Summary of Financial Results Briefing for Fiscal 2023

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Asahi Kasei Corporation

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Presentation

P. 2 Focus of FY 2023 results and FY 2024 forecast

Horie: Operating income for FY 2023 increased in all segments compared to FY 2022. Also, operating income exceeded the previous forecast announced in February 2024 in all segments, especially in Material. However, net income attributable to owners of the parent fell short of the forecast. Details will be explained later.

For FY 2024, operating income increase is forecasted in all segments, year-on-year. The forecast is based on the assumption that the business environment will continue to be uncertain.

Regarding shareholder returns, the annual dividend for FY 2023 has been set at 36 yen per share, as previously forecasted. The annual dividend for FY 2024 is forecasted to be 36 yen per share, the same level as FY 2023, based on our shareholder return policy.

As for the progress of initiatives in the medium-term management plan, on April 25, 2024, we announced the decision to build an integrated plant in Canada for Hipore wet-process lithium-ion battery separator base film manufacturing and coating. In addition, on May 8, we announced start of joint feasibility study among three chemical companies on carbon neutrality of ethylene production facilities in western Japan.

P. 3 Equity in losses of affiliates and impairment loss related to Material

Expecting the business environment to remain difficult for the time being, including slow demand in the Chinese market, we posted impairment loss on certain businesses, mainly in Basic Materials. Some of the businesses are profitable in terms of operating income on a consolidated basis, but as a result of careful examination of asset values, impairment loss was recorded centered on domestic assets.

Specifically, equity in losses of affiliates amounted to 41.7 billion yen due to impairment loss on PTT Asahi Chemical on the consolidated financial statements. In addition, we recorded impairment loss of 58.4 billion yen on equipment related to the asset group for general-purpose petrochemicals and resins centered on the Mizushima Works, 12.2 billion yen on equipment for manufacturing regenerated fiber based on the assumption that the low utilization rate will continue due to the fire at the Bemberg plant, 4 billion yen on goodwill etc. related to the gas sensor business, and 16 billion yen on other equipment for manufacturing, etc. including assets related to acrylonitrile (AN).

P. 5 Financial results for FY 2023 (consolidated, year-on-year)

Year-on-year, net sales for FY 2023 totaled 2,784.9 billion yen, up 2.1%, and operating income was 140.7 billion yen, up 10.2%. Net income was 43.8 billion yen.

P. 6 Change in net income attributable to owners of the parent from previous forecast

The background of the change in net income from the previous forecast of 80 billion yen is shown here. Operating income was 10.7 billion yen higher than the previous forecast. However, we recorded equity in losses of affiliates of 41.7 billion yen due to impairment loss on PTT Asahi Chemical on the consolidated financial statements, and 90.6 billion yen in impairment loss on certain assets in Basic Materials, etc. On the other hand, there was a 66.4 billion yen gain on income taxes due to transfer of shares between two consolidated subsidiaries in the U.S., as well as a positive variation of 19.0 billion yen in non-operating income/expenses, extraordinary income/loss, and income taxes, etc., resulting in net income of 43.8 billion yen.

P. 7 FY 2023 results by segment (year-on-year)

Operating income increased year-on-year in all segments.

Health Care posted an increase of 6.6 billion yen. In the Health Care business category, operating income decreased by 4.0 billion yen, with nonrecurrence of the previous year’s lump sum licensing income in Pharmaceuticals and a negative impact from the consolidation of Bionova in Medical. In Critical Care, on the other hand, operating income increased by 10.6 billion yen with improved reimbursement conditions for LifeVest wearable defibrillator, higher sales prices of defibrillators, and increased shipments of AEDs due to improvement of parts procurement difficulties.

Operating income in Homes increased by 7.6 billion yen. In the Homes business category, although the order-built homes saw a decline in volume, real estate and overseas business grew, resulting in a 5.6 billion yen increase. Construction Materials posted an increase of 2.0 billion yen due to progress in passing on increased costs.

Material posted an increase of 1.5 billion yen. In Environmental Solutions, while the severe business environment continued in Basic Materials, there was an increase of 4.1 billion yen as amortization of goodwill and other intangible assets decreased due to the impairment on Polypore in FY 2022. Mobility & Industrial recorded an increase of 2.2 billion yen due to increased sales volume of car interior material and improved terms of trade.

P. 8 FY 2023 results by segment (vs. forecast in Feb.)

Operating income exceeded the previous forecast by 10.7 billion yen. Material made the largest contribution with Environmental Solutions exceeding the previous forecast by 8.0 billion yen mainly due to improved terms of trade and fixed cost reductions in Basic Materials, as well as greater than expected shipments in separators.

P. 9 Changes in quarterly operating income

The trend of consolidated operating income is shown separately for Basic Materials and other businesses. Q4 2022 saw a significant decrease in operating income, but it has been recovering steadily since the beginning of FY 2023.

P. 11 Extraordinary income and loss

Extraordinary income totaled 52.1 billion yen, an increase of approximately 10 billion yen from the previous year, due to insurance income, gain on business transfer, settlement income, etc. On the other hand, as explained earlier, we posted an impairment loss of 92.8 billion yen, resulting in extraordinary loss of 113.4 billion yen. As a result, net extraordinary loss totaled 61.3 billion yen.

P. 12 Balance sheets

Total assets amounted to 3,662.7 billion yen at the end of March 2024, an increase of approximately 210 billion yen from the end of March 2023. Current assets increased approximately 160 billion yen, mainly due to an increase in cash and deposits resulting from the strong performance of overseas subsidiaries. Noncurrent assets increased about 50 billion yen.

Liabilities increased about 60 billion yen due to an increase in liabilities of overseas subsidiaries caused by the weaker yen. Net assets increased about 150 billion yen. This was due to an increase in foreign currency translation adjustments resulting from the weaker yen and an increase in accumulated other comprehensive income of approximately 160 billion yen.

The D/E ratio stood at 0.51.

P. 13 Cash flows

Operating cash flow was 295.3 billion yen, an increase of 204.5 billion yen from the previous year. Cash used in investing activities decreased due to the curbed investments in existing businesses and the absence of major new investments. As a result, free cash flow was a net cash inflow of 152.7 billion yen, and free cash flow after dividends was 102.7 billion yen, indicating improvement from the previous year.

P. 15 FY 2024 forecast (consolidated, year-on-year)

For FY 2024, we project net sales of 2,912.0 billion yen, up 4.6% year-on-year, and operating income of 180.0 billion yen, up 27.9%. Net income is expected to more than double from FY 2023, to 100.0 billion yen. We assume exchange rates of 145 yen/US dollar and 155 yen/euro, and domestic naphtha price of 74,000 yen/kL.

P. 16 FY 2024 forecast by segment (year-on-year)

Now I will explain the year-on-year operating income trends for each segment.

Health Care is expected to increase by 9.0 billion yen. In the Health Care business category, we forecast an increase of 1.8 billion yen with growth in sales of Envarsus XR immunosuppressant and other mainstay products. Critical Care is expected to increase by 7.2 billion yen due to increased shipments and higher sales prices of defibrillators, elimination of the impact of parts procurement difficulties, and increased shipments of LifeVest.

Homes expects an increase of 7.5 billion yen. In the Homes business category, we forecast a 6.5 billion yen increase with higher average unit prices due to larger and higher value-added units and a higher operating margin resulting from cost reduction in order-built homes. Construction Materials is expected to post an increase of 1.1 billion yen due to progress in passing on increased costs.

Material is expected to post an increase of 20.3 billion yen. Due to the effect of impairment loss incurred in FY 2023, decrease in depreciation and amortization is forecasted at 9.2 billion yen in total, of which 5.2 billion yen is in Environmental Solutions, 2.0 billion yen in Mobility &

Industrial, and 1.9 billion yen in Life Innovation. Excluding this effect, the operating income increase would be around 11 billion yen.

Aside from the decrease in depreciation and amortization, Environmental Solutions will also benefit from the absence of a maintenance turnaround in Basic Materials, which had an impact in FY 2023, and operating income is expected to increase by 9.8 billion yen. In Mobility & Industrial, we forecast an increase of 6.7 billion yen due to higher sales volume of engineering plastics and a difference in the product mix of car interior material. In Life Innovation, we forecast an increase of 5.4 billion yen with Digital Solutions expecting firm performance of products for AI servers, high-end smartphones, and automobiles.

P. 17 Main KPIs

Following negative 5.5% in the previous year, ROE remained at a very low level of 2.5% for FY 2023 due to impairment loss in certain businesses, mainly in Basic Materials. FY 2024 is the first step toward improvement, with a target of 5.5%.

ROIC was boosted by the recording of income tax gain from the transfer of shares between two consolidated subsidiaries in the U.S., and reached 5.9% in FY 2023. The target for FY 2024 is 4.5%.

P. 18 Shareholder returns

The annual dividend for FY 2023 was set at 36 yen per share, the same as the previous year. For FY 2024, we forecast 36 yen per share, the same as FY 2023, in line with our shareholder returns policy.

Questions and Answers

Questioner 1: I would like to ask you about the separator business. After the decision to build the plant in Canada, the final rules for tax credits for electric vehicles under the U.S. IRA (Inflation Reduction Act) were announced on May 3. They seem to contain some conditions that are unfavorable for your company. What is your view on this?

At the briefing on the announcement of the plant, it was also explained that there would be high-cost inventory until FY 2024, which is derived from the low capacity utilization in the past, and therefore, there will be little profit improvement even with the sales volume increase. How is this factored into the forecast?

Onodera: Some of the details of the IRA have been revealed, and it has been clarified that coated separators are eligible for tax credits as long as the coating process is carried out in the U.S., regardless of the production location of the base film, for example, even if the base film is manufactured in China and imported to the U.S. for coating. In this regard, however, we expect that the scope of regulations will expand upstream of the value chain in the future with the establishment of production capacity for base films in North America, and also from the perspective of U.S. economic security. We believe that our customers will continue to appreciate the value of our products from the integrated plant for base film and coating, from the perspective of reducing geopolitical risks between the U.S. and China, and for BCP in North America. Since the details of the IRA have just been announced, we will continue to discuss with our customers and carefully examine its impact.

For FY 2024, we expect increased sales volume of LIB separators by about 50% year-on-year, and accordingly improved operating rate. However, operating income is forecasted to decrease due to changes in the product mix, price revisions, and upfront costs associated with the construction of the plant in Canada, in addition to an increase in fixed costs such as depreciation and labor costs.

In the past, we were late in steering the expansion of automotive applications, and limited production capacity of coated separators, which are mainly used for automotive applications, prevented sufficient expansion of the customer base. So, until the coating capacity is increased, it is necessary to expand sales of uncoated base films with relatively low profit margins to raise the operating rate, and this has led to a deterioration in the product mix. However, shipments of some coated separators for North America began in FY 2023, and we expect sales volume to increase in FY 2024, mainly in H2. We forecast operating income to improve from FY 2024 to FY 2026 with increased sales volume of coated separators, mainly to North America, and with improved product mix.

Questioner 1: With regard to the IRA, do you mean that you had anticipated those conditions to some extent? Or, do you mean that the impact is still too far in the future to be known, since your plant in Canada will start commercial operation in 2027?

Onodera: In the North American market, we do not expect that all separators, including the base film, will be made in North America. In this regard, it is within our expectation. However, due to geopolitical risks and other factors, customers are requesting production in North America, including base films. Given that we expect to be able to secure sufficient profitability, we have decided to build a plant in Canada.

Questioner 2: I would like to ask about the Homes business category. The order situation in the order-built homes seems to be good compared to your competitors. What is your analysis of the background?

Kume: Orders received in order-built homes in H1 2023 were down 2.4% year-on-year. However, in H2, orders recovered sharply to 26.2% year-on-year, thanks to the penetration of a marketing strategy mainly targeting the middle to high-end segment of the market. The recovery was driven by orders for large apartment buildings, which benefited from an increase in corporate referrals and early collaboration with the rental management division. In addition, from February onward, the rising stock market boosted the appetite for real estate investment. Despite difficult market conditions, orders for unit homes also increased from the previous year due to increased orders for homes integrating rental units, which are our forte, and high-priced products.

Orders in FY 2024 are expected to increase by 5% year-on-year by continued strengthening of collaboration with the corporate sales and rental management divisions, mainly in apartment buildings.

As for material prices, an increase in prices continues, especially for steel and AAC (autoclaved aerated concrete panels), and we estimate that this has a negative impact on operating income of approximately 5 billion yen in FY 2023 and 2 billion yen in FY 2024 in order-built homes. In addition, there is an impact of the revision of unit labor costs for construction site workers, but we will continue to reduce costs in procurement and by streamlining construction processes.

Questioner 2: Is there a possibility that the rush in demand before interest rate increase in FY 2023 and FY 2024 might lead to a decrease in orders around FY 2026 and FY 2027?

Kume: At this time we do not see a rush in demand due to concerns about rising interest rates.

Questioner 3: In FY 2024, sales of Critical Care are expected to increase by about 2%, which seems somewhat conservative. What products do you expect to grow? Please tell us about each product, such as defibrillators for professional use, AEDs, LifeVest, and WatchPAT home sleep apnea testing device. On the other hand, operating income is expected to increase by 7.2 billion yen. What is the background behind the improvement in profit margin?

Stowell: We expect orders for both AEDs and defibrillators for professional use to remain strong. The reason for the lower sales growth is the large volume of AED shipments in FY 2023. This is due to the fact that there was a large backlog of orders, which was affected by parts procurement difficulties in the supply chain in the previous fiscal year. For FY 2024, we expect sales volume to grow, especially for defibrillators for professional use. In terms of operating income, we expect the profit margin to continue to improve due to an improvement in manufacturing costs as a result of a decrease in procurement costs and higher capacity utilization resulting from the resolution of parts procurement difficulties.

LifeVest is also expected to continue to grow. In addition to volume growth, we expect reimbursement conditions to continue to improve.

Although WatchPAT is a small business in terms of overall sales, we expect it to grow by over 20% in FY 2024.

Questioner 3: In FY 2024, will the sales volume of AEDs increase or decrease? Also, what is the background behind the slight increase in both sales and operating income from Q3 to Q4 2023?

Stowell: Regarding AEDs, for FY 2024, we anticipate continued growth in orders, but a decrease in shipments. As mentioned earlier, this is because there was a particularly high volume of shipments in FY 2023 due to the backlog of orders from the previous period.

As for Q3 to Q4, increase in sales of LifeVest along with the improved profit margin of other defibrillators contributed.

Questioner 3: There was an effort to replenish the sales force for LifeVest starting around H2 2023. What is the impact of the accompanying cost increase and how are orders increasing?

Stowell: Replenishment of the sales force is almost complete, but it will take time for them to be fully effective. We expect their contribution to volume and sales growth in FY 2024.

Questioner 4: I would like to ask you about Material. In Basic Materials, what are the price spread of AN for Q4 2023 results and H1 and H2 2024 assumptions? In addition, what is your view of the sustainability of the current improvement in the AN market prices and the supply-demand trend?

As for Mobility & Industrial, operating income for FY 2023 slightly exceeded the previous forecast, and firm performance is forecasted in FY 2024 as well. Is there a recovery in demand for artificial suede and other products?

In Life Innovation, the previous forecast factored in weak demand for general-purpose products in electronic components and materials, such as those for China. What is your view on the current situation and outlook for FY 2024?

Tanaka: As for Environmental Solutions, AN market prices improved to the $1,200/ton level in Q4. The main reason for this improvement was the tight supply-demand balance due to equipment problems at a Chinese manufacturer and maintenance turnarounds at several plants, which led to the market prices exceeding $1,300/ton in April 2024. The current level is between $1,320 and $1,330/ton.

Our market price assumption for AN in FY 2024 is $1,300/ton, slightly lower than the current level, for both H1 and H2. We anticipate that factors such as equipment problems and maintenance turnarounds at Chinese manufacturers, which contribute to the tight supply-demand situation, will continue until Q1 2024. In H2, the Chinese ABS resin market is expected to grow at an annual rate of slightly less than 5%. Taking into account the return of operations at Chinese manufacturers, we expect that the AN market prices will remain around $1,300/ton throughout the year.

The propylene market prices have been hovering around $800 to 850/ton in Q4, and are expected to remain around $850/ton in both H1 and H2 2024.

Moriwaki: With regard to Mobility & Industrial, the automotive-related business was affected in Q3 by maintenance turnarounds at engineering plastics plants, decreased shipments due to seasonal factors such as the Christmas holidays, and the United Auto Workers of America (UAW) strike, although it impacted only slightly.

Shipments of engineering plastics increased in Q4 as automobile production recovered, and is expected to continue to grow for automotive applications in FY 2024.

In car interior material, sales of artificial suede and PVC continued to grow, with PVC sales in China and North America especially expanding. This has led to an improvement in the overall product mix, and we expect profit growth in FY 2024 as well.

Igarashi: In Life Innovation, demand for general-purpose electronic components for industrial equipment, which were sluggish in FY 2023, has been slow to recover. We expect demand to recover in H2 2024 or later.

On the other hand, for high-end smartphones, where we can take advantage of our products' strengths, camera module control ICs and electronic compasses in electronic components, and Pimel photosensitive insulator for redistribution layers, glass fabric insulator for printed circuit boards, and Novacure latent epoxy hardener in electronic materials, are growing. These products are expected to continue to grow steadily in FY 2024. We also expect continued strong demand for AI server-related applications, and forecast growth in low-dielectric glass fabric and other products.

Questioner 5: Impairment loss, mainly in Material, was nearly 190 billion yen in FY 2022 and 93 billion yen in FY 2023, pushing down net income for the second consecutive year. Are you factoring in any extraordinary losses in your FY 2024 forecast as well? For the separator business in particular, one of your competitors has announced impairment loss. What is your outlook?

In addition, how much do you expect inventory valuation gain in Basic Materials to contribute to operating income improvement from FY 2023 to FY 2024?

Horie: First, we deeply regret the impairment loss for the second consecutive year. On the other hand, we believe that significant impairment on existing businesses is basically finished, and we expect to see an increase in operating income of about 9.2 billion yen in FY 2024 due to decreased depreciation and amortization as a result of the impairment.

With regard to the separator business, we do not think there is any sign of impairment at this point with Daramic lead-acid battery separators in Polypore performing well.

As for inventory valuation difference, the domestic naphtha price at the end of Q4 exceeded 70,000 yen/kL, and our assumption for FY 2024 is 74,000 yen/kL, so we have not factored in a large gain. In Basic Materials, we are expecting an improvement in terms of trade and a decrease in fixed costs as explained earlier.

Questioner 5: You said that the majority of the facilities in Mizushima Works have been impaired. Is there any change in the outlook for structural reform of the petrochemical business in the future?

Horie: There are some discussions that are in progress, and I can't give you an answer at this stage.

Questioner 6: In Basic Materials, sales will not change much from H1 to H2 of FY 2024, but operating income will decrease by slightly less than 2.0 billion yen. Is this due to the inventory valuation difference that was explained earlier?

In addition, please tell us the breakdown of the impairment loss for Mizushima, Kawasaki, and Korea.

Tanaka: The operating income difference between H1 and H2 is due to the timing of passing on increased costs as well as inventory valuation. Operating income is expected to decrease in H2 due to these factors.

Horie: The 58.4 billion yen impairment loss on facilities related to the asset group for general-purpose petrochemicals and resins is mostly related to Mizushima's petrochemicals-related businesses and includes AN, MMA, basic chemicals, etc. The impairment loss on other equipment for manufacturing, etc. includes about 2.0 billion yen invested to restart the suspended No. 2 plant of Tong Suh Petrochemical in Korea. As for Kawasaki, only some MMA-related equipment is included.

Questioner 6: After such a large amount of impairment, the forecasted operating income of 2.8 billion yen for FY 2024 seems quite small. If there are any improvement measures for the future, please let us know.

Horie: We cannot say at this time, but we are considering all possibilities, including a drastic improvement in profitability.

Questioner 7: The operating income forecast for FY 2024 is 180 billion yen, but at the April 2023 management briefing, it was stated that the operating income target of 270 billion yen for FY 2024, which was originally projected in the medium-term management plan, would be aimed to achieve with a delay of two to three years, and the target for the FY 2024 was set at 200 billion yen. Now your operating income forecast for FY 2024 is 180 billion yen, is there a delay from the projection of one year ago? Is the goal of 270 billion yen in one to two years from now unchanged? I believe that the 180 billion yen includes the 9.2 billion yen increase in operating income due to the impairment effects that were explained earlier. Please explain how this compares with the forecast of one year ago.

Horie: The largest divergence is in Material. The growth of Environmental Solutions has been slower than initially expected, as we had assumed that the petrochemical-related market would recover slightly more, and also as the separator business is in the process of changing its business model toward automotive applications. Ion-exchange membranes, car interior material, and engineering plastics are growing steadily, and the operating income target of 270 billion yen is expected to be achieved a little later than initially planned.

Otsubo: That concludes the financial results briefing. Thank you for your participation.