Summary of Management Briefing

Progress and Outlook of Medium-term Management Plan 2024

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Asahi Kasei Corporation

Participants

Koshiro Kudo
President

Toshiyasu Horie
CFO

Tomoo Otsubo
General Manager, Investor Relations

Presentation

Kudo: It has been over two years since the medium-term management plan (MTP) was announced in April 2022, and the business environment has changed greatly from the assumptions made at the time of formulating the MTP. In particular, Material was affected by those changes, resulting in sluggish performance, and overall management indicators are expected to fall below the medium-term targets. Taking such conditions into account, we are implementing a major review of strategy and accelerating business portfolio transformation in Material. On the other hand, there is no change in our policy to aim for sustainable growth from a medium-term perspective, and we are promoting structural transformation as well as growth strategy. Sales expansion is progressing in line with the growth strategy established at the time of formulating the MTP, particularly in Health Care and Homes. I will explain about the status of implementing those measures for growth.

P. 2 Outline

Today, I will explain about the overall progress of the MTP focusing on financial targets, business portfolio transformation initiatives, and growth strategies. Then I will explain about our medium-term trajectory in view of the next medium-term management plan starting in FY 2025.

1. Financial status of the MTP

P. 3 Group-wide financial indicators

In FY 2023, operating income was sluggish at 140.7 billion yen due to weak performance of Material. Although a certain recovery is expected in FY 2024, operating income is projected to be 180 billion yen, below the target of 200 billion yen set in April 2023.

ROIC in FY 2023 temporarily improved to 5.9% due to tax effect in relation to a realignment of North American subsidiaries. In FY 2024, it is expected to be 4.5%. ROE in FY 2023 was at a low level of 2.5% partly due to impairment loss. In FY 2024, however, it is expected to recover to 5.5%. As management, we feel responsible for the results falling below the original targets.

P. 4 Progress of the medium-term management plan (MTP) by sector

Health Care has returned to a growth trajectory after a slight pause as an effect of COVID-19. In FY 2024, we are continuing to pursue high growth through further sales expansion of ZOLL Medical and Veloxis Pharmaceuticals and by continually exploring investment opportunities for medium-term growth.

Homes achieved record-high income in FY 2023 following FY 2022, and is expected to achieve operating income close to the MTP target in FY 2024. There is no change in the medium-term strategy to strengthen cash generation capabilities by shifting to higher added value in the domestic market and promoting further growth in overseas businesses.

In Material, on the other hand, income is expected to fall below the MTP target due to changes in the business environment. The medium-term strategy was significantly revised to place the top priority on business portfolio transformation, accelerating the process while expanding the range of subject businesses. In FY 2024, we are accelerating structural transformation of petrochemical chain-related businesses and improving profitability by expanding sales and reducing costs.

P. 5 Response to environmental changes in Material

We believe there are three main factors behind the sluggish performance in Material.

The first is deterioration of the petrochemical market environment. While demand slowed down in Asia, particularly in the Chinese market, production capacity for ethylene and other products increased, resulting in an imbalance between supply and demand. Since these changes are perceived as irreversible, studies are being accelerated regarding structural transformation in petrochemical chain-related businesses.

The second factor is changes in the environment for EVs. The heightened presence of Chinese companies in the automotive battery supply chain has resulted in sluggish sales of our major customers, which has led to a downturn in our business. After identifying markets for our company to address, we aim for recovery by strengthening relationships with customers through means including capital alliances, and mainly targeting the North American market.

The third factor is post-pandemic changes in demand. Demand was lower than expected in electronics, semiconductors, and automotive markets, and competition in general-purpose products intensified, which resulted in deteriorated profitability. Market conditions are improving, but we need to enhance the competitiveness of our business by increasing production capacity for advanced products and strengthening platform-based businesses centered on points of contact with customers.

We will accelerate business portfolio transformation in the final year of the MTP by placing a greater focus on targeted markets and regions and carrying out strategic initiatives with customers.

P. 6 Current ROIC by business and prospects for improvement

Although ROIC in Health Care has not yet reached an adequate level due to impacts from our growth strategy centered on M&A, past investments for expansion are steadily producing results and are expected to contribute to improved capital efficiency in the coming years.

A high level of ROIC exceeding 20% was achieved in Homes. Since its strength lies in the value of its intangible assets such as services, human resources, and brands, there is no need for large capital investments. Overseas business also aims to grow earnings steadily while maintaining high capital efficiency by leveraging the business platforms of acquired companies.

In Material, on the other hand, ROIC was significantly lower than WACC (6%) in Mobility & Industrial and Environmental Solutions due to the deteriorated business environment. We need to urgently improve capital efficiency in these businesses by continually strengthening the business structure and driving structural transformation. Such measures will be accelerated in order to quickly reach overall ROIC levels exceeding WACC.

P. 7 Status of PBR-related indicators

The graph on the left shows PBR, which has been below 1.0 since FY 2021, but is recently improving. Although net income remains low, net worth has increased recently due to foreign currency translation adjustment by the weakening of the yen.

The graph on the right shows ROE and PER. ROE has recently been below the assumed cost of equity (8%) due to sluggish earnings and impairment losses.

Under these conditions, we will promote the five initiatives shown on this page. We are particularly focusing our efforts on "Accelerating business portfolio transformation," and "Enhancing profitability" in striving to quickly raise PBR to a level exceeding 1.0.

P. 8 Capital allocation

There is no change in the projection for both operating cash flow and investing cash flow from the announcement in April 2023. These are the levels if the growth investments planned in the

MTP are implemented. We are also considering cash generation through the sale of businesses and use of other companies' capital in investment projects, etc., in light of business earnings lower than planned in the MTP. There is some uncertainty about the timing of cash inflow, but we expect it will amount to tens of billions of yen during the period of the MTP.

From the perspective of financial health, D/E ratio is expected to be 0.7 and net D/E ratio around 0.5, within the range assumed at the beginning of the MTP, even if interest-bearing debt is increased by the maximum amount shown here.

P. 9 Shareholder returns

There has been no major change in the shareholder returns policy since the beginning of the MTP. Although earnings are below target, annual dividends were maintained at 36 yen per share in FY 2023 and we plan to maintain or increase them in FY 2024 and onward, with particular emphasis on progressive dividends. Our policy regarding share repurchases remains the same as before, and judgement will be made considering the status of structural transformation including business divestiture and growth investments in FY 2024.

Although the state of earnings in Material in particular is currently severe, we will endeavor to increase shareholder returns by getting back on a growth trajectory through decisive execution of business portfolio transformation as well as growth investments.

2. Business portfolio transformation

P. 11 Overview and direction of business portfolio transformation

In business portfolio evaluation, businesses are classified into four quadrants, with one axis of growth potential and the other axis of profitability and capital efficiency, and we promote actions suitable to each classification. It is particularly urgent to reform businesses in the area of improved profitability/structural transformation, and we are considering actions from two different viewpoints: (1) increasing capital efficiency through reinforcement of profit-generating structure and maximum use of accumulated know-how and customer base, and (2) increasing group-wide productivity by shifting human resources, funds, technology, and business foundations to growth business. Taking into consideration the recent severe state of earnings, we are currently prioritizing studies of (2), with resources gained from business withdrawal or sale to be shifted to growth business. Promoting the flexibility of human resources is especially important.

P. 12 Progress of structural transformation

Measures for structural transformation are being accelerated as a whole.

In category A "Aiming to gain effect of structural transformation during medium-term management plan," we are targeting businesses with sales totaling 100 billion yen or more. This has already been completed for businesses with sales of about 40 billion yen, and we are currently studying additional projects with sales equivalent to 100 billion yen, so we expect to achieve the target.

In category B "Structural transformation of petrochemical chain-related businesses from longer-term perspective," we are targeting businesses with sales totaling of 600 billion yen. For business based on the naphtha cracker in Mizushima, we started initial studies with potential partners in western Japan, and are advancing discussions to reach basic accord during FY 2024. For other businesses largely separate from the domestic naphtha cracker, we are accelerating review from the perspective of the best owner, aiming for decisions as early as FY 2024.

P. 13 Structural transformation of petrochemical chain-related businesses

Category B "Structural transformation of petrochemical chain-related businesses from longer-term perspective" is being promoted through three approaches.

"1. Structural reform from best-owner perspective" is being advanced for businesses with roughly one third of the approximately 600 billion yen in sales. At present, concrete progress is being made for multiple projects, and we are aiming for decisions during FY 2024.

"2. Optimization through cooperation with other companies" includes the naphtha cracker and its derivative products. We will not only implement production capacity optimization, but also take into account the perspective of utilizing our unique sustainable technologies to pursue the suitable approach for optimization.

Businesses included in “3. Strengthening in-house or by collaboration with other companies” still have room to increase business value, and we are taking actions to achieve that through different approaches including collaboration with other companies.

We will carry out these measures to increase ROIC in Material, which will enhance our overall capital efficiency.

P. 14 Long-term investment management

Cumulative investment on a decision-adopted basis during the term of the MTP was initially planned to be over one trillion yen, with the 10 Growth Gears (GG10) growth-driving businesses presumed to account for approximately 600 billion yen of that. At present, the scale of investment in GG10 is expected to increase to approximately 700 billion yen due to the decision for North American investment for Hipore wet-process lithium-ion battery separator. For businesses other than GG10, we are scrutinizing the necessity of investment based on position in the business portfolio, and we are working to reduce the amount.

The total amount of cumulative investment on a decision-adopted basis is expected to slightly increase compared to the original plan partly due to the weakening yen. Investment decisions will be made based on financial discipline which is further strengthened by leveraging other companies’ capital and government financial support, strictly applying different hurdle rates for each project, and other means.

P. 15 Improved productivity through business process innovation

The BT Project was established in July 2023 to promote group-wide productivity enhancement. Actions from both a short-term perspective for cost reductions and thorough discipline, and from a medium- to long-term perspective considering the management system and foundation best suited for sustainable growth, are concurrently implemented in this project.

As a result of short-term actions, about 10 billion yen of cost reduction was achieved in FY 2023, and a certain amount of further reduction is projected in FY 2024. We will continue to review additional cost reduction measures, aiming for a cumulative effect of some 20 billion yen.

From a medium- to long-term perspective, the project is advanced in view of the important subject of efficient operation of three-sector management.

3. Status of growth strategies

P. 17 Progress on GG10

For GG10, we are implementing measures for growth with more strategically prioritized resource allocation.

In Health Care and Homes, profit is steadily growing and investments for expansion are being implemented in line with their strategies. In Material, investment in Environmental Solutions is increasing while profit is currently sluggish. Although there is some uncertainty in the EV market, it is highly expected to grow over the medium term. For the time being, we aim to regain profits by raising the operating rates of our facilities through expanded sales.

We set financial targets for cumulative investment and operating income in GG10, but the operating income target has been lowered due to the downturn in separator.

P. 18 GG10 Growth Strategies: Critical Care

Among Health Care, in Critical Care we pursue growth in the area of serious cardiopulmonary conditions through organic growth of existing businesses, reaping fruits of past investments, and pursuit of new business through M&A and other means.

In patient services, sales of the mainstay product LifeVest wearable defibrillator are firmly increasing. As the market pioneer, we continue to focus on strengthening relationships with cardiologists and promoting clinical value to ensure greater market penetration. In relation to Respicardia, we are currently struggling with identifying central sleep apnea (CSA) patients to be treated, but there is no change in clinically differentiated technology and growth potential of the treatment, and we will continue our efforts to expand the number of cases. Itamar Medical is growing globally in sales and we are the global leader in home sleep apnea diagnostics. We aim to increase sales and contribute to profit by accessing and exploiting the potential market of undiagnosed patients, particularly with complications of heart disease, by leveraging the LifeVest team.

In healthcare infrastructure, profit margins show recovery as supply chain issues including procurement difficulty recede. We aim for robust growth by leveraging the benefit of a diversified product lineup centering on defibrillators for hospitals, EMS, and public safety.

Our goal is to double overall sales in Critical Care by FY 2030 compared to FY 2023, and we will continue to focus on this as the area with the greatest growth potential.

P. 20 GG10 Growth Strategies: North American and Australian Homes

For Homes, in North America, industrialized construction is promoted by integrating the main aspects of the building process. We are providing high-quality homes by generating new value in the U.S. construction industry, where long construction periods are an issue. We are also considering expansion into new areas through investments including M&A in pursuit of further growth.

In Australia, business has expanded and grown to operate in five states through the acquisition of builders. We will continue to aim for further growth through productivity improvements, by introducing effective and efficient building process as well as strengthening relationships with suppliers.

Leveraging the know-how accumulated in Japan, we will further solidify our competitive advantage in both regions.

P. 21 GG10 Growth Strategies: Environmental Homes and Construction Materials

In domestic order-built homes, even with dramatic changes in the business environment such as rising construction material costs, decreasing population, and diversifying lifestyles, we increased average unit prices and enhanced profitability by promoting larger and higher value-added units. The strategic shift has been underpinned by capable human resources and high-quality services. We have been ranked No. 1 in the Oricon Customer Satisfaction Survey for 9 consecutive years in the category of steel-frame order-built homes.

Asahi Kasei Homes is also advancing as a leading environmental company. It has increased the rate of net zero-emissions homes in both unit homes and apartment buildings, and is on track for FY 2023 achievement of 100% use of renewable energy in business activities under the RE100 initiative. The company will continue to promote measures to reduce greenhouse gas emissions to contribute to sustainability.

P. 22 GG10 Growth Strategies: Energy storage (Separator)

We aim to achieve a scale of Hipore production capacity that is sufficient to meet growing market demand, focusing on North America and Japan where EV market expansion is expected from a medium- to long-term perspective. As a first step, to meet demand for coated separator, in October 2023 we decided to install new coating lines at existing facilities in the U.S., Japan, and South Korea. After the new lines are installed, we will have the capacity to supply coated separator for batteries equivalent to about 1.7 million EVs. In addition, in April 2024 we decided to construct an integrated plant for base film and coated separator in Canada, with total investment of some 180 billion yen. The project is expected to receive financial support from the federal government of Canada and the provincial government of Ontario, in addition to joint investment by Honda Motor Co., Ltd. and the Development Bank of Japan. We will pursue expansion of production scale while controlling investment risks. We are targeting overall sales of the Hipore business to reach 160 billion yen with an operating margin of at least 20% in 2031, the fifth year after starting operation of the Canada plant.

P. 23 GG10 Growth Strategies: Digital Solutions

We operate business in both electronic components and electronic materials, and our products made with advanced and unique core technologies are used for cutting-edge applications in fields of EVs, environment and energy saving, and information communication. Among our products, I will introduce two advanced electronic materials that have a high position in the semiconductor market, where high growth is expected in the coming years.

First is Pimel photosensitive dielectric used for the most advanced semiconductors. It is a highly competitive material characterized by excellent thermal and chemical resistance, and outstanding electrical and mechanical properties. Considering its high growth potential, we plan to start operation of a new plant in Fuji in 2024, doubling production capacity, aiming to double sales in 2030 as well.

Second is glass fabric used as reinforcement and dielectric material for printed wiring boards. As AI-related demand has increased in recent years, there is growing demand for low-dielectric glass fabric which enables high speed communications with low attenuation. We have gained a large share of the market for the most advanced AI servers, where demand is increasing. We are also leading in next-generation markets with performance and quality for even higher-speed communications (800 GbE switches/routers and AI servers).

We plan to invest 100 billion yen in expansion in Digital Solutions by 2030, aiming at the most advanced and next-generation markets to accelerate growth.

P. 24 Creation of new earnings model utilizing intangible assets

We use the term P-PaaS, Product-based Platform as a Service, for the concept of providing platforms that increase customer value based on the added value of our materials and products. We are pursuing its potential in two aspects of licensing and new business models. In each case, several specific examples of earnings generation have been produced. Technology value Business Creation (TBC) was newly established as a framework to further accelerate initiatives, and we established an organization to promote it. Leveraging this framework, we will promote earnings generation from both the "speed" and "asset light" perspectives by creating value from our vast accumulation of intangible assets.

P. 25 Growth strategy by region

While operating globally, we clarify the position of each region taking into consideration their specific conditions, as well as changing geopolitical risks such as economic decoupling. The U.S. is the most important market for us in terms of growth, and our business in the U.S. has expanded continuously over the past 10 years. Notably, Health Care is currently led by an Executive Officer, Richard Packer, who is based in the U.S., and the strategic decisions are made and executed more quickly than before. In addition, we are launching the Hipore business in North America, and leveraging M&A to expand the geographic area of the Homes business. We consider this to be the most important region for the growth of the Asahi Kasei Group moving forward.

4. Medium-term trajectory

P. 27 Overview of business portfolio

In the businesses positioned in the area of first priority as the core of our growth, we expect to generate operating income of about 60 billion yen in FY 2024. It is important to achieve the growth of these four businesses as planned. At the same time, accelerating the reform of the businesses in the area of profitability improvement and structural transformation is also important. In the current MTP, we are making our utmost efforts to thoroughly implement these two actions in order to solidify the foundation for the next phase of growth.

P. 28 Future outlook

Operating income for FY 2024, the final year of the MTP, is forecasted at 180 billion yen, which is not a satisfactory level. On the other hand, I believe that during the three years of the current MTP we will have taken the necessary measures for next phase of growth.

If you look at the composition of operating income, Basic Materials generated 30 to 50 billion yen in FY 2018, when we had record-high operating income of 209.6 billion yen, and in FY 2021, when we had the second-highest operating income. In FY 2024, however, we forecast hardly any operating income in Basic Materials. In addition, operating income in separators is forecasted to be significantly below the expected level. These two businesses are having a substantial impact on overall performance. On the other hand, Health Care, which we position as the pillar of growth, accounts for an increasing percentage of operating income, resulting in a shift to a higher rate of high value-added businesses in our portfolio.

Since we firmly believe that the measures taken thus far will produce positive results step by step, we aim to reach a new record-high operating income in FY 2025. Additionally, we think the operating income target of 270 billion yen set at the beginning of the MTP can be achieved in FY 2026–2027. The most important point in the next MTP is how to reap fruits of the reforms we implemented in the current MTP.

P. 29 Medium-term management direction of Asahi Kasei

Our company operates business in the three sectors of Material, Homes, and Health Care, with each sector playing a specific role in the group. This three-sector management was not the original intention at the time the company was founded. Looking back on the historical path of the company, “continual productivity improvement” and “bold business portfolio transformation” have become entrenched as permanent principles of action, forming part of our corporate identity. The present three-sector management has formed as a result of operating business in accordance with this identity.

Three-sector management enables us to continue taking challenges for business portfolio transformation and diverse growth opportunities in the three sectors, while maintaining financial soundness based on stable business earnings. We believe this unique management style and way of business operation generates a virtuous cycle of “contributing to sustainable society” and “sustainable growth of corporate value,” which is the vision of our group management.

Supplementary explanation regarding the financial results briefing for fiscal 2023

Now I would like to provide supplementary explanation with regard to the financial results briefing.

1. Separator business

We received a question about the U.S. IRA (Inflation Reduction Act). There was concern about whether there would be any adverse effect on our separator business in North America due to tax credits being applicable to EVs using separator with base film made in China and coated in the U.S. However, our company made the investment decision considering the possibility of this risk, and we performed sufficient risk management.

We set a goal of attaining a 30% share of the separator market for EVs in North America, which means that 70% of base film would be made by other manufacturers, and it is unlikely that all of that would be produced in North America. Based on this assumption, we analyzed in detail whether we have stronger cost competitiveness with respect to competitors in China and South Korea before making the investment decision, and we concluded we had good prospects of success. In addition, separator manufacturing moving forward will need to meet different requirements for each EV model. Coating is the key technology for this purpose, and this allows us to leverage our chemical technology.

The downturn in performance of the separator business in recent years was partly due to our insufficient production capacity for coated separator. In FY 2021, when the business was robust for consumer electronics applications, Hipore achieved its highest ever income with high plant operating rates. For automotive applications, we sold base film to some customers since we didn't have enough coating capacity, but sales volume decreased due to a slowdown of the EV market in Europe. After that, demand for consumer electronics applications also became sluggish, and expanding sales for automotive applications was difficult because of insufficient coating capacity, resulting in decreased sales.

For automotive applications, it is important to have sufficient capacity and technology to manufacture coated separators. Therefore, we decided on the investment in North America after fully examining profitability, taking into consideration cost competitiveness in base film, coating technology, vertical collaboration to stabilize operating rates, and the use of government financial support and capital from other companies to reduce investment risk. There is concern about the risk regarding EV market growth, but we are confident about sales for at least the first phase of investment. As I explained earlier, starting up the first-phase plant on schedule is the largest issue. This is because we are confident in the product marketing.

2. Our business models

The Homes business started 50 years ago under many constraints as a business unit of a diversified chemical manufacturer. The business was strengthened by sharply focusing on the three aspects of urban homes, human resource allocation, and raising brand value in the pursuit of efficiency. As a result, efficient operations and high value-added services have been achieved in an asset-light manner, and this led to an expansion of business related to delivered homes such as rental management and remodeling, based on the customer trust which has been earned by excellent human resources. This is a unique business model of our company.

This business model is also associated with the pharmaceuticals business. Having reviewed whether to continue the pharmaceuticals business, we decided on the acquisition of Veloxis and shifted to the strategy of global business expansion targeting niche therapeutic areas. In the domestic market, our company's medical representatives have earned high evaluation. We accelerate the growth of the pharmaceuticals business by utilizing efficient in- and out-licensing and M&A for establishing new business platforms and strengthening the pipeline under the strategies of niche therapeutic areas, global business expansion, and global management style.

3. Impairment loss

Our company recorded a large amount of impairment loss on Polypore International in FY 2022, and on petrochemical-related businesses, etc., in FY 2023. However, the impairment loss in FY 2023 includes some businesses such as Bemberg cupro fiber and Roica premium stretch fiber, which have stable earnings but were impaired for individual reasons. The business environment in the petrochemicals-related businesses is severe and earnings are sluggish, but I hope you will appreciate that not all businesses in Material have deteriorated.

Questions and Answers

Questioner 1: You have operating income targets of 210 billion yen, a new record high, in FY 2025, and 270 billion yen in FY 2026–2027. In relation to the overview of the business portfolio described on page 27 of the briefing material, could you explain about operating income targets in each of the areas of first priority, growth potential, earnings base expansion, and profitability improvement/structural transformation, together with the background?

Kudo: We intend to announce details about operating income targets in the next MTP which starts in FY 2025.

We estimate that businesses in the growth potential area will fully contribute from 2030, but it is currently in the phase of investment using financial support and other means. In the Hydrogen-related business, clarification of our technological issues is progressing, and we have received inquiries from customers. In CO2 chemistry, we are currently studying new business models including utilization of intellectual property.

In the area of first priority, operating income is expected to be approximately 60 billion yen in FY 2024, and we intend to achieve a level of operating income of around 100 billion yen in the next MTP.

The businesses in the area of earnings base expansion are growing successfully and are expected to generate cash consistently to support investments including M&A in the first priority area. Operating income in Homes is forecasted at 90.5 billion yen in FY 2024, and we aim at a level exceeding 100 billion yen in the next MTP. In the Car Interior Material business, we expect to set a target of operating income after amortization of goodwill and other intangible assets at a level exceeding 10 billion yen.

Questioner 1: Health Care is showing growth primarily in Critical Care. Do you expect the companies acquired in recent years including Itamar and Respicardia to contribute to earnings in three to five years?

Kudo: Itamar is steadily growing, but Respicardia is behind the pace initially assumed at the time of acquisition. The businesses are in the same filed of cardiovascular disease as the existing businesses, requiring collaboration with medical institutions. We are taking measures including strengthening of marketing activities, and expect to see growth in the coming years.

In Global Specialty Pharma, the current pharmaceuticals business sales are about 130 billion yen, but we presume it is necessary to realize sales volume of about 300 billion yen to ensure continuous growth in the future. Considering that R&D costs required for a single new drug are approximately 20 billion yen in general, we have an assumption of investing approximately 60 billion yen, equivalent to 20% of sales, to continuously advance R&D on three pipeline drugs. The pharmaceuticals business is growing successfully centering on Veloxis, but we think we need to further expand the business including through M&A.

Questioner 2: I would like to ask your view about the evaluation of your share price. Evaluating each business of Health Care with high growth, Homes with high capital efficiency, and Material shifting to higher added value, I believe PBR should exceed 1.0. However, the actual evaluation is different, which seems to be due to a conglomerate discount. How do you consider solving this issue?

Kudo: We perceive it is a fundamental issue for our company. I think the present share price evaluation is partly affected by the short-term factor of diminished profitability, mainly due to a downturn in petrochemical-related businesses. But to solve the issue of the conglomerate discount, we need to clarify the characteristics of the three sectors and establish concrete strategies for each one, as well as creating several new businesses. I believe that three-sector management is necessary for us to achieve both stability and growth. To make this understood by the stock market, I think we need to show actual proof that our three-sector management enables us to identify and commercialize emerging growth areas even in an uncertain business environment.

This requires horizontal collaboration in DX (Digital Transformation) and GX (Green Transformation). The strengths of three-sector management can also be demonstrated in terms of human resources, concepts, etc., in the development of new businesses utilizing intangible assets such as TBC, as I described earlier. I will continue to explain about this in the next MTP as well.

That said, I do not believe that we must continue three-sector management permanently. We will continue to transform Asahi Kasei as times change, without preconditions.

Questioner 3: I would like to ask about structural transformation of petrochemical chain-related businesses in Material as you explained on pages 12 and 13. There are changes in the business environment such as deteriorated performance of the acrylonitrile (AN) business that was robust before, and actions for collaboration in western Japan in relation to the naphtha cracker. Under these circumstances, I ask you to provide more detailed information regarding what kind of structural transformation is possible.

Kudo: First I will explain about the AN business. In FY 2023, equity in losses of affiliates of 41.7 billion yen was recorded with impairment loss on PTT Asahi Chemical on the consolidated financial statements, which was based on the premise that this company's AN manufacturing was not cost competitive. Since it is difficult to continue the company in its current form, we need to review the future direction. With regard to the Mizushima Works, the supply of co-products of AN is an issue in terms of economic security. We need to include the AN business in deliberations on the direction of business related to the naphtha cracker in Mizushima.

We are also reviewing the direction of other businesses in Mizushima, including collaboration with other companies, from the perspective of whether each business is competitive, not from the viewpoint of production capacity of the overall petrochemical chain. We intend to clarify these business directions within FY 2024.

Questioner 3: In addition to the conglomerate discount mentioned earlier as a factor for PBR being below 1.0, I think there is another factor of the high volatility of earnings. Can we expect that the volatility of overall group earnings will become lower if structural transformation progresses in FY 2024?

Kudo: In terms of structural transformation, we evaluate businesses based on future profitability as well as from the perspectives of the volatility of earnings and who is the best owner. It is our responsibility to transform the company into one that grows steadily by reducing businesses that have high volatility of earnings.

Questioner 4: In relation to Progress on GG10 on page 17 of the briefing material, it shows that approximately 100 billion yen of investment in Digital Solutions was decided during FY 2022 to FY 2024. On the other hand, page 23 says you are planning to invest 100 billion yen in expansion in Digital Solutions by 2030. Is there any overlap in these amounts? I would also like to know specifically if there are investment projects other than the capacity increase for Pimel in Fuji.

Additionally, are you also considering M&A or other means to further expand Digital Solutions as a growth driver?

It seems that income has not increased much from FY 2021 to FY 2024. If glass fabric sales triple and Pimel sales double by 2030, how much contribution to earnings do you expect?

Kudo: In addition to the production capacity increase for Pimel in Fuji, the 100 billion yen of investment decided during FY 2022 to FY 2024 includes capital investment planned at the site where a semiconductor plant fire occurred. There is no overlap with the investment of 100 billion yen in expansion by 2030. Investment projects by 2030 are still in the process of consideration.

In Digital Solutions, business conditions vary depending on the product. Pimel is growing steadily, achieving record-high income. In electronic components, deteriorated semiconductor market conditions impacted the products that we expected would grow, but they are currently on a trend of recovery. In low-dielectric glass fabric, there are not many competitors, and our company has a large share of the next-generation markets. Since manufacturing glass fabric requires a variety of technology in each process, we are considering collaboration with other companies as well as working to enhance our own technology.

Many companies in Japan are focusing on the area of digital solutions for growth, and we need to consider various measures including M&A to pursue future growth. I expect to see major changes during the three years of the next MTP, not only in our company but also in the entire industry, and I assure you that we are making preparations for it.

Questioner 4: As described on page 23 of the briefing material, your company’s glass fabric has obtained high market share, particularly for next-generation applications and AI servers. Do you think you will be able to maintain your technological advantage in the coming three to five years? I would like to know your future outlook regarding market share, including investment plans.

Kudo: We procure the raw material yarn, or glass fibers, from outside suppliers. Also, we leverage outsourcing and licensing for the weaving process, so we don’t think our investment will be very large. Augmenting yarn procurement may require some investment, but it should be a moderate amount.

The market size of the current generation (for 400 GbE switches/routers and AI servers) is estimated at 30 to 40 billion yen at present, and we will consider investments in light of the growth potential of this market.

Questioner 5: With regard to your policy for shareholder returns, you explained in the announcement of the MTP in April 2022 that about 150 billion yen would be returned as dividends, and you would consider allocating another 30 billion yen to share repurchases as appropriate. In today’s briefing, your policy seems to place higher priority on dividend increases than share repurchases. Has there been some change?

Also, I would like to know your current thinking about the shareholder returns policy in the next MTP.

Kudo: Regarding shareholder returns, our policy is to emphasize progressive dividends, but that does not exclude the possibility of share repurchases.

Capital allocation on page 8 of the briefing material shows "Other cash sources." This includes cash inflow from the sale of businesses. If an agreement on the sale of a business is concluded within FY 2024, a certain amount of cash inflow would be expected by FY 2025. Such cash would be allocated not only to growth investments, but possibly to share repurchases as well.

For the next MTP, there will be no change in our policy to emphasize progressive dividends and consider share repurchases as appropriate. We will demonstrate both growth and stability by providing progressive dividends, which we hope will give our shareholders a sense of security.

Questioner 6: In Material, the petrochemical-related business ratio is decreasing while growth businesses including glass fabric that do not require a large amount of capital investment are increasing. In Homes, not only order-built homes but also services for existing homes including rental management and remodeling are steadily growing. In Health Care, your company operates in medical-related services in addition to manufacturing pharmaceuticals and medical devices. Considering that your company has been boldly promoting business portfolio transformation under the group mission of "contributing to life and living for people around the world," I suppose that someday your company will no longer be identified as a chemical manufacturer, changing into a provider of solutions and services, for example. In what time frame do you think such a change of identity could happen?

Kudo: In terms of what kind of business model we are pursuing, our company has already been promoting a shift to a solution and service-based business model.

For example, in the ion-exchange membrane business, working with Recherche 2000 Inc. acquired in February 2020, we are providing data-driven services to support optimal customer operations based on remote monitoring. In the hydrogen-related business, in addition to developing and manufacturing alkaline water electrolysis systems, we are also considering business providing solutions and services including system operation and maintenance.

We have been executing the MTP with a strategy emphasizing the aspects of speed, asset light, and higher added value, as explained at the briefing in April 2022. In the next MTP and thereafter, I expect to show you how our company is transforming.

Questioner 6: Is there also a possibility that your company will shift to solutions and services in the separator business?

Kudo: Our company is continuously working on battery research, and we are also considering business with solutions and services. We hope to pursue it, although it may take some time.

Questioner 7: In the concept for FY 2025 operating income shown on page 28 of the briefing material, 80 billion yen of operating income is expected in Health Care, an increase of about 22 billion yen from FY 2024, which means a high rate of growth. How much increase in income do you expect in Critical Care and the Health Care business category, respectively? Looking at page 34 of the briefing material, I suppose that Veloxis, Itamar, Bionova Scientific (hereinafter "Bionova"), and Respicardia will account for a large portion of income growth. Could you explain about other businesses?

Kudo: Although there is concern about the recovery of the business environment for the biologics CDMO Bionova, we expect steady growth from Veloxis, Itamar, and existing businesses in Critical Care. In addition, we expect Planova virus removal filters to grow in FY 2025. Planova sales are currently sluggish due to customers' inventory adjustment which is currently seen in the industry after some customers increased their stocks to meet increasing demand driven by COVID-19 as well as concern about the supply chain. We expect that it will bottom out in FY 2023 or H1 2024, and recover toward FY 2025. Operating income of 80 billion yen is a high target, but we believe it is achievable.

Questioner 7: Page 19 of the briefing material describes your company's transition to One AK Pharma in FY 2024 integrating US/JP pharma business. Could you provide additional information about the strategy?

Kudo: We currently operate pharmaceuticals business with two main axes of Asahi Kasei Pharma and Veloxis, and they are collaborating with each other. However, we believe integrating into one global business structure is reasonable and will contribute to future growth, taking into account various factors including review of the direction of research and development, consideration of M&A, and development of human resources. President Yoshikazu Aoki of Asahi Kasei Pharma will be the leader of One AK Pharma to firmly implement the growth strategies of Global Specialty Pharma.

Questioner 7: Itamar, Respicardia, and Bionova acquired in recent years are startup companies. Will you continue to focus investments on startup companies, or place greater priority on the growth of the companies you have already acquired?

Kudo: We should first focus on the growth of these three acquired companies before considering further acquisitions of other startup companies.

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