changed to 200 billion yen or more. The initial target of 270 billion yen is expected to be achieved two to three years later.

P. 10 Growth Strategy – GG10 directions

The concept of focusing on GG10 as growth driver businesses will not change, but based on the situation over the past year, the priorities for resource allocation within GG10 will be more clearly defined. The first priority areas are Critical Care, Global Specialty Pharma, and Bioprocess in Health Care, and Digital Solutions in Life Innovation. We will continue to invest resources in these areas for medium-term growth and focus more than ever on generating returns from our past investments.

Hydrogen-related, CO_2 Chemistry, and Energy Storage including separators, in Environmental Solutions, are positioned as growth potential areas which require upfront investments. We are also looking to make major investment decisions during the current MTP period, such as the investment in North America for Hipore, wet-process LIB separator.

Other businesses in GG10 are positioned as earnings base expansion area, and while maintaining stable earnings generation, we will take the stance of investing in projects that have a high probability of expanding the scale of earnings.

The cumulative investment amount and operating income targets for GG10 businesses are shown here, both of which are progressing as originally planned.

P. 11 Outlook for recent M&A investment

As for the status of major M&A investments in recent years, there have been cases where profit plans have been delayed due to changes in the demand environment caused by COVID-19 and other factors, but no businesses have been forced to revise the growth strategies that were drawn up at the time of acquisition. We have invested the most aggressively in Health Care. Other than Veloxis Pharmaceuticals, it has only been one to two years since the acquisitions shown here, so they have not yet made a significant contribution to earnings. For Respicardia and Itamar Medical, we believe that synergies with ZOLL will definitely emerge over time. The CDMO business for the biopharmaceutical market targeted by Bionova is also expected to grow steadily. The results of these investments are expected to come to fruition toward 2024 and 2025, driving the group's profit growth.

P. 12 Business portfolio transformation

In light of deteriorating business performance, we will further accelerate business portfolio transformation. So far, two approaches have been developed; "reform of strategic restructuring businesses" for identified businesses with weak earnings, and "fundamental business structure transformation" from the viewpoint of compatibility with Asahi Kasei's vision, irrespective of business performance. However, since there are mutually interrelated areas, we are performing studies that integrate the two approaches.

The subject businesses are fairly broad, with total sales of more than 700 billion yen in FY 2021. We expect to implement structural transformation within the current MTP period for multiple businesses including those that were categorized as “Exit” in the reform of strategic restructuring businesses. The total sales of these businesses will be more than 100 billion yen. In addition, the commodity chemicals, of which high earnings volatility has been highlighted as an issue once again, are also being studied as petrochemical chain-related businesses, with total sales of approximately 600 billion yen. Although some of these businesses overlap with the 100 billion yen mentioned earlier, the scope of the businesses covered is extensive. Discussions are underway with particular emphasis on carbon neutrality.

P. 13 Policy for structural transformation of petrochemical chain-related business

The perspective for consideration in petrochemical chain-related businesses is whether it is possible to make sufficient profits even with the necessary investments toward carbon neutrality and costs including carbon taxes.

There are three major directions for structural transformation: (1) collaborative operation with other companies through joint ventures, etc., (2) exit from the business, and (3) developing carbon-neutral technologies and promotion of higher added value. While exploring the possibility of (3), we are also considering the possibilities of (1) and (2) in parallel, and especially for (1), if there is a suitable partner from the perspective of the best owner, we are actively pursuing discussions. The integration of the spunbond business with Mitsui Chemicals announced in February 2023 is an example of this, and similar discussions are underway in other businesses. We hope to finalize the direction of the businesses under discussion by the end of FY 2024 and implement them one by one.

Operating income from petrochemical chain-related businesses will decrease due to withdrawal and deconsolidation as a result of business integration with other companies. We, however, expect to generate income through licensing and other measures based on the technology development related to biofuels, etc., which is shown as an example of the initiatives for (3), in addition to the carbon neutralization of our own chains.

P. 14 Management KPIs

As for management indicators, the ROIC target for FY 2024 has been revised to 6% or more and the ROE target to 9% or more, in line with the revision of the earnings plan. We will thoroughly implement actions for a return to growth to achieve the original targets as quickly as possible.

P. 15 Financial and capital policy (improving capital efficiency)

In the current MTP, we are placing greater emphasis on ROE than ever before, and taking measures with a strong awareness of the need to improve capital efficiency. In terms of business portfolio transformation, we are accelerating the structural transformation of businesses with ROIC below WACC and shifting to an asset-light business model.

Rebuilding profitability is also an urgent task. In addition to strengthening operating profitability, we accelerate reduction of manufacturing costs, aiming to reduce SG&A expenses by 20 billion yen per year as a project separate from the earnings plan mentioned earlier.

In terms of capital streamlining, we will continue to reduce our strategic shareholdings.

Acceleration of the structural transformation of petrochemical chain-related businesses in Material is also important from a perspective of PER. In addition, we will realize profit growth from the past investments in Health Care and other businesses. In hydrogen-related and separator businesses, which have a large social impact and will contribute to Asahi Kasei’s growth over the long term, it is important to steadily develop these businesses while carefully providing explanations to stakeholders to gain their understanding. Homes is essential as a stable source of cash for the Asahi Kasei Group’s sustainable growth, and we will further enhance its cash-generating capacity. Through these efforts, we aim to raise our PBR to 1 or more as soon as possible, and then to higher levels.

P. 16 Capital allocation

Operating cash flow during the MTP period is currently projected to be 600-700 billion yen for the three-year period, down from the initial estimate due to the slump in earnings. Investing cash flow is expected to be 800-900 billion yen over the three-year period as originally planned, as we continue to carefully select investments for medium-term growth despite the difficult environment, and cash outflows from previously decided projects are also expected. Shareholder returns are also in line with the original plan, expected to be 150–180 billion yen. We are also considering strategic cash sources, such as the sale of businesses and the active use of other companies' capital for investments, while basically using interest-bearing debt to finance cash shortfalls. At present, we believe that we can maintain our financial soundness, with a D/E ratio of about 0.7 and a net D/E ratio of about 0.6.

P. 17 Shareholder returns

There is no change in our shareholder returns policy. We recorded a large net loss in FY 2022 due to the impairment on Polypore, but cash was not affected and dividends are expected to be the same as originally planned. Although earnings during the MTP period are expected to be lower than initially planned, we plan to maintain the dividend per share at the current level for FY 2023 and FY 2024 or increase it, emphasizing stable shareholder returns through dividends.

Progress of the medium-term management plan (by business)

P. 19 Growth strategies 1) Critical Care

Among GG10, I will explain the businesses in the first priority areas and growth potential areas.

Critical Care is pursuing further growth in the field of serious cardiopulmonary-related diseases, and operates in the two areas of patient services and healthcare infrastructure.

In patient services, we will develop a large potential market and achieve high growth through innovative technologies that address unmet medical needs. In addition to further expanding sales of the existing mainstay product, LifeVest wearable defibrillator, we will create synergies in the newly acquired sleep apnea treatment device and home diagnostic solutions businesses, leading to increased profits.

In healthcare infrastructure, we are a market leader in defibrillators for professional use, AEDs, and ventilators, and aim to achieve stable business growth in the low single-digit percentage range.

Critical Care has set a target of 5 billion dollars in sales by 2030, and will continue to be the area of greatest growth potential for the group.

P. 20 Growth strategies 2) Global Specialty Pharma

In Global Specialty Pharma, Asahi Kasei Pharma and Veloxis will collaborate to accelerate their evolution into a global specialty pharmaceutical company focused on disease areas related to immunology and transplantation. The two companies will collaborate their knowledge and business foundations to promote business development, clinical development, and sales with the aim of acquiring new drugs.

In the Japanese market, Asahi Kasei Pharma will focus on its core areas of orthopedics, critical care, and immunology, while in the U.S. market, Veloxis will focus on its core area of transplantation, leveraging respective expertise and sales channels to launch and expand sales of new drugs. In addition, we aim to achieve sustainable growth by in-licensing early-stage development products and promoting joint research and development.

The sales target for the pharmaceuticals business is 150 billion yen in FY 2025 and 200 billion yen in FY 2030.

P. 21 Growth strategies 3) Bioprocess

As for Bioprocess, we have set a goal of evolving into a premium partner for pharmaceutical companies, contributing to biologics safety and manufacturing efficiency, and have pursued a business that provides solutions to customers' processes, rather than simply supplying goods. In April 2022, we entered the biologics CDMO business by acquiring Bionova, which provides contract manufacturing process development and contract antibody GMP manufacturing services to biologics companies. In February 2023, we have decided to expand Bionova's process development and GMP manufacturing capacity to meet strong customer demand, and we expect accelerated growth in the future.

P. 22 Growth strategies 4) Digital Solutions

In Digital Solutions, we have both the electronic components and electronic materials businesses, and provide solutions to various latest needs in the fields of electric vehicles, environmental solutions, energy conservation, information and communication, etc., with advanced, proprietary core technologies.

In the electronic components business, we will provide innovative products with competitive sensing technology. Specifically, we are developing products of current sensing devices for next-generation power devices, and also developing high-precision alcohol sensors for automotive applications by utilizing its proprietary module technology. In the electronic materials business, we provide competitive materials and solutions for cutting-edge semiconductor and packaging process innovations. We have decided to increase the capacity of Pimel photosensitive polyimide for the growth of advanced semiconductors, and expect profit growth.

In the future, we will continue to take actions to accelerate growth in order to increase operating income of Digital Solutions to the ¥70 billion level.

P. 23 Growth strategies 5) Energy Storage (separator)

Energy Storage is positioned as a growth potential area. As announced in March 2023, we will pursue growth through expansion of Hipore wet-process LIB separator in North America, while focusing on improving the profitability of Celgard dry-process LIB separator. We will invest resources in Hipore with a focus on capturing the North American market by enhancing supply capability and forming alliances, leveraging product development based on high degree of coordination with customers, world-class environmental protection technologies, and manufacturing technologies with top-class productivity.

In addition, we aim to develop a solution-oriented business that is more than just selling products, using the knowledge we have accumulated in the separator business, such as information on the battery-related markets and know-how related to manufacturing technology. If such efforts come to fruition over the medium to long term, they will significantly change the shape of our business.

P. 24 Growth strategies 6) Hydrogen-related business

In the hydrogen-related business, we are working on technological and business development with the aim of commercialization by 2025. Collaboration with upstream and downstream partners in the supply chain is important, and we will make forward-looking developments by deepening our contacts with related industry associations. Although it will be some time before the business contributes to earnings, we will take proactive actions to make it a pillar of our business in the next generation.

P. 25 Growth strategies — Leveraging core technology to extend business

To conclude this chapter, I would like to offer a slightly different perspective and provide an example of Asahi Kasei's business development related to the core technologies.

Asahi Kasei was founded in 1922, and one of its earliest businesses was chemical synthesis of ammonia using hydroelectric power generation in Nobeoka City, Miyazaki Prefecture. The microporous membrane technology that developed from there led to cellulose fibers and ion-exchange membranes for chlor-alkali. The cellulose fiber technology later evolved into the businesses in Health Care, including dialyzers and virus removal filters. On the other hand, ion-exchange membrane technology has developed into LIB separators, water treatment filtration membranes, and membranes for alkaline water electrolysis systems, which are currently under development for expansion. The accumulation of know-how and technologies passed down is creating products that will solve social issues in the future.

We are also looking to expand into solution-based businesses that leverage our technologies. For example, regarding virus removal filters in the bioprocess business, we are developing a contract biosafety testing service business and a CDMO business for biologics companies. Creation of service-oriented business that utilizes the knowledge and business foundations accumulated in the separator business is also being considered. We will promote business growth through two approaches: further cultivation of our core technologies and creation of new types of businesses.

P. 27 Health Care sector highlights

In Health Care, Asahi Kasei Pharma received approval to manufacture and market Cresemba, a treatment for invasive fungal infection, in Japan. We will continue to actively engage in open innovation and drug in-licensing. Veloxis' Envarsus XR immunosuppressant is progressing one to two years behind initial expectations due to the impact of COVID-19, but the growth potential of the market itself remains the same and is expected to expand steadily.

As for Planova virus removal filter in the Medical business, we launched Planova S20N, which features higher flux and throughput, robust virus removal capability, and simplified post-use integrity testing. This filter is a further evolution of the microporous membrane technology introduced earlier, and is an innovative product that contributes to operational efficiency in the manufacturing processes of pharmaceutical companies. In response to increasing demand, we have decided to build a new assembly plant in Nobeoka City, Miyazaki Prefecture, and will continue to further expand the market position while aiming to accelerate capacity expansion.

P. 28 Homes sector highlights

In Homes, we aim to provide high-quality homes by improving construction efficiency and productivity through our know-how on industrialization in North America and Australia. In FY 2022, in the North American business, we acquired the Focus Companies and entered the state of Nevada. We expect synergies with our existing business in the neighboring state of Arizona, and aim to solve issues such as labor shortages and long construction periods, as well as provide high-quality homes. The Australian business is also steadily expanding its share of construction starts.

In the sustainability efforts, we are promoting ZEH (net-zero energy homes) and ZEH-M (net-zero energy apartments) toward realization of decarbonization. The Homes business expects to achieve the RE100 goal of procuring 100% of the energy consumed in the business activities from renewable energy sources by FY 2024, as well as plans to obtain SBT certification for the GHG emission reduction target.

P. 29 Material sector highlights

In Material, we are shifting our focus to a solution-oriented business that leverages the added value of our materials and products, rather than simply selling products. Under the concept of P-PaaS (Product-based Platform as a Service), which provides a platform that increases customer value based on the added value of Asahi Kasei's materials and products, we are already providing solutions that can transform customer business processes, such as Fresh Logi cloud-based fresh produce logistics solution and Akliteia anti-counterfeiting digital platform. The hydrogen-related business and alcohol sensors for automobiles introduced earlier also have the potential for new business development based on the P-PaaS concept.

P. 30 Positioning of each region

I would like to explain the positioning of each of our global regions. We are developing our business globally based on the characteristics of each region, and we execute our business strategies with an awareness of major changes on a global scale, such as the recent decoupling of the global economy and geopolitical risks, in addition to the unique conditions of each region.

In Europe, an advanced region for environmental business, we will explore opportunities such as hydrogen-related business. Europe is also positioned as an advanced region in the automotive business, we are deepening our collaboration with European automakers to create next-generation products.

China offers opportunities for creation of world-first products and new business models, and we are also looking for opportunities to collaborate with local companies through the establishment of a CVC base in China and other measures. We are also working to strengthen our supply chain in the region.

The U.S. is already the center of the businesses in Health Care sector and will continue to be the largest growth market for us, to which we will devote resources with emphasis. Richard A. Packer became in charge of Health Care by himself in April 2023. By focusing management more on the U.S. than ever before, we will be able to make strategic decisions and execute them more quickly, and further accelerate the globalization of our business. The U.S. is also expected to provide new growth opportunities for Homes and Material, and we see the U.S. as a region that will drive the medium-term growth of the entire group.

ASEAN is a future growth market, and we are focusing on the potential for new businesses, particularly in environment-related themes.

Japan is the locus of the Asahi Kasei Group's core technologies, and we will focus on value-added businesses that contribute to the realization of a sustainable society, while continuously deepening our core technologies and creating new technological innovations.

P. 31 Management KPI trend

The indicators highlighted in this table are management KPIs in each area. Some indicators have been revised downward this time, and we will make every effort to achieve the targets.

Strengthening business platform

P. 33 4 key areas for transformation

Now we will describe the four key areas being addressed from the perspective of strengthening the business platform: Green Transformation, Digital Transformation, Transformation of Human Resources (People), and Maximum use of intangible assets.

P. 34 Green Transformation (GX)

For Green Transformation, we are committed to reducing both our own GHG emissions and those throughout society.

Our own GHG emissions reduction targets are to achieve carbon neutrality by 2050 and to reduce GHG emissions by at least 30% from the FY 2013 level by FY 2030. In FY 2022, we studied GHG reduction scenarios at the level of execution and identified the associated costs. The path to the reduction target by 2030 is a combination of the following three measures: low-carbon energy, production process efficiency improvement, and product/business portfolio transformation. For example, in the area of low-carbon energy, we will implement specific measures such as maximizing the use of our hydroelectric power plants, and phasing out coal-fired thermal power plants. We gained a clearer view of action plans for the 2050 goal over the past year.

For reducing GHG emissions in society, we are promoting total GHG reduction efforts, including product use by users and disposal after use, from a bird's-eye view of the entire value chain. Moving forward, we will further promote the visualization of environmental value, shift to products and businesses that contribute to carbon neutrality, and work on business model reform. In addition, we will contribute to the realization of a decarbonized society through the development of next-generation innovative technologies such as hydrogen and CO_2 chemistry, access to new technologies, and active involvement in the formulation of rules.

The trend toward carbon neutrality is a great opportunity for the chemical industry to take advantage of its accumulated knowledge. By combining the human resources and core technologies developed over Asahi Kasei's 100-year history with digital technology, we aim to continue to be the partner of choice for the decarbonization of various industries with our unique approach.

P. 35 Digital Transformation (DX)

We designated the period from FY 2022 onward as the Digital Creation Period, and have been promoting initiatives from the three perspectives of reinforcing digital foundations, enhancing management, and business transformation. In addition to being selected as DX Stock for the second consecutive year in FY 2022, our digital marketing efforts in the pharmaceutical business were selected for the grand prize of the Nikkei B2B Marketing Awards, which represents increasing opportunities to attract attention from outside the company.

The group's common digital infrastructure has been strengthened from the perspectives of people, data, and organizational climate, with digital human resource development being the most important. In the Asahi Kasei Group, more than 16,000 employees have completed Level 3 of the DX Open Badge, and the number of digital professionals has increased from 230 at the end of FY 2021 to 1,070, a 4.6-fold increase. We feel that an organizational culture that utilizes digital technology is permeating throughout our business activities and becoming a part of who we are. From FY 2023, we will promote enhancing management and business transformation based on the strengthened group-wide digital infrastructure. In each of our businesses, digital professionals and business leaders are already working together on transformation, and concrete results are being achieved.

P. 36 HR transformation

The implementation of the strategies I have explained so far depends entirely on human resources, and we recognize that human resource strategies are extremely important. Based on the concept that "people are our most valuable assets–everything starts with people," we are promoting a human resources strategy with two key concepts: lifelong growth and co-creativity of diverse individuals.

With regard to lifelong growth, in FY 2022, we began rolling out proprietary platforms for learning and career design, which support taking challenges, learning, and growth tailored to each individual employee. In addition, Asahi Kasei extended the retirement age from April 2023, and expanded the Group Masters program and open position system, among other measures.

With regard to co-creativity of diverse individuals, we have strengthened our efforts to consciously create opportunities to connect diverse human resources within the group, including Group Masters. In addition, we are actively pursuing aggressive acquisition of human resources, including promotion of outstanding personnel from overseas acquired businesses and hiring of digital human resources in ASEAN countries.

Regarding key KPIs, all indicators are progressing as planned: developing and acquiring Group Masters, enhancing employee engagement, and promotion of DE&I. The target for the number of Group Masters was set at 300 for FY 2024, but was revised upward to 360 since the original target is expected to be achieved in FY 2023, ahead of schedule. We will steadily promote the development and acquisition of professional human resources.

P. 37 Maximum use of intangible assets

Operating businesses in three sectors, the Asahi Kasei Group's strength lies in its ability to possess and utilize a wide variety of intangible assets. Here is an example of utilizing intangible assets not only to create new businesses, but also to strengthen existing businesses and to change their structure. We separated a certain business to a joint venture with another company. The figure on the left is a bird's-eye view of the patents of Asahi Kasei and the other company, and by seeing synergies and advantages based on objective data like this, the two companies were able to reach an agreement.

From the viewpoint of creating innovation, we believe that the key is how to organically combine our human resources, core technologies, data, and know-how. We have established a system to connect and utilize our human resources and technologies, and a system to match core technologies with emerging technologies, and we intend to promote their utilization to create new businesses.

In FY 2023, we will also start technology-based business development in order to speedily utilize our diverse intangible assets in an asset-light manner. This is a business model in which Asahi Kasei provides core technology and receives licensing fees and royalties as client companies commercialize the technology. Without having our own manufacturing facility assets, we can minimize risk and enter a new business at an early stage. We possess a wide variety of core technologies that we have not commercialized on our own but that can contribute to society, and aim to maximize the use of these technologies and contribute to earnings, rather than leave them dormant.

P. 39 Risk management

While business globalization is progressing, the environment surrounding business is changing drastically, including increasing geopolitical risks and economic security, and risk responsiveness is becoming even more important. Efforts to further strengthen the risk management system have been underway since FY 2022, with emphasis on clarifying the system and its roles, and strengthening the PDCA cycle. Under the supervision of the Board of Directors, we will enhance the resilience and sustainability of management and business operations by visualizing risks for the entire group and establishing a system that enables speedy PDCA cycles.

P. 40 Governance

In terms of governance, we aim for a Board of Directors composition better suited for discussions centered on important management matters. Chieko Matsuda, a professor at Tokyo Metropolitan University and an expert in group management, is a candidate to be elected as outside director at this year's annual shareholders' meeting, and only the CXO executive members will serve as internal directors, in order to further enhance the monitoring function.

We will pursue opportunities where members with diverse experience and expertise can discuss group management from a bird's eye view. In April 2023, Richard A. Packer will join the Management Council as the person in charge of the Health Care sector, aiming for more diverse perspectives and more effective management.

In addition, we are also reviewing our officer remuneration system in line with our MTP policy. We will continue our efforts to enhance our corporate governance as a framework for transparent, fair, and swift decision-making.

P. 41 Main financial/non-financial KPIs

This page presents a summary of key financial and non-financial KPIs.

P. 42 Open up a new path

Finally, I would like to reiterate the concept of the MTP, "Be a Trailblazer." To demonstrate the Asahi Kasei spirit that we have inherited, I specifically listed the following four attitudes that employees should be keenly aware of: ambitious motivation, a healthy sense of urgency, quick decisions, and a spirit of advancement. Currently, earnings have deviated from the original plan, and some of the aggressive measures taken in the past are not progressing as expected. However, it is precisely because we are in such a situation that it is important that we overcome the difficult situation by ourselves and maintain a strong sense of persistence for growth. All of us at Asahi Kasei, including myself, are determined to work with this in mind.

Questions and Answers

Questioner 1: You explained that although the operating income target for the MTP has been revised downward, the approach to capital allocation and risk management will remain basically unchanged. Does this mean that there will be no significant changes in the allocation of major investing cash flows, as well as approach to R&D and investments, just a delay in the manifestation of results? Or will some priorities change?

In addition, the message regarding carbon neutrality has been presented more clearly, but the external environment regarding carbon neutrality is subject to change easily, as is the case with automobile-related policies in Europe. Is there any change in your approach to investing cash flow for these areas? Regarding investments, including those related to carbon neutrality, we would like you to carefully examine and implement investments in such a way that ROIC exceeds WACC over the long term.

Kudo: There is no change in our view of investing cash flow of 800–900 billion yen over the three-year period. However, the order of priority for investment within GG 10 was somewhat unclear in the last year's MTP presentation, and given the difficult business results for FY 2022, we will examine ROIC and growth potential of investment projects more rigorously, which may lead to a change in priorities. While the highest priority for investment will be given to the businesses in the first priority areas, and investments in the growth potential areas are also necessary for the future, we believe that some investments in the earnings base expansion areas should be carefully considered.

Regarding carbon neutrality, there was an announcement in Europe that internal combustion engine (ICE) vehicles will be permitted under certain conditions. The automotive industry has a broad base, and the aim is to become carbon neutral while maintaining a certain level of ICE vehicles, and we believe that this is an unavoidable situation in the transition phase. We will continue to develop technologies to achieve carbon neutrality by 2050, while taking pragmatic approaches considering the risks of policy changes in Europe and the U.S.

Questioner 2: On page 13 of the presentation material, there is a description of the structural transformation of the petrochemical chain-related business. What do you currently perceive as particular challenges in the business? In FY 2022, Environmental Solutions forecasts to post an operating loss, affected by the volatility of petrochemical-related businesses. In addition to the earnings volatility of Tongsuh Petrochemical in the acrylonitrile (AN) business, there also appear to be fluctuations in the styrene, MMA, and other businesses. Your company also has many other sites besides Nobeoka in Miyazaki Prefecture and Mizushima in Okayama Prefecture, but is there a need to consolidate them?

Kudo: Performance of petrochemical-related businesses is in a difficult situation. For example, in the AN business, we have been focusing on reducing the volatility caused by market prices, but recently, the business performance declined due to the impact of sluggish demand, especially in China. Our AN business has competitive advantages such as world-class development capabilities and stable supply, and we have been developing catalysts, etc. as the best owner of the business, but under these circumstances, it will be difficult to make aggressive investments in the future from a resource allocation perspective. In this context, we need to consider how to grow such a business with competitive advantages.

Most of our petrochemical-related businesses, including AN, are connected as a chain within the group. However, we do not believe that we should unconditionally continue our business because it is connected in a chain. It is important that the derivatives are sufficiently profitable and competitive, including measures and costs to become carbon neutral.

As you have pointed out, we have many sites, but as we review our business, the way in which we operate will probably change. We are not considering a major consolidation of sites at this time.

Questioner 2: You explained that joint ventures are one of the options, but won't it be difficult for your company to make decisions on its own regarding the business? How do you intend to proceed with joint ventures? For example, would you keep the overseas sites as independent operations and integrate the domestic sites, or would you consider partial integration of the domestic sites?

Kudo: As I explained earlier regarding our approach to prioritizing investments, one of Asahi Kasei's strengths, but also a challenge, is that we have many businesses. The first step is to thoroughly promote selection, as the phrase "selection and concentration" suggests. In the midst of this process, regarding businesses where we have superior technology but investment is not a priority for us, there will be a possibility that we could enter into joint ventures or other arrangements, and thereby grow the business.

Questioner 3: On page 10 of the briefing material, the direction of GG10 is described, but I would like to know more about the investment projects and profit contribution in each area, as well as the ROIC forecast from FY 2021 to FY 2024.

In Health Care, what are the prospects for profit recovery in Critical Care? With regard to the businesses you have acquired in recent years, we assume that there may be changes in circumstances in the bioscience industry from what was assumed at the time of acquisition. How do you manage risks in this area?

As for separators and hydrogen-related, why is there not much profit growth expected? Separators should benefit from the decrease in PPA amortization expenses due to Polypore impairment. Also, we believe that separators are becoming an equipment industry, but what are the odds of succeeding in North American investment and what is the time frame for profit contribution?

Kudo: Regarding Health Care, as you pointed out, there have been changes in the industry, and COVID-19 had a particularly strong impact on the industry, with ZOLL experiencing semiconductor procurement difficulties and a shortage of marketing personnel due to a tight labor market, and Veloxis experiencing a decline in the number of patients. The situation is now improving, and we are reassessing plans for 2024 and 2025, including the acquired companies. A delay of one to two years will occur, but there will be no significant change in direction. In Health Care, we will continue to monitor ROIC closely as we have made several acquisitions, but we will also look at growth in earnings before amortization of goodwill.

The profit of separator is unlikely to expand until FY 2024, but will grow significantly toward FY 2027 and FY 2028. As a precondition, we expect electric vehicles in the U.S. to increase with full scale around FY 2026–2027. First, we will export separators from Japan to improve profitability in Japan, and then grow profits as production begins in the U.S. around FY 2026–2027.

Although we are taking into consideration the concern that separators will become an equipment industry when studying investment in North America, we believe that our separators have enough value to offer as LIBs continue to change, and we are confident that we can succeed. Currently, we are in the final stage of studying our investment in North America, but given the history of Japanese manufacturers losing out in the competition for investment in the past, we are negotiating with our customers with an eye toward joint ventures as well. When we make an investment decision, it is of course based on prospects for success. We hope to make some announcement by the end of FY 2023.

Questioner 4: On page 11 of the presentation material, you explained that you expect recent M&A investments in Health Care to contribute to profits in 2024–2025. In what order will they be realized? Will the results start to emerge from Veloxis that is recovering from the impact of COVID-19?

In addition, in the U.S, you are facing sluggish demand for defibrillators for professional use and LifeVest, while the growth of the CDMO business is being affected by the financing difficulties of bio-startup companies due to the current financial turmoil. Please tell us about these situations and your outlook for improvement.

Kudo: Four companies are listed in the briefing material as recent M&A investments in Health Care. Veloxis, which was acquired earlier than others, experienced a temporary drop in demand due to a decline in the number of patients from COVID-19, but has now returned to the originally planned growth rate with one to two years' delay. For Respicardia and Itamar, PMI is underway in anticipation of synergies with ZOLL, with results expected around FY 2025. Bionova is currently being affected by the financial crisis in the U.S., which, as you pointed out, is causing its clients to face financing difficulties. However, we believe that the CDMO industry as a whole remains on a growth trend. The decision to increase capacity was made due to strong inquiries for next-generation antibody drugs, and the current financial turmoil occurred shortly afterwards. Bionova's growth may be delayed one to two years from the original plan, but we will make the necessary investments to meet future demand.

Demand for defibrillators for professional use has been in decline, but is recently recovering. The same is true for LifeVest.

Questioner 4: On page 13 of the briefing material, there is a graph showing an image of operating income for the petrochemical chain-related business, which indicates that the FY 2021 actual income was about 60 billion yen, and the FY 2024 plan is about 40 billion yen. The graph, along with the chart on page 31, shows that the overall operating income of Material will remain almost the same at 106 billion yen in FY 2021 and 110 billion yen in the FY 2024 plan. This means, while petrochemical chain-related business will decrease, other businesses will increase, but what do you expect to grow? Since the business environment was favorable in FY 2021, the hurdle seems high.

Kudo: You are correct in pointing out that the business environment was favorable in FY 2021. From there to FY 2022, the performance of basic chemicals, including AN, fell sharply, and in addition, engineering plastics was affected by reduced automobile production, resulting in a general deterioration in business performance. In Material's recovery through FY 2023 and FY 2024, growth in Digital Solutions of Life Innovation will be significant.

Questioner 5: How many of the petrochemical chain-related business do you consider Asahi Kasei to be the best owner? What is your view on investment?

Kudo: I will refrain from explaining specific businesses or quantitatively, but from the perspective of what we consider to be the best owner, the business must first be one in which we can invest with high priority in our capital allocation, and the business itself must have growth potential.

We will continue to invest in separators and hydrogen-related businesses, but the separator business in particular is one where we need to succeed worldwide. Asahi Kasei has traditionally been strong in niche businesses, and separator was initially a niche business as well. Many Japanese companies have experienced the pattern in the past of being overtaken by Chinese and Korean companies as the markets expand. However, there is still room for technological evolution in the separator business, and we have a good chance of succeeding against Chinese and Korean competitors when we enter the U.S. market. We need to be prepared to make investment decisions.

Questioner 6: I would like to ask about separators. In the past, your company's success pattern has been to invest more management resources than other companies in niche markets and to succeed in small markets by utilizing the group's infrastructure. Separator, however, differs from this pattern. You mentioned differentiation through technology and creation of solution-based businesses. How do you intend to differentiate yourself through technology and solutions in a market that has become so large and where batteries are becoming standardized and commoditized as social infrastructure?

Kudo: As you pointed out, the separator situation is different from our past success pattern. This is why we are considering the use of capital from other companies rather than going it alone.

While it is true that battery manufacturers are making strict demands on costs, they are also seeking to differentiate themselves to automakers, and we believe it is important for us to provide value to improve battery safety, service life, and cruising range. In the area of coating, polymer technology is important, and we believe we have the potential to succeed in the U.S. with our technologies in both base film and coating, and we believe we can succeed in the U.S. with our overall cost performance. We are currently considering the possibility of entering the U.S. market, including new business models and joint ventures in the future.

In the area of solution-oriented business, as an example, we acquired a Canadian company called Recherche 2000 in the ion-exchange membrane business, and are developing services such as monitoring of electrolysis processes and proposals for optimal operation. We believe that we can provide similar solutions for batteries, and we are currently conducting research and holding dialogues with battery manufacturers.

Questioner 6: The size of the semiconductor industry is about 50 trillion yen, and the battery industry will soon reach such a scale, but the market for components will be much larger for batteries. Do you think that even in such a huge market, you can utilize outside management resources, including joint ventures and open innovation, and develop without major impairment?

Kudo: We are proceeding on that assumption. There are other ways to raise funds besides joint ventures, and we will consider strategies to ensure that our separator business can succeed, including technological and capital aspects, without setting preconditions. We do not have much experience in pursuing such a strategy in the past, but we will certainly proceed with it.

Otsubo: That concludes today's briefing. Thank you for your participation.