Summary of Q&A at Financial Results Briefing for Q2 Fiscal 2024

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Asahi Kasei Corporation

Participants

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Questions and Answers

Corporate:

Shareholder Returns

Q: What is the background behind the decision to perform share repurchase?

Horie: We are engaged in business portfolio transformation through both growth investment and structural transformation, centered on our 10 Growth Gears (GG10) businesses to drive growth. We aim to enhance corporate value by completing this portfolio transformation and converting to more robust assets having high growth potential, profitability, and capital efficiency. The structural transformation that we are undertaking during the period of the current MTP is making steady progress, and we will work to make further progress during FY 2024, including structural transformation in the petrochemical chain-related business. In FY 2024, the final year of the current MTP, we are beginning to see performance improvement, and we are making progress toward a structure that will allow us to steadily increase operating income, mainly in GG10, without being dependent on market prices in the petrochemical-related Basic Materials, where income fluctuations are large.

Although we have been returning income to shareholders with a focus on progressive dividends, we have now decided to conduct a share buyback in order to improve capital efficiency and enhance shareholder returns. Going forward, we will continue to consider implementing flexible share repurchases to sustainably enhance corporate value.

Q: You have said that you will continue to consider flexible share buybacks, but what are your thoughts on shareholder returns for the next MTP?

Horie: We are currently discussing the shareholder return policy for the next MTP, but we intend to consider and implement flexible share buybacks while maintaining the basic policy of paying progressive dividends.

Other

Q: To what extent are the extraordinary gains and losses related to structural transformation factored into H2 forecast?

Horie: There are some that we envision during FY 2024, but I can't give you specifics.

Q: Are there any changes in your timeline for structural transformation of the petrochemical chain-related business?

Horie: Regarding the naphtha cracker, we are continuing to study the possibility of collaboration among our company, Mitsui Chemicals, and Mitsubishi Chemical in western Japan, and there is no change in our policy of clarifying the path forward in FY 2024. We will make an announcement on other businesses as soon as a decision is made, which we aim to do during FY 2024.

Material:

Environmental Solutions

Q: What are the factors behind the fluctuation in operating income from H1 results to the H2 forecast?

Tanaka, Onodera: In Basic Materials, inventory valuation loss and worsening terms of trade due to lower petrochemical market prices for naphtha and other petrochemicals are expected to have an impact. In the separator business, we expect an increase in sales volume due to the progress of inventory adjustments in the distribution channel, but operating income is expected to decline in H2 due to an increase in SG&A expenses associated with the corporate separation of the Hipore wet-process LIB separator business and the impact of a change in the product mix.

Environmental Solutions – Separator

Q: Regarding the sales volume of Hipore, in the May forecast you expected an increase of around 50–60% compared to the previous year, but what is the basis for the sales volume in the current forecast?

Onodera: We expect a 10% increase in sales volume from H1 to H2, but the growth rate is expected to be in the single digits compared to the year-ago period.

Q: You mentioned that you are working to improve profitability through cost reductions and other measures, but how do you intend to do this faced with increased production capacity for Hipore and falling prices due to the supply-demand imbalance?

Onodera: With demand in North America and some parts of Europe down, we are expecting a difficult situation in FY 2024–2025, but we are conservative in our sales outlook and we plan to reduce costs, especially fixed costs. We expect demand recovery and a return to growth around FY 2025–2026.

Q: With the announcement that major OEMs are lowering their EV production targets, how do you see the growth prospects for the separator business in the medium to long term?

Onodera: As society moves toward carbon neutrality, we believe that the electrification of automobiles will advance irreversibly, as evidenced by environmental regulations and the movement toward the creation of an ecosystem with renewable energy at its core. In the short term, the growth rate of the EV market will fluctuate depending on circumstances of policy, the economy, and OEMs, but we do not expect the general trend to change.

Although demand in the North American market is currently declining due to narrowing of vehicle models eligible for subsidies under the Inflation Reduction Act (IRA), we believe that the market is suitable for us from the standpoint of building a supply chain in the region. As of April 2024, when we decided to invest in the Canadian plant, the North American market for LIB separators was expected to be 5.3 billion m^2/year by 2030. Even if the market share of EVs and PHEVs is only around 30% by then, separator demand would still be 3 to 3.5 billion m^2/year, which is sufficient for the production capacity of our Canadian plant of approximately 700 million m^2/year. Customer evaluation and adoption for the launch of the Canadian plant is progressing smoothly, and we expect sales to expand.

Mobility & Industrial

Q: What are the factors behind the fluctuation in operating income from H1 results to the H2 forecast?

Moriwaki: For car interior material, operating income is expected to decrease due to the impact of a stronger yen, increased fixed costs, and seasonal factors including the Christmas holiday. Profitability of engineering plastics is expected to remain flat due to worsening terms of trade caused by increased feedstock prices and higher fixed costs, despite an expected recovery in automobile production by Japanese OEMs and steady growth in industrial applications.

Life Innovation

Q: What are the factors behind the fluctuation in operating income from H1 results to the H2 forecast?

Igarashi: Demand is expected to remain strong in H2 as in H1. In Digital Solutions, which continues to perform well, demand for glass fabric in electronic materials for AI server-related applications will grow, while demand for electronic components, such as ICs for smartphone camera module controls, will also be favorable. However, Life Innovation as a whole is expected to see a decrease in operating income due to an increase in fixed costs, such as depreciation of the new Pimel photosensitive insulator plant, and differences in product mix. However, Digital Solutions will continue to drive our performance with steady sales growth.

Homes:

Homes business category – Order-built homes

Q: In order-built homes, you have certainly made progress with your strategy of larger and higher value-added homes. However, it seems that the average unit price per home will not increase from H1 to H2, so is there a sense that this strategy has run its course?

Sunada: Orders for apartment buildings have increased and the number of units has grown more than the growth in orders received, so the unit price per unit does not appear to be growing. However, the average unit price per building is rising, and we believe that we can continue to pursue our strategy of increasing the size and value of apartment buildings.

Q: While orders in order-built homes grew significantly in H1 compared to the same period last year, growth in H2 appears to be slowing down. What is the reason for this? Is it simply that you have not revised your initial full-year forecast of +5.0%?

Sunada: In H1 FY 2023, orders were sluggish as our marketing strategy was in transition. On the other hand, in H1 FY 2024, orders increased 10.8% year-on-year, thanks to the progress with the new strategy and a tailwind from the high stock market in Q1. In H2, even without the tailwind of H1, we aim to achieve the same level of orders as in H1, which was strong; although the annual growth rate will remain flat due to the high level of orders in H2 FY 2023, orders are expected to remain strong.

Homes business category – Real estate

Q: The rental management business is growing steadily, but is this growth likely to continue? What is the outlook for orders for apartment buildings, which is the source of this performance?

Sunada: As the rental management business is a business to manage apartment buildings built in the order-built homes business, its performance grows as the number of apartment units increases. The average floor space per apartment building ordered in H1 increased by about 10% year-on-year, indicating that we have been increasing the size of orders in line with our strategy. We will continue to increase orders by strengthening corporate sales activities.

Homes business category – Overseas business

Q: In H1, both the North American and Australian businesses performed well, but in the H2 forecast, growth appears to be stagnant. While the sales forecast is firm from H1 to H2, what is the reason for the expected decrease in operating income?

Sunada: In H1, the North American business saw an increase in construction volume, and the Australian business saw progress in price pass-through, resulting in an increase in operating income over the same period last year. From H1 to H2, we expect a decrease in operating income due to the impact of the stronger yen, lower construction volume mainly in the Australian business due to seasonality and other factors, as well as the risk of differences in product mix and cost increases.

Q: It appears that the operating margin for the North American business will also deteriorate in H2. Please tell us about the expected effects of lower interest rates in North America.

Sunada: Mortgage rates are still high, although they may settle down, and the impact on demand is uncertain. In addition, although revenue will increase due to the consolidation of the recently acquired ODC Construction, LLC, the contribution to operating income is still limited, and we expect a decrease in construction volume in existing businesses due to potential customers temporarily holding off on buying before the presidential election, and as a result, we expect operating margins to deteriorate. However, we expect the housing shortage to continue over the medium to long term and believe that we will be able to steadily grow the performance of this business.

Health Care:

Pharmaceuticals

Q: The growth rate of U.S. sales of Envarsus XR immunosuppressant was low in Q1 compared to the same period last year, while it was high in H1. What is the background to this and what is the sales outlook for H2?

Okajima: In Q1 2023, there was concentrated demand ahead of the U.S. Independence Day (4th of

July) holiday due to the 4-day weekend, but this did not happen in Q1 2024, resulting in a low year-on-year growth rate. However, sales grew solidly in Q2, and overall H1 sales were +26% year-on-year, in line with expectations. For H2, we expect sales growth to continue to be between 25% and 30%.

Q: Sales of Teribone osteoporosis drug were strong in H1 compared to the same period last year. Do you expect similar growth in H2? Also, given the court decision to award you a sales injunction and damages from another company related to their generic lyophilized formulation, is there a possibility that you will record extraordinary income in H2, such as gain on compensation?

Okajima: Sales volume of Teribone autoinjector is steadily increasing, and overall sales of Teribone increased 6% year-on-year in H1. We expect similar growth in H2. Regarding the lawsuit against a competitor selling a generic version of Teribone, compensation will be made once the court decision is finalized, but the other party has appealed and the court decision has not yet been finalized, so the H2 forecast does not include any extraordinary income.

Q: How much of the impact of the acquisition of Calliditas Therapeutics AB has caused Pharmaceuticals to revise its forecasts downward?

Okajima: In H1, there was an impact of about 3 billion yen in expenses related to the acquisition. In H2, we expect operating income to be negative by the same amount as in H1 due to amortization of goodwill and other intangible assets, although there will be a positive impact on business income since consolidation on the income statements began in October. As planned, Calliditas' operating income after amortization of goodwill and other intangible assets is expected to be positive in FY 2025.

Q: I would like to ask about the sales situation for Tarpeyo IgA nephropathy treatment. In the slide on page 36 of the presentation material, the growth rate for US sales in the most recent period, H1 FY 2024, appears to be high. You mentioned that you expect peak sales for Calliditas to exceed $500 million after FY 2030, but I would like to ask about the possibility of achieving this earlier than expected.

Okajima: Although sales in H1 2024 certainly appear to be growing rapidly, we recognize that the growth rate is not as high as we had expected, since a portion of the sales in Q4 2023, which could not be recorded due to problems with a client's computer system, was recorded in Q1 2024. Although the current performance is favorable, we do not believe that it is at the level to revise future targets upward at this stage.

Critical Care

Q: What is the background behind the large increase in operating income from Q1 to Q2?

Nakano: The increase in operating income from Q1 to Q2 was due to the progress in inventory clearance by customers, especially for AEDs, as well as price increases and lower unit costs etc. for defibrillators.

Q: What are the factors behind the fluctuation in operating income from H1 results to the H2 forecast, considering the effect of the expanded sales force for LifeVest, the shipment of defibrillators, and the situation at Itamar Medical?

Nakano: We expect sales and operating income to increase in H2 thanks to continued strong sales of defibrillators and LifeVest. In H1, LifeVest performed well mainly in Europe, but in the U.S., the effect of expanding the sales force has not yet been fully realized, and we believe that there is still room for further growth. Itamar Medical's sales are growing steadily, and operating income after amortization of intangible assets related to the acquisition under U.S. GAAP (before amortization of goodwill under Japanese GAAP) was positive in H1 FY 2024.

Q: What is the background behind the upward revision of the full-year operating income forecast? You mentioned that sales in H1 exceeded expectations.

Nakano: In addition to the impact of yen depreciation, the upward revision is due to stronger-than-expected sales of defibrillators and LifeVest, and lower expenses. The ventilators business of Vyaire Medical, which was recently acquired, will also contribute to the increase in sales in H2.

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