Main Substance of the Question and Answer Session

Health Care Business Briefing, held on May 28, 2024

Asahi Kasei Corporation

Accelerating Growth as a Global Healthcare Company

Acquisition of Calliditas Therapeutics AB

Participants

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- Calliditas' future contribution to Asahi Kasei

Q: The acquisition price is approximately ¥173.9 billion, a premium of more than 80% over the current share price. The peak sales of Tarpeyo are expected to exceed $500 million in the 2030s. Could you explain more about the growth scenario?

A: We apply Japanese accounting standards, which include amortization of goodwill. Even so, we expect the acquisition to be profitable in fiscal 2025, and anticipate operating income after PPA amortization from this acquisition to be in the 2-digit billions of yen in fiscal 2026. We expect the company to make a significant contribution to our earnings in the 2030s when sales of Tarpeyo are projected to peak. The acquisition price was determined based on a rigorous evaluation of future earnings projections.

Q: I would like to ask about the amortization periods applicable to intangible assets and goodwill. Additionally, you mentioned that profitability is expected in operating income after PPA amortization in fiscal 2025. Could you please provide the amount of goodwill?

A: Intellectual property such as patents constitute a large portion of intangible assets, with amortization calculated based on the effective terms of patents. For goodwill, amortization period can be 20 years. Even if we conservatively calculate the amortization period to be close to that of patents, we project positive operating income after PPA amortization in fiscal 2025.

• About Tarpeyo

Q: What is the advantage of Tarpeyo over competing drugs that may be launched from other companies in the future?

A: Tarpeyo targets patients with moderate to severe IgA nephropathy symptoms. The target patient pool is different from other competing drugs that are currently under development, as those drugs primarily target patients with severe conditions. In addition, Tarpeyo is characterized by its affordable price and oral formulation. While the market share of Tarpeyo may decrease to some extent with potential launches of competing drugs under development, we believe that its uniqueness will secure the market position as a first-line drug.

Q: I would like to ask about the details and effective period of the patents.

A: The active ingredient is a commonly used steroid, which means there is no patent specifically covering this ingredient. However, there are strong patents related to the formulation technology, and their validity lasts until around 2040.

Q: Compared to other competing drugs currently under development, Tarpeyo seems to have a lower efficacy in terms of reducing urinary protein levels. While some of those competitors are aiming for sales exceeding $1 billion, what are the strengths of Tarpeyo if competitors with superior efficacy enter the market?

A: We are aware that some competing drugs under development may potentially achieve significant sales, but we anticipate that these drugs will be priced considerably higher and target a different market compared to Tarpeyo. Tarpeyo uses a common type of steroid as its active ingredient and is widely available in the market at a reasonable price. The market for IgA nephropathy treatment is expected to expand, including the market for competing drugs, and we believe that Tarpeyo will be able to secure a stable share in this market.

• Synergies with Asahi Kasei and Veloxis

Q: What synergies are expected with Veloxis Pharmaceuticals, Inc.?

A: Calliditas is headquartered in Sweden, but has approximately 100 employees in the U.S., where Veloxis is headquartered. By utilizing the human resources of both companies, we hope to further expand our presence in the renal disease area in the North American market. In addition, efficient research and development on a global basis can be expected, and we hope to establish an efficient operational structure centered on the U.S. in the near future, including cost reductions. Furthermore, we believe that having multiple competitive products in the renal disease area will increase our market presence, strengthen relationships with medical facilities and physicians, and deepen our specialized knowledge, which will also increase business development opportunities.

Q: Can you expect direct sales synergies, such as utilizing Veloxis' sales channel to expand sales of Tarpeyo or utilizing Calliditas' sales channel to expand sales of Envarsus XR immunosuppressant, which is sold by Veloxis?

A: We cannot immediately take advantage of both sales channels, but from a marketing perspective, we believe that we can utilize Veloxis' connections with nephrologists to promote Tarpeyo. In addition, since there are cases where kidney transplant patients also have IgA nephropathy, sales teams of Envarsus XR and Tarpeyo could work together to create synergies.

Q: Renal disease is a key therapeutic area for you, but Calliditas' pipeline drug, Setanaxib, seems to target a different area. What are your thoughts on the pipeline in development?

A: Setanaxib is currently undergoing clinical development for three indications, one of which is solid tumors, which is not part of our strategy. For primary biliary cholangitis and Alport syndrome, we plan to determine the future policy based on the progress of ongoing Phase 2 clinical trials.

Q: Why do you think Calliditas accepted your offer to acquire?

A: We believe that cultural alignment is the key, similar to our successful acquisitions of ZOLL Medical Corp. and Veloxis. In addition, when we acquire companies, we value the vision held by the acquired company and offer the autonomy to continue to fulfill their mission. This approach is particularly attractive to the CEO and executives who have built their companies. As Calliditas is a publicly traded company, there is also a responsibility to shareholders.

Q: When did you first approach Calliditas?

A: Calliditas had long been on our list of global pharmaceutical companies that fit our strategy. Over years of discussions, we gained a better understanding of their business and built a relationship of trust. We share the same mission to help as many patients as possible who are suffering from rare diseases in the world.

- Asahi Kasei Group’s strategy

Q: Health Care strategy in the current medium-term management plan aims to achieve further growth opportunities by establishing a business footprint in Europe. However, this acquisition is intended to strengthen the renal disease field in the U.S. instead of Europe. I would like to understand the background behind this decision and the potential for M&A in Europe in the future.

A: As part of our global specialty pharmaceutical business, we aim to establish a robust presence in key markets including Europe alongside Japan and the U.S. that will enable us to sell our products. To achieve this, we first need to reach a certain business scale to ensure self-sufficiency in research and development. After successfully completing the acquisition of Calliditas, based in Europe, we may consider opportunities for acquiring European companies which could potentially provide synergies in our key focus areas. Alternatively, we may also consider gradually establishing a presence in Europe using our own resources.

Q: In addition to large acquisition deals like this one, there is also a recently announced investment strategy for your separator business. Given the active evaluation of investment opportunities, could you clarify how you have been able to fully scrutinize large-scale acquisitions? Could you also discuss your management approach?

A: One of the goals of our three-sector management is to achieve both growth and stability. We aim to sustainably innovate our products and business models. While Homes and Health Care are performing strongly, Material has shown fluctuating profitability, and our total operating income was slightly under ¥130 billion in fiscal 2022 and around ¥140 billion in fiscal 2023, which is not sufficient for achieving stable high profitability. However, for the North American investment in the separator business, we aim to achieve high profitability and growth, planning an investment configuration where our cash outflow will be about half of the total investment of approximately ¥180 billion. We decided to execute this acquisition because we have confidence in driving a business portfolio transformation that balances both stability and growth while maintaining a sound financial standing.

Q: Among integrated chemical companies, you have by far the largest number of M&A transactions. What differentiates your M&A team from those of other companies?

A: For M&A, we believe it is important to be well versed in the target market and business, and to have an ability to discern. We are fortunate to have ample personnel, mainly in the U.S., who have the ability to discern and are capable of executing M&A. Furthermore, they are able to find target companies with aspiring managers who are deeply knowledgeable about their market and business, dedicated to their business, and are passionate about their work. We can expect continuous growth even after an acquisition by retaining these leaders to drive the business.