Summary of Financial Results Briefing for Q1 Fiscal 2024

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Asahi Kasei Corporation

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Presentation

P. 2 Focus of Q1 2024 results and H1 2024 forecast

Horie: In Q1 2024, operating income increased year-on-year in all segments due to significant improvement in Material as well as continued firm growth in Homes and Health Care.

Regarding the H1 operating income forecast, we also expect a year-on-year increase in all segments and have revised upward the forecast announced in May 2024. The full-year forecast will be reviewed at the time of the Q2 earnings announcement.

With respect to shareholder returns, the interim dividend forecast remains unchanged at 18 yen per share.

P. 4 Q1 2024 consolidated financial results

Net sales for Q1 totaled 735.9 billion yen, up 13% year-on-year; operating income was 49.9 billion yen, up 129%; and net income attributable to owners of the parent was 34.1 billion yen, up 255%. Of the 28.1 billion yen increase in operating income, about 10 billion yen was due to foreign exchange factors, which exceeded by about 3 billion yen our assumption based on exchange rate sensitivity, as a result of increased sales volume.

P. 5 Q1 2024 results by segment

In Health Care, both the Health Care business category and Critical Care had increased volumes, resulting in an increase in operating income year-on-year.

Operating income in Homes increased. In the Homes business category, although order-built homes saw a decline in volume, real estate and overseas business performed well.

Operating income in Material posted an increase of 19.0 billion yen year-on-year, of which about 2.3 billion yen was attributable to lower amortization as an effect of the impairment loss recorded in FY 2023. Environmental Solutions posted a significant increase of 10.6 billion yen. In addition to increases due to special factors of approximately 1.3 billion yen from lower amortization as an effect of the impairment loss and approximately 3.0 billion yen as an effect of inventory valuation due to higher naphtha prices, there was an improvement in terms of trade and an increase in sales volume. In Life Innovation, in addition to strong sales of mainstay products in Digital Solutions, products less susceptible to business conditions, such as Bemberg cupro fiber and consumables, contributed to the increase in operating income.

P. 7 Extraordinary income and loss

The 7.4 billion yen in business structure improvement expenses was due to impairment loss on fixed assets and other items associated with closure of a Daramic lead-acid battery separator plant in the U.S. This was as planned and was factored into the initial forecast.

The 1.8 billion yen loss on product compensation was related to Hipore wet-process LIB separators sold in the past.

P. 8 Balance sheets

Total assets increased by 144.2 billion yen from the end of March 2024. Both current assets and noncurrent assets increased. Regarding net assets, accumulated other comprehensive income increased by 87.0 billion yen, due to an increase in foreign currency translation adjustments resulting from the weaker yen.

Interest-bearing debt increased by 54.1 billion yen to 971.1 billion yen, but the D/E ratio was unchanged as equity also increased.

P. 9 Cash flows

Cash flow from operating activities increased steadily, resulting in a cash inflow of 41.6 billion yen. On the other hand, cash flow from investing activities resulted in a cash outflow of 56.8 billion yen, and free cash flow amounted to a cash outflow of 15.3 billion yen. In terms of cash flow from investing activities, while there was a cash inflow from the sale of strategic shareholdings, there was a cash outflow related to the acquisition of Calliditas Therapeutics AB due to advance purchase of shares in the company.

P. 11 H1 2024 forecast (consolidated)

For H1 2024 we forecast net sales of 1,501.0 billion yen, operating income of 95.0 billion yen, and net income attributable to owners of the parent of 53.0 billion yen, representing year-on year increases in both sales and income. Both sales and operating income have been revised upward from the initial forecast. The Q2 forecast assumes an exchange rate of 150 yen/U.S. dollar and a domestic naphtha price of 76,000 yen/kL. Although operating income is expected to decrease from Q1 to Q2, this is partly due to temporary factors that elevated operating income in Q1, such as the effect of inventory valuation.

P. 12 H1 2024 forecast by segment (year-on-year)

In Health Care, both the Health Care business category and Critical Care are expected to show steady growth in operating income. In the Health Care business category, operating income is expected to increase despite an increase in expenses associated with the acquisition of Calliditas.

In Homes, we expect to see an increase in operating income due to strong performance in real estate and overseas business.

In Material, Environmental Solutions, Mobility & Industrial, and Life Innovation are each expected to have increased operating income.

P. 13 H1 2024 forecast by segment (vs. forecast in May)

Operating income was revised upward by 15.0 billion yen from the initial forecast to 95.0 billion yen. While Homes is basically expected to be in line with the initial forecast, Health Care and Material have been revised upward. In Material, Environmental Solutions, Mobility & Industrial, and Life Innovation have all been revised upward and are expected to perform well.

P. 16 Material: Sales and operating income increase/decrease

The factors behind the year-on-year increase in Q1 operating income in Material are as follows: a positive 5.3 billion yen in sales volume factor, a positive 8.1 billion yen in foreign exchange factor, and a positive 4.8 billion yen in the others factor. The others factor is a positive 7.5 billion yen in Environmental Solutions, which includes an increase of 3.0 billion yen due to the effect of inventory valuation.

P. 17 Material: Overview by Business

The left-side graphs for each category show a comparison of operating income for Q1 year-on year, and the right-side graphs show a comparison between the initial and current forecasts for operating income in H1. In Environmental Solutions, Basic Materials is improving, while the separator business is currently having lower-than-expected sales volume due to a slowdown in demand for EVs. However, the medium-term outlook for business expansion remains unchanged.

In Mobility & Industrial, operating income is steadily increasing due to progress in passing on increased costs in car interior material. In engineering plastics, earnings increased year-on-year in Q1, but the H1 forecast remains unchanged due to a cautious outlook for a decline in production by Japanese automakers in China and other factors in Q2.

In Life Innovation, the mainstay products of Digital Solutions are performing well, and we expect this situation to continue in Q2.

P. 19 Homes: Sales and operating income increase/decrease

Operating income in Homes increased by 3.6 billion yen year-on-year in Q1. In order-built homes, the sales factor was negative as volume continued to decline despite higher average unit prices due to larger and higher value-added buildings. On the other hand, real estate saw an increase in the number of condominium units sold, and overseas business also performed well, resulting in an increase of 4.3 billion yen in the others factor.

P. 20 Homes: Overview by business

We expect business trends in Q1 to continue in Q2 as well. Compared to the H1 initial forecast, operating income in order-built homes was revised downward, while operating income in real estate and overseas business was revised upward, and we expect overall operating income to be in line with the initial forecast.

P. 23 Health care: Sales and operating income increase/decrease

Operating income in Health Care increased by 6.0 billion yen year-on-year, indicating a return to a growth trajectory. In the Health Care business category, operating income increased with the higher sales volume of Planova virus removal filters in Medical due to the conclusion of inventory adjustments by customers, and with steady growth of mainstay products in Pharmaceuticals. In Critical Care, operating income increased due to steady volume growth and higher sales prices.

P. 24 Health care: Overview by business

In the Health Care business category, operating income is expected to be in line with the initial forecast, despite an anticipated one-time increase in expenses associated with the acquisition of Calliditas, which were not originally incorporated into the forecast. In Critical Care, the initial forecast was revised upward, as both LifeVest wearable defibrillator and other defibrillators are expected to perform well. As a result, the overall operating income forecast for Health Care has been revised upward.

P. 29 Overseas Sales

In Q1, domestic sales accounted for 43.5% of total sales, less than half. On the other hand, the proportion of sales in the Americas has been growing steadily in recent years. The share of sales in China increased slightly in Q1, but remains at about 10%.

Questions and Answers

Material:

General

Q: All subsegments are forecasting lower operating income in Q2 compared to Q1 of FY 2024. Can you tell us about the background to this, including demand trends?

Tanaka: For Environmental Solutions, the effect of inventory valuation is concentrated in Q1. The domestic naphtha price was 79,000 yen/kL in Q1, but is forecasted to be 76,000 yen/kL in Q2, which will suppress operating margins.

Note that earnings are favorable on a year-on-year basis due to continued high market prices for benzene, MMA, butadiene, and other products. In addition, reductions in fixed costs have been effective in both Q1 and Q2.

Moriwaki: In Mobility & Industrial, sales are expected to increase slightly from Q1 to Q2, but decreased operating income is forecasted.

Sales of car interior material and engineering plastics are expected to decline due to an overall decrease in sales volume for automotive applications, seasonal factors in car interior material due to summer vacation in Europe and the U.S., and an adjustment phase for products for solar power applications in engineering plastics in Q2, which were favorable in Q1. On the other hand, sales of nylon intermediates and coating materials are expected to increase.

Operating income is expected to decrease due to lower sales of car interior material and engineering plastics, which have high operating margins, as well as the concentration of fixed costs in Q2, effect of higher logistics costs mainly in Europe, and impact of inventory valuation.

Igarashi: In Life Innovation, the overall demand recovery trend remains unchanged from Q1 to Q2, and there are no negative factors related to specific customers or applications. Decreased operating income forecast for Q2 is due to assumptions of a stronger yen foreign exchange rate and higher fixed costs. In addition, in Digital Solutions, some demand at several customers had been brought forward from Q2 to Q1. In Comfort Life, there are no major factors in particular, but the impact of increased fixed costs at the Mizushima plant for Ceolus microcrystalline cellulose, which started operation in FY 2023, has been factored into Q2.

Horie: Basically, this is due to the fact that the inventory valuation had a large impact in Q1 and that we assume an exchange rate of 150 yen/U.S. dollar for Q2. Excluding those factors, we do not expect any major changes from Q1 to Q2.

Environmental Solutions

Q: Regarding the upward revision of operating income in Environmental Solutions, what is the magnitude of the impact of each factor, such as the foreign exchange rate and inventory valuation? Also, are you seeing any benefit from the rise in the MMA market prices? What are trends in operating income for businesses other than Basic Materials?

Tanaka: In Basic Materials, we expect the effect of inventory valuation to be about 3 billion yen compared to the initial forecast, and market price increases, including MMA, will make a similar contribution to terms of trade. In addition, fixed costs have been reduced to a certain extent. In other products, the separator business has been revised downward, but membrane solutions are performing well, and synthetic rubber and elastomers are recovering in terms of both volume and prices.

Q: What is the progress of structural reform of the petrochemical chain-related businesses?

Horie: We are having earnest negotiations for business portfolio transformation, including structural reform of our petrochemical chain-related businesses, but I cannot provide specifics at this stage.

Q: What is the utilization rate of the naphtha cracker at the Mizushima Works? Also, are there any businesses in derivatives that are in a difficult situation?

Tanaka: Our utilization rate is about the same as the average for all domestic naphtha crackers, which is in the 80% range. Earnings of each derivative have remained sluggish since FY 2023, and we are studying ways to improve the situation. I cannot comment on any specific actions at this time, but we are first working on cost reductions, such as drastically reducing fixed costs, to enhance profitability.

Q: What is the AN spread between Q1 and Q2 of FY 2024?

Tanaka: In Q1, AN market prices gradually rose to around $1,320/ton, partly due to maintenance turnarounds and technical issues at competitors. Although market prices peaked in Q1, we do not expect a significant decline, and we currently forecast market prices to be slightly below $1,300/ton. As propylene market prices are hovering around $850/ton, we expect the spread to narrow slightly from Q1.

Q: What is the background behind the downward revision of the H1 operating income forecast for the separator business?

Onodera: The downward revision in the separator business is mainly due to lower-than-expected sales volume as EV demand growth slows compared to the initial forecast against the backdrop of expiration of subsidies for EV purchases in Germany, stricter requirements for EVs to qualify for tax credits under the U.S. IRA (Inflation Reduction Act), and rising interest rates for automobile loans. On the other hand, EV demand in FY 2024 is expected to grow year-on-year, albeit at a slower pace, and we are now closely examining our sales volume forecast for H2 2024 and beyond, based on our analysis of market trends and dialogue with our customers.

Q: What is your image of the volume of separators for LIBs in Q1 2024? In Q4 2023, you explained that the volume returned due to the start of new projects in North America. What was the background behind the renewed decline in volume for consumer electronics and automotive applications in Q1 2024?

Onodera: Regarding consumer electronics applications, the smartphone market bottomed out in FY 2023 and then picked up. The current sales volume forecast is expected to exceed the FY 2023 level. For automotive applications, new projects have started up and deliveries began in H2 2023. However, actual sales of EVs have not improved as much as expected, being sluggish toward Q2. We expect the EV market to start improving in H2 and beyond, but we are closely examining the market conditions.

Q: In the forecast announced in May, you had expected that the volume of LIB separators would grow by about 50–60% year-on-year for the full year. What is your current view for H1?

Onodera: We expect H1 2024 to be about the same as the previous year. New projects have been launched as planned since H2 2023, but have been affected by the sluggish EV market.

Life Innovation

Q: What specific products are growing in Life Innovation? Is there any demand brought forward from H2 to H1 as a factor in the strong H1?

Igarashi: The main reasons for the difference from the initial forecast are volume factors and foreign exchange factors. The increase in volume is not so much for specific products, but rather overall sales are stronger than initially expected, especially in Digital Solutions. Although some demand that was expected in Q2 had been brought forward to Q1, we are not factoring in any demand being brought forward from H2 to H1.

Q: Sales in Digital Solutions in Q1 2024 grew about 20% year-on-year, but I assume that sales of Pimel photosensitive insulator and glass fabric grew even higher. Could you give us a breakdown of electronic materials and electronic components? Also, what is the outlook for demand for smartphone applications?

Igarashi: Both electronic materials and electronic components are growing at the same level. In electronic materials, Pimel is maintaining strong sales, and demand for glass fabric for AI server-related and telecommunications applications is growing steadily. Electronic components also continue to do well, with ICs for controlling camera modules in smartphones and products for sound management in EVs gradually growing from a sluggish FY 2023.

We expect demand for products for smartphones to grow several percent in FY 2024 year-on-year. Since our electronic materials have traditionally been used in high-end smartphones, for which there has been relatively little decline in demand, we believe that they will continue to grow steadily.

Q: Regarding glass fabric, is it possible that the tight supply of yarn, the raw material, is constraining production? Also, sales of Digital Solutions are expected to be flat from Q1 to Q2, but what is the background behind the forecasted decrease in operating income?

Igarashi: We are aware that yarn procurement is an issue, and we are working with several yarn manufacturers to ensure stable procurement. The expectation that sales in Digital Solutions will remain flat and operating income decline from Q1 to Q2 is due to fixed costs, and we basically expect the market conditions to remain the same.

Q: Regarding Comfort Life, what are the factors behind the significant year-on-year improvement in operating income in Q1 2024?

Igarashi: Sales volume of Bemberg cupro fiber, Roica premium stretch fiber, and Saran Wrap cling film has been strong. In particular, sales volume of Bemberg increased year-on-year due to continued strong demand, as we have been working to restore the plant after the fire that occurred in 2022, and most of the plant was operational in July 2023. Sales volume of Roica is growing due to strong demand for apparel and hygiene materials outside of China.

Health Care:

Health Care business category

Q: Sales of Teribone osteoporosis drug were strong year-on-year in Q1; what are the factors behind this?

Okajima: Sales volume of Teribone autoinjector is steadily increasing. While a generic of the lyophilized formulation of Teribone was sold by a competing company in Q1 2023, the injunction against the manufacture and sale of this product eliminated the impact in Q1 2024, and the sales volume of the lyophilized formulation has stopped falling.

Q: The growth rate of U.S. sales of Envarsus XR immunosuppressant was low in Q1 2024, what were the reasons?

Okajima: In Q1 2023, demand ahead of the U.S. Independence Day holiday was skewed toward Q1 due to the calendar's alignment, but this did not occur in Q1 2024. In addition, the growth rate of sales was lower compared to the same period last year, when wholesalers built up inventories. However, in Q2, sales volume is expected to increase significantly year-on-year, and we expect the growth rate in H1 to be the same level as before.

Q: While some of your competitors have been significantly affected by the revision of NHI (National Health Insurance) price for long-listed drugs, your sales have remained strong. What was the impact of the NHI drug price revisions and what is the background to the growth in sales?

Okajima: There is no major impact on our company with regard to long-listed drugs. The product most affected by the revision of NHI price is Recomodulin recombinant thrombomodulin, which no longer receives the Price Maintenance Premium. In Q1 2024, sales declined due to a 16.6% decrease in the NHI price. However, sales volume was maintained at the same level as in the same period of the previous year as there are practically no competing drugs. Our ability to regularly launch new drugs has also been successful, with the recent launches of Cresemba, and antifungal agent, and Empaveli, a complement protein C3 inhibitor, also contributing to sales to a certain degree.

Q: What is the scale of the one-time expenses associated with the Calliditas acquisition that are factored into the H1 forecast?

Okajima: I will refrain from giving specific figures, but they are in the low single billions of yen. Those are fees for financial advisors, lawyers, accountants, etc.

Q: Could you elaborate on the situation of Medical in Q1 2024, focusing on the sales situation of Planova?

Ashidate: In Q1 2024, both sales and operating income increased year-on-year due to higher sales volume of Planova and the impact of yen depreciation. In FY 2020‑2021, demand for Planova increased due to the development of COVID-19 vaccines, and some customers built up inventories due to procurement uncertainty, which led to an industry-wide inventory adjustment from FY 2022. However, the downward trend stopped in FY 2023, and sales volume is currently recovering steadily. In FY 2024, the market is expected to return to the growth path it was on before COVID-19. The markets for plasma derivatives and biopharmaceuticals are expected to grow by 4–5% and 8%, respectively, between 2022 and 2030, and Planova is expected to grow accordingly.

Critical Care

Q: Do the factors behind the increase in Q1 operating income include contributions from Itamar and Respicardia, in addition to the impact of foreign exchange and the growth of existing businesses?

Otsubo: Operating income increased significantly year-on-year in Q1. While there was some impact from exchange rate differences, defibrillators, LifeVest, and Itamar contributed to the increase in operating income on a dollar basis as well.

With regard to defibrillators, AED shipments were lower compared to Q1 2023 when there was an abundant order backlog resulting from the parts procurement difficulties in FY 2022. However, operating income increased significantly due to higher selling prices and an improvement in costs as a result of the resolution of the parts procurement difficulties. We also reported an increase in operating income for LifeVest as a result of volume growth due to the resolution of a shortage of sales personnel.

Itamar, acquired in FY 2021, whose business is sleep apnea diagnostic devices, is not yet large in terms of sales, but is growing solidly at double-digit percentage year-on-year. Critical Care, including Itamar, is performing well.

Q: You are forecasting another strong performance in Q2. Is this due to volume expansion?

Otsubo: In addition to an expected recovery in sales volume of LifeVest in Q2, we also expect an improvement in the operating margin for defibrillators due to higher sales prices and improved costs, as in Q1.

Homes:

Homes business category

Q: Regarding orders received, why do you forecast a positive 10% for H1, while in Q1 it was a positive 15% year-on-year?

Sunada: Orders in Q1 were up 15% year-on-year, but this was due to the fact that the same period last year was a period of transition to new marketing initiatives, which caused orders to decline.

Q: I would like to ask about the downward revision of the H1 operating income forecast for order-built homes. Did orders fall below initial expectations or did the increase in the average unit prices settle down? Also, in your May forecast, you expected an increase in operating income for the full year. What measures are you taking to achieve this goal?

Sunada: The downward revision of the H1 forecast is due to the progress of construction work deviating from the assumption, and not due to any negative factors such as difficulty gaining orders or logistics problems. We are currently planning to continue with our strategy for larger and higher value-added products to meet our full-year target.

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