Summary of Management Briefing

Announcement of "Trailblaze Together" Medium-term Management Plan for FY 2025 – 27

April 10, 2025

Asahi Kasei Corporation

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Presentation

Kudo: Today, I will explain our new mid-term management plan (MTP) starting in FY 2025.

As a result of a combination of various changes in the business environment, the previous MTP is expected to fall short of the plan announced in April 2022 in terms of operating income and other numerical targets. On the other hand, we have been steadily executing our forward-looking investments and structural transformation initiatives for medium-term growth. In the new MTP, we aim to bring these achievements to fruition and return to a growth trajectory. The slogan of the new MTP is "Trailblaze Together". Inheriting the spirit of pioneering a new path from the word "Trailblaze," the new word "Together" has been added. This slogan not only means that the Asahi Kasei Group as a whole will join forces as one team, but also that we will work together with our various stakeholders, including customers, other companies, and investors, to pave the way for the future.

1. Review of previous MTP

P. 3 Management indicators (operating income, ROIC, ROE)

The previous MTP started its first year, FY 2022, with operating income lower than that of the previous year, as the business environment deviated from the assumptions made at the time of the initial plan, resulting in a decline in earnings of the main businesses in Material. In addition, the weak operating income led to impairments in related businesses, resulting in a significant dip in ROE.

On the other hand, in FY 2024, the final year of the previous MTP, operating income is expected to recover significantly due to the recovery of Material to a certain extent, as well as solid growth in Homes and Healthcare.

P. 4 Management indicators

In the previous MTP, net income and ROE are also expected to fall short of the initial plan due to weak operating income. On the other hand, financial health has generally been maintained at a high level. During the previous MTP, we made proactive investments, particularly in Healthcare, and investment decisions are made with an awareness of profitability, capital efficiency, and financial health indicators.

P. 5 Performance by sector

I will explain the operating income of the previous MTP in each sector.

Healthcare is expected to reach 58.3 billion yen, compared to the initial plan of 80 billion yen, and although it will fall short of the target due to the negative impact from the acquisition of Calliditas Therapeutics AB (Calliditas), it is steadily returning to a growth trajectory.

Homes is projected to reach 91.5 billion yen, which is almost in line with the initial plan of 95 billion yen. Strengthening of the domestic business and proactive investments in overseas markets are steadily yielding results.

Material is expected to be 82.3 billion yen, compared to the initial plan of 130 billion yen, due to sluggish operating income of separators and acrylonitrile (AN), the main businesses of this segment. AN will be strengthened through the structural transformation of the petrochemical chain-related business that is currently underway. On the other hand, the electronic materials business and the ion-exchange membrane process for chlor-alkali electrolysis business are showing steady growth in operating income.

P. 6 Management indicators by sector

EBITDA for FY 2024 for Healthcare is forecasted at 138.0 billion yen, which is close to the initial plan of 140.0 billion yen. Healthcare is pursuing a growth strategy centered on M&A, and its operating income level, excluding amortization of goodwill and intangible assets at the time of acquisition, is progressing close to the initial plan.

P. 7 Business portfolio transformation

The business portfolio transformation, a focus of the previous MTP, through both investments for growth and structural transformation, is generally progressing according to plan.

In terms of growth investment, cumulative investment in growth-driving businesses (GG10) over the three-year period totaled approximately 700 billion yen, and we were able to promote expansion investment based on our strategy.

With regard to structural transformation, as a result of efforts aimed at gaining effects during the MTP period, decisions have been made on businesses with sales totaling more than 80 billion yen. With regard to structural transformation of petrochemical chain-related businesses from a medium-term perspective, we are earnestly studying the optimization of ethylene production facilities in Japan with Mitsubishi Chemical Corporation and Mitsui Chemicals, Inc. In addition, overseas, we have decided to discontinue the AN business and other businesses at PTT Asahi Chemical Company Limited (PTTAC). The direction of the study for each business is now generally clear, and we will continue to take concrete steps.

P. 8 Trend toward recovery of operating income

For reference, the following chart shows operating income excluding the former Basic Materials, which is mainly general-purpose chemicals. In FY 2024, operating income excluding the former Basic Materials is expected to reach a record high. Operating income from high value-added businesses, excluding general-purpose businesses that are easily affected by market fluctuations, has been steadily growing.

2. What we aim for

P. 10 What we aim for in 2030

Asahi Kasei's universal goal remains the same as it has always been, which is a mutually reinforcing cycle of two aspects of sustainability: contribution to a sustainable society and sustainable growth of corporate value. To realize this goal, the three sectors are developing businesses to solve various issues in society based on their respective roles and approaches. We believe that we can create innovative products, services, and business models on a sustainable basis by directly facing the world’s challenges and providing value through a variety of businesses. Sustainable is the key word here. As a result, from a financial perspective, we will achieve double-digit annual operating income growth and high capital efficiency, which will lead to sustainable growth of corporate value.

P. 11 Diversity × Specialty

I will describe the characteristic of Asahi Kasei and its unique concept of Diversity × Specialty.

With respect to Diversity, we have abundant opportunities for growth and the ability to generate stable earning through the development of diverse businesses in three sectors. This is a significant advantage in corporate management.

In the area of specialty products, we have established a unique position by taking a business approach that differs from that of specialized manufacturers, and have achieved high value-added and high profitability.

This concept of Diversity × Specialty is currently embodied in three sectors, but in a sense, this is a temporary form. As new products are created, the number of sectors may increase in the future, and the shape of the business will continue to change flexibly as society's needs change. At this point in time, we believe that the current three sectors of management are the most sustainable form of management that can achieve both sustainable growth and stability.

P. 12 Asahi Kasei's ecosystem and path to success in each sector

The management foundation that Asahi Kasei has built over the course of its history is the core of our management. The flexible mutual utilization of this foundation by each business sector to provide value in a path to success that is unique to Asahi Kasei is an eco-system.

In terms of successful strategies, for example, in Healthcare, it is important to focus on specific disease areas and maximize the use of M&A expertise and human resources that have been cultivated to date. In Homes, we are focusing on urban areas in Japan and leveraging our strengths in human resources and brand power to strengthen profitability even in a difficult environment. Furthermore, we are expanding our business through a unique business model that realizes higher productivity by applying expertise cultivated in Japan to overseas markets. In Material, we will focus on areas where our long-cultivated technology and expertise are our strengths, while boldly promoting collaboration with other companies rather than sticking to our own independent approach.

P. 13 History of Business Portfolio Reform and Growth

For reference, this page summarizes Asahi Kasei's business portfolio transformation to date. It is Asahi Kasei's heritage to flexibly change its businesses in response to changes in society, and this will remain unchanged in the future.

3. Trailblaze Together MTP for FY 2025–27

3-1 Basic policy and targets

P. 15 Targets and basic policies of the new medium-term management plan

The basic policies of the new MTP can be summarized in three main points: the first is profit growth by generating returns from investments, the second is improvement of capital efficiency through structural transformation and enhanced productivity, and the third is evolution of Diversity × Specialty by further strengthening and utilizing the management foundation.

As numerical targets, we aim to achieve operating income of 270 billion yen and operating income before amortization of goodwill of 306 billion yen in FY 2027, the final year of the new MTP. As for capital efficiency indicators, we aim to achieve ROIC of 6% and ROE of 9% in FY 2027.

Toward 2030, we will continue to grow operating income while further improving ROE and ROIC to achieve a higher level as a high-growth, high-capital-efficiency company.

P. 16 Evolution of Diversity × Specialty

The following chart shows the composition of operating income in the three sectors. As of FY 2021, four years ago, we were a diversified chemical manufacturer with operating income predominately in Material, and while we had Healthcare and Homes, we were primarily a Material-driven company. Since then, Material has focused on structural transformation as a response to changes in the business environment, while Homes and Healthcare have grown steadily as investments made to date have borne fruit. As a result, Homes will become the most profitable sector in FY 2024.

Toward 2030, we aim to achieve a structure in which the three sectors generate roughly the same level of operating income. We will shift from a business structure centered on Material to one in which high value-added businesses in diverse industries make high levels contribution to income.

P. 17 Overview and financial targets of each business

In order to more clearly communicate the direction of the business portfolio and the strategy of each business in the new MTP, we have organized our businesses into 10 categories.

This chart shows a summary and numerical information for each business. Material has been reorganized at the beginning of FY 2025. The businesses of the Material segment are now categorized as follows.

- Electronics: This category was previously disclosed as Digital Solutions and refers to the electronic materials and electronic components business.
- Car Interior: Consists of business by Sage Automotive Interiors, Inc. (Sage), which handles car interior materials, and Dinamica artificial suede.
- Energy & Infrastructure: The main businesses are separators, ion-exchange membranes, and hydrogen-related businesses.
- Comfort Life: As before, textile and consumer goods will remain the main businesses.
- Chemical: In addition to petrochemicals, this category includes downstream products such as engineering plastics.

Please refer to page 50 of the presentation material for the correspondence between these new business categories and the former business categories.

P. 18 Positioning of each business in portfolio

The aforementioned 10 business categories are positioned in the business portfolio as follows.

First, we have positioned the businesses in which we will proactively invest resources to drive operating income growth for the entire group as First Priority businesses. These are Pharmaceuticals, Critical Care, Overseas Homes, and Electronics.

Next, the three Growth Potential businesses that are targeted for medium-term growth are Life Sciences, real estate development in Domestic Homes, and Energy & Infrastructure.

While promoting the expansion of these First Priority and Growth Potential businesses, Chemical, which is positioned as a business for profitability improvement and business model change, will focus on structural transformation for the time being.

We will achieve sustainable growth and greater capital efficiency by allocating resources in a more balanced manner according to the positioning of these businesses.

P. 19 Changes in operating income by business

The main growth drivers toward the FY 2027 operating income target of 270 billion yen will be Pharmaceuticals, Critical Care, and Overseas Homes. In particular, in Pharmaceuticals and Overseas Homes, it is extremely important to ensure that upfront investments, especially M&A, lead to operating income. In Material, we expect steady operating income growth in Electronics and improved profitability in the separator business in Energy & Infrastructure.

On the other hand, we expect a decrease in operating income in the other businesses of Material, and with respect to Chemical, we have factored in the impact of stabilization of market prices for related products. After factoring in some buffer for the group as a whole, we have set a target of 270 billion yen for operating income. The impact of tariffs in the U.S. will be explained later.

P. 20 Long-term investment plan

During the three years of the new MTP, we expect to adopt decisions on investments totaling 1 trillion yen. Of this amount, 670 billion yen is expected to be in expansion-related investments. In Healthcare, we will continue to invest in growth, centering on M&A. In Homes, we plan to consider investments in Japan and overseas for medium-term growth.

The graph on the right side shows the amount of expansion-related investments in the three sectors. In the new MTP, we will expand investment for growth in Healthcare and Homes, while focusing investment in Material on carefully selected businesses to achieve a balanced resource allocation.

I would like to add here some additional thoughts on our investment policy. During the previous MTP and prior to that, cash flow from Material was in a severe condition. Therefore, our investment strategy has been to allocate the cash generated by Homes to capital expenditure and M&A in Material and Healthcare.

However, because we will continue to manage the three sectors, each sector will need to strengthen its cash flow management in order to become self-reliant. In Homes, we will invest the cash it earns mainly in Overseas Homes, which is expected to grow steadily. In Healthcare, although there are M&A plans in Pharmaceuticals, we will aim for self-reliant management toward 2030. In Material, we will carefully select investments, as we continue to face cash flow challenges. For example, we plan to utilize subsidies for investments with long time horizons, such as hydrogen-related projects. For investment in Canada for Hipore wet-process LIB separator, we are utilizing capital from other companies, such as the Development Bank of Japan, as well as financial support from the Canadian government and other sources. Thus, the basic principle is to secure self-sustaining cash flow in each of the three sectors.

P. 21 Progress of M&A

In relation to expansion investments, this section supplements the changes in operating income growth for recent major M&A projects. This section shows the change in operating income for each one, starting from a certain point in time.

Pharmaceuticals, Overseas Homes, and Car Interior are generally performing as expected, although there were some temporary delays due to environmental factors. The rapid growth of Calliditas is remarkable, and its sales are growing ahead of the plan that was assumed at the time of the acquisition. On the other hand, early-stage products and services such as Respicardia, Inc. and Bionova Scientific, LLC (Bionova) have been significantly affected by changes in the business environment.

The knowledge and expertise we have gained through these M&A transactions are extremely important intangible assets, and we will maximize their use in future M&A transactions to increase the probability of successful investments.

P. 22 Structural transformation of the Material sector

The structural transformation in the new MTP will mainly target Material, which accounts for about 20% of net sales. Half of the reforms are expected to take place in Chemical. In the structural transformation, the business that has been described as the petrochemical chain-related business is now positioned as Chemical.

The structural transformation of Chemical will be promoted through three approaches: reform from best owner perspective, optimization and reinforcement in concert with other companies, and autonomous structural transformation. Although some aspects depend on the partners with whom we negotiate and collaborate, we will work steadily to implement the plan within the MTP period.

P. 23 Reducing invested capital in general-purpose chemicals (former Basic Materials)

As information related to the structural transformation, the following table shows for reference the transition of invested capital, mainly in general-purpose chemicals, which had formerly been shown as Basic Materials, and which is already on a downward trend due to discontinuation of the PTTAC business and the recording of impairment losses in the domestic business, and will remain at about 5% of our total invested capital as of the end of FY 2024. Going forward, we expect a gradual reduction in invested capital as structural transformation progresses.

P. 24 Capital allocation (3 year total for FY 25–27)

In terms of capital allocation during the new MTP, we will emphasize a balance between investment for growth and shareholder returns in terms of cash outflows. In terms of cash inflows, we plan to actively promote the sale of businesses and the utilizing other companies' capital, in addition to interest-bearing debt, as a means of financing. In terms of financial health, we will manage capital adequacy by maintaining a debt-to-equity ratio of 0.7 and a debt-to-EBITDA ratio of 3.0.

P. 25 Shareholder returns

Our basic policy on shareholder returns is to pay progressive dividends, aiming to continuously improve the level of returns to shareholders. Based on this policy, we will use DOE (dividends on equity) as a new indicator and will aim to achieve a medium- to long-term progressive dividends with a benchmark DOE level of 3%. We will consider and implement share repurchases in a flexible manner based on the optimization of our capital structure, investment projects, cash flow conditions, stock price trends, and other factors.

The 30 billion yen share repurchase announced in November 2024 was made in the context of decisions to divest the blood purification and diagnostics businesses, the forecast for recovery in earnings performance, and the weak stock price level. Going forward, we will continue our efforts to return income to shareholders, including share buybacks, by comprehensively taking various factors into consideration.

P. 26 Management indicators

Various management indicators are shown here. Please refer to them as necessary.

3-2 Business strategy by sector

P. 28 Healthcare

In Healthcare, the top priority is to ensure that the growth investments made to date, particularly in Pharmaceuticals, come to fruition. We also plan to continue to promote investments from a medium- to long-term perspective, and in Pharmaceuticals, additional M&A and in-licensing are envisioned.

In Life Science, operating income is expected to remain flat due to the divestiture of the blood purification business, but Planova virus removal filters are expected to continue to grow steadily.

Critical Care is back on a growth trajectory and will expand its business through organic growth in the new MTP.

P. 29 Pharmaceuticals

The strategy of Pharmaceuticals is characterized by its specialization in niche disease areas such as immunology, transplantation, and severe infectious diseases. This allows us to manage our business without taking excessive risks because it faces little direct competition from mega pharma companies, the scale of its clinical trials is relatively small, and it does not require a large sales force. In addition, Pharmaceuticals has established a global management system and is one of the most global businesses in the Asahi Kasei Group. We are expanding our business with a focus on the U.S., the largest market for pharmaceuticals, and plan to pursue additional M&A and in-licensing opportunities to strengthen our pipeline.

As for the management system, Asahi Kasei Pharma has begun the transition to One AK Pharma, a single global pharmaceuticals business structure that integrates the Japanese and U.S. pharmaceuticals operations and hopes to complete the integration by the end of FY 2025.

Focusing on disease areas of strength, we aim to achieve sales of 300 billion yen or more in FY 2030 by optimally allocating resources under a unified global strategy.

P. 30 Critical Care

In Critical Care, we will continue to promote organic growth of existing businesses, ensuring results from past investments, and acquisition of new business opportunities, mainly targeting the area of serious cardiopulmonary-related diseases.

In the area of Cardiac Management Solutions (CMS), including our mainstay product, LifeVest wearable defibrillator, we will work to further penetrate the market by strengthening relationships with cardiologists and promoting the clinical value of these products. Itamar Medical is growing globally in the area of home diagnostics for sleep apnea, and we will work to expand sales and contribute to operating income by developing potential markets, such as by expanding access to patients with cardiac complications through collaboration with the LifeVest team.

In the field of Acute Care Technology (ACT), including defibrillators for hospitals and the public, we aim to continue its solid growth by leveraging our diverse product lineup.

P. 31 Homes

In Domestic Homes, in addition to promoting high value-added order-built homes, we will search for medium- to long-term growth opportunities on real estate development. We will also positively consider upfront investments for this purpose.

In Overseas Homes, we will continue to develop our unique business model. In addition to pursuing operating income growth, we expect ROIC to improve through productivity improvements.

P. 32 Domestic Homes

We continue to promote larger and higher value-added units in order-built homes. We aim to increase the average unit price by 40% or more in FY 2027 compared to FY 2022.

In addition, to make real estate development a future growth area, we will search for expansion opportunities through forward-looking investments. Specifically, we will strengthen land procurement, with a focus on urban areas, and expand business by utilizing land. To this end, we are looking to leverage the capabilities of other companies as well as our own.

P. 33 Overseas Homes

Overseas Homes, which operates in North America and Australia, is expected to continue to expand at a high growth rate in the new MTP, with the goal of achieving sales of 500 billion yen in FY 2030, more than 1.5 times the current level.

In North American operations, we are promoting a systematized construction business model (Synergos model) that integrates the core steps of the construction process. We are creating new value in the U.S. building industry, which is challenged by long construction periods, to supply high-quality homes. To pursue sustainable growth, we will consider M&A to strengthen the Synergos model and further expanding regional coverage. Specifically, we are considering expansion into Texas in FY 2026.

In the Australian business, the acquisition of builders has progressed steadily and we have grown to have operations in five states. We will continue to upgrade our business processes to improve productivity and profitability, and aim to increase operating income by increasing our market share in each region through sales expansion.

P. 34 Material

In Material, we are shifting away from our traditional strategy of owning large production facilities in-house.

Electronics will expand as a customer-oriented business that leverages close relationships with customers. Car Interior and the ion-exchange membrane process chlor-alkali business of Energy & Infrastructure will be expanded as solution businesses that offer customers greater added value, rather than simply selling products.

We also believe that, more than ever, it is extremely important to work to maximize business value through alliances with other companies and the use of external resources.

P. 35 Electronics: Electronic Materials – customer-oriented business

Our electronic materials business is leading the market by proposing optimal materials for the advanced semiconductor packaging market through close communication with our customers. In particular, Pimel photosensitive insulator, a semiconductor buffer coat/interlayer dielectric, is used in cutting-edge semiconductors for AI servers, and we are taking proactive expansion measures. We received the TSMC Excellent Performance Award in 2024 for our contribution to innovative package development. In response to strong demand, we plan to expand our facilities in the new MTP, aiming to double our sales from FY 2024 to FY 2030.

P. 36 Energy & Infrastructure: Ion-exchange membrane process chlor-alkali electrolysis – solution business

We have a long history in the ion-exchange membrane chlor-alkali electrolysis business, and we provide solutions based on the business foundation we have built over the past 50 years. Specifically, our management platform combines the monitoring system of Recherche 2000 Inc., which we acquired, together with our operational expertise. Our products have been adopted in more than 150 plants in 30 countries around the world and have gained a high market share.

In the future, we will utilize the business foundation established in the chlor-alkali electrolysis business to expand into the alkaline water electrolysis hydrogen production business. We have been selected for the Ministry of Economy, Trade and Industry's GX Supply Chain Construction Support Project, and plan to start operations in FY 2028 at manufacturing facilities capable of supplying equipment for both green hydrogen and for chlor-alkali using the ion-exchange membrane process. The chlor-alkali electrolysis business and the hydrogen-related business are being promoted in an integrated manner, and are expected to become a core business of Material in the future.

P. 37 Energy & Infrastructure: Separator – Hipore

Construction of the first phase investment in Canada for the Hipore business, announced in April 2024, is progressing as planned. On the other hand, due to the impact of policy trends in the U.S. and other factors, we will closely monitor the business environment in the EV market and respond flexibly to investments in the second and subsequent phases. The outlook for the sales plan is under close scrutiny due to the impact of policy trends in the U.S. Despite various changes in the external environment, we believe that the EV market will steadily expand over the medium-to-long term, and we will continue to develop our business while proactively utilizing alliances with other companies.

P. 38 Chemical business

As actions to be taken during the new MTP period, we will of course promote structural transformation, but we will also promote the development of green technologies and various initiatives from a medium- to long-term perspective.

We are earnestly studying the carbon neutrality of ethylene production facilities and optimization of production system with Mitsubishi Chemical and Mitsui Chemicals, and are discussing the integration of crackers into a single cracker by around 2030. We will continue to study the specifics of the plan and will make a formal announcement at the appropriate time.

In the medium-to-long term, we aim to establish a business structure with high profitability and capital efficiency, in addition to value creation through the provision of carbon-neutral materials and solutions. As an example of this, we will discuss a business related to bio-chemical production technology from bio-ethanol. We believe that this is a key technology that can contribute to the carbon neutrality of ethylene crackers globally. After further demonstration, we aim to develop this business worldwide as a licensing business.

P. 39 Outlook of operating income for Material sector in FY 2030

In Material, operating income growth is expected to be significant toward 2030, if business development in growth areas is carried out in line with the strategy. Operating income in FY 2027 for Material is expected to increase slightly compared to FY 2024, but is expected to grow steadily in the growth areas. The Hipore business in North America is expected to contribute significantly to operating income in FY 2030, as the plant in Canada will start operating in FY 2027 and production volume will increase from FY 2028 onward. At the same time, the hydrogen-related business will also enter a stage where it will contribute to operating income, and we believe that operating income from the three growth areas of Electronics, Car Interior, and Energy & Infrastructure will grow to a level exceeding 100 billion yen by 2030.

P. 40 Strengthening the structure of the Material sector and corporate functions

In response to the sluggish earnings in the previous MTP, we have begun efforts to strengthen the structure of Material. As part of these efforts, from April 2025, the three SBUs will be reorganized into a single Material organization. In addition to the optimal allocation of resources, we intend to promote top-down structural transformation and accelerate efforts to increase efficiency and rationalization. In addition, we will promote efficiency across the sector and corporate functions, as well as ongoing DX, including proactive use of generative AI, aiming to quickly generate results. Through these efforts, we aim to generate a total of approximately 30 billion yen in cash during the new MTP period.

P. 41 Financial targets by sector

The financial targets by sector includes figures for operating income and ROIC before goodwill amortization. Although goodwill from M&A has a large impact on Healthcare, we target ROIC before goodwill amortization of 10% in FY 2027 and operating income before goodwill amortization of 123.0 billion yen in FY 2027. Operating income before amortization of goodwill is on par with that of Homes.

3-3 Strengthening the business platform

P. 43 Green transformation (reducing GHG emissions)

We expect to achieve our existing GHG emissions reduction target of 30% or more reduction by FY 2030 compared to FY 2013. In the new MTP, we have set a new target to reduce our GHG emissions by 40% or more by 2035 compared to the fiscal 2013 level. We will steadily reduce GHG emissions by shifting to low-carbon energy sources and through product and business portfolio transformation.

In addition, to reduce GHG emissions in the world as a whole, we will promote the expansion of sales of Environmental Contribution Products. The new MTP also sets a new target for the amount of GHG reduction contribution, which is to be increased by 2.5 times or more in 2035, compared to 2020.

P. 44 Green transformation (Homes)

The following is a case study of Homes, one of our major GX initiatives. Asahi Kasei Homes has been promoting the purchase of surplus electricity from customers' solar power generation systems after FIT (feed-in-tariff) expiration, for power to the company's own needs. Through this initiative, it became the first home builder in Japan to achieve RE100 status. Furthermore, it was the first Japanese company to receive the RE100 Enterprising Leader award, an international recognition. In addition, it has been pursuing other advanced initiatives, such as disclosing the GX Leadership Declaration. Together with its customers, Asahi Kasei Homes aims to become a leading company for environmental contribution in the housing industry.

P. 45 Human resources strategy

The implementation of the business strategy up to this point is entirely dependent on human resources. Asahi Kasei is promoting a variety of measures based on the concept that people are our most valuable assets, and everything starts from people, with lifelong growth and co-creativity as the two pillars of our human resources strategy. In order to accelerate these efforts, we are shifting to a new personnel system aimed at strengthening a culture of taking challenges, and under the concept of Fair + Open, a system that rewards employees for taking new challenges and making major achievements is being developed. We believe that these efforts will lead to a virtuous cycle of enhanced employee vitality and job satisfaction and sustainable growth of the Asahi Kasei Group.

KPIs have been set for each of growth behavior, empowerment of diverse personnel, and employee vitality, and we will work to achieve these targets.

P. 46 Utilization of intangible assets

The diagram shows the intangible assets that play an extremely important role in Asahi Kasei's management foundation. Many of the areas mentioned in today's presentation are shown here. In addition, from the perspective of digital infrastructure, we are entering a period of digital normalization where employees are naturally promoting DX in their normal work. We will make maximum use of the skills of our digital professional human resources and actively incorporate AI into our operations to enhance and raise the productivity of our business operations.

Utilizing these intangible assets, we will promote the development of solution businesses and licensing businesses, especially in Material. In particular, we have high expectations for licensing businesses as a new revenue source, and aim to conclude 10 new license agreements during the three years of the new MTP, and to contribute 10 billion yen or more in operating income by 2030.

P. 47 Efforts to raise corporate value

We will promote five main initiatives to enhance corporate value, with Accelerating Business Portfolio Transformation and Improving Profitability being particularly important. We recognize that ROE, a component of PBR, is currently below the cost of shareholders' equity. We are aiming for 9% in FY 2027, the final year of the new MTP, and we will do our best to quickly raise the P/B ratio above 1.0 by promoting measures to improve ROE.

P. 48 Trailblaze Together

Finally, I would like to reiterate the slogan of the new MTP, Trailblaze Together. As I mentioned at the outset, this slogan implies that Asahi Kasei will not only gather its strength as one team, but will also work together with various stakeholders, including customers, other companies, and investors, to pioneer the future. Asahi Kasei itself is in a period of change, shifting from being a diversified chemical manufacturer focused on Material to a company comprised of high-value-added and highly profitable businesses in a variety of industries. This is why we believe it is of the utmost importance for each business to mutually share and flexibly utilize the management foundation and work as one to achieve sustainable growth of corporate value.

Supplementary explanation regarding impact of U.S. tariffs

Our sales in the U.S. account for about 20% of the total group sales. About 96% of these sales are made in the U.S. by local subsidiaries, mainly acquired companies, and imports from outside the U.S. account for the remaining 4%, which is extremely small. However, the 96% includes U.S. operations that import raw materials from outside the U.S. and are therefore expected to be affected by increased costs due to tariffs. The U.S. operations expect to pass on the full amount of the tariff burden to our customers, but realistically, this may prove difficult.

Regarding the FY 2027 operating income target, the potential of around 300 billion yen was seen on a cumulative basis from each business. However, we have factored in the impact of tariffs and other risks in the external environment, and have set the target at 270 billion yen. We recognize that economic recession due to tariffs is one of the risks, but since it is difficult to estimate this impact quantitatively, we have not included it in this target.

Since the tariff impact is not limited to our company, we assume that our U.S. operations will not be placed in an inferior position compared to our competitors. Going forward, we will comprehensively monitor the situation, including not only trends in U.S. tariff policy based on negotiations between governments and related parties, but also countermeasures taken by other countries, and consider and implement risk management measures as necessary.

Questions and Answers

Corporate:

Q: I would like to ask you about your response to risks. In the previous MTP, there were also the effects of COVID-19 and the rise of various geopolitical risks. However, I believe that the previous MTP was a three-year period in which you made solid progress with the plan while using the cash and other resources generated by Homes. On the other hand, I understand that during the three years of the new MTP, each of the three sectors will aim to achieve self-reliant management. With the external environment undergoing major changes due to the impact of U.S. tariffs and other factors, how do you intend to deal with uncertainty without making good use of the financial synergies among the three sectors? Will you continue to implement the strategies you have set forth for further growth during the three years of the new MTP? Or will you place a certain amount of emphasis on responding to risk as uncertainty increases?

Kudo: The previous MTP was three years of trying to do what needed to be done, including investments. However, as a result, both earnings and cash flow fell far short of the MTP targets. The biggest reason for this was the deterioration of Material's performance, but I believe that the most significant factor was the weight of assets such as facilities. When assets are heavy, it is difficult to achieve results even if various measures are implemented. Therefore, we are still considering how to organize and lighten the weight of assets in the petrochemical chain-related business.

Also, in new capital investment, we emphasize the asset-light and speed perspectives. For example, suppose a certain business is experiencing a tight supply and demand situation, and operating income margins are quite high. The person in charge of the business wants to increase capacity. In the past, we would have considered increasing capacity here to increase sales volume and boost operating income. However, we are not currently planning to increase capacity. The reason for this is that, given the economic cycle and various risks, we cannot spend 2-3 years building a plant. Rather, we believe that we should invest in projects that are more asset-light and can be executed with a sense of speed. When considering investments based on construction time and construction costs, it will be very difficult to invest in projects that are more asset-heavy than before or that make money from sales volume. We believe that future investments should be made only after determining whether the business is a solution-oriented or market-oriented business model that can be expected to grow sustainably and successfully.

Q: Your overall targets for FY 2030 are operating income of 380 billion yen, ROIC of at least 8.0%, and ROE of at least 12.0%, while the previous MTP announced in FY 2022 called for operating income of 400 billion yen, ROIC of at least 10%, and ROE of at least 15% for FY 2030. It appears that the targets have been lowered somewhat. What is the background to this?

Kudo: We do not think that we have changed our operating income target significantly, but our approach to investment has changed since the announcement of the previous MTP. We are now foregoing investments for projects that will increase sales volume and operating income by making investments. Please understand that the operating income target is now 380 billion yen as a result of careful selection of investments to be made based on the business model, business strategy, use of subsidies, and other factors.

Regarding ROIC, we believe that there are still things we can work on to bring ROIC from the current target of 8% to closer to the previous target of 10%. We will continue to examine how to change the business portfolio of the entire company.

ROE needs to be considered in more detail, including the direction of each of the denominator and numerator.

For these indicators, we will aim to achieve the current target as a minimum.

Horie: To add, the exchange rate assumption for the previous MTP was 110 yen to the dollar, while the exchange rate assumption for the new MTP is 140 yen to the dollar. As a result, foreign currency translation adjustments have increased and shareholders' equity, the denominator of ROE, has increased slightly.

Capital allocation:

Q: I would like to ask about your approach to investment cash flow planning.

Kudo: In the new MTP, we are prioritizing investments in Healthcare, and interest-bearing debt is expected to increase for the entire company. As for the cash earned from Homes, we are considering using it within Homes, such as in Overseas Homes and real estate development in Domestic Homes. Therefore, the key point is for Material to be able to run on its own, including the use of subsidies and other companies' capital. This concept of where cash will come from and where it will be used has changed significantly between the previous MTP and the new MTP.

Q: Of the 1.2 trillion yen cash inflow, about 25%, or about 300 billion yen, is said to come from various financing sources. When we asked you previously, you said that more than half of this cash inflow is expected to come from the sale of businesses. Has the cash inflow from the sales of businesses been shrinking as the petrochemical-related business environment has deteriorated?

Kudo: Of the various financing sources, we expect cash inflow from the sale of businesses to exceed 100 billion yen in total, since there are projects that we expect to execute during the new MTP period in addition to those that we have already decided on for FY 2024. However, since this amount depends on the projects and is subject to uncertainty, we expect to raise the shortfall through interest-bearing debt.

Q: Cash inflow and cash outflow are both equal at 1.2 trillion yen, and of the 1.2 trillion yen cash outflow, about 20%, or 240 billion yen, is supposed to be returned to shareholders. If operating cash flow is lower than expected, how do you plan to balance shareholder returns and cash outflow for investment in growth?

Kudo: Regarding shareholder returns, we are determined to make a firm commitment to continuously improve the level of returns to shareholders, with particular emphasis on progressive dividends. Unless a recession occurs, we will continue to pay progressive dividends. Based on this belief, we have incorporated DOE into our shareholder return policy.

Therefore, if operating cash flow were to be lower than expected, the first consideration would be to what extent investment cash flow could be controlled. Next, we would then consider how to handle the assumed share repurchase.

Q: How do you evaluate the share repurchase program implemented in FY 2024?

Kudo: We had not done a share repurchase since we did a ¥10 billion repurchase a few years ago, but we do not consider the ¥30 billion repurchase in FY 2024 to have been relatively large, given the increasing number of companies in Japan as a whole that are doing share repurchases. When implementing share repurchases, we will need to continue to consider the capital structure, investment projects, cash flow, stock price conditions, and other factors in a comprehensive manner, and the size of the amount should be considered in light of the impact on the stock market, while keeping an eye on the level of the stock price.

Impact of U.S. Tariffs:

Q: The operating income target of 270 billion yen in the new MTP is based on the target of 300 billion yen, which was calculated by accumulating the operating income targets for each business segment, and incorporating tariff effects?

Kudo: Prior to the implementation of the reciprocal tariffs, the operating income target for each business segment was more than 270 billion yen. However, since the results of the previous MTP fell short of the target, we set the target at 270 billion yen, being conscious of our commitment to the market. Given the buffer amount and other measures to increase operating income that have not been factored in, the target is still set at 270 billion yen even after factoring in the impact of tariffs.

Q: What do you think about the possibility that tariffs on LIB separators exported from Japan will make them more cost competitive relative to competing Chinese manufacturers? What do you think?

Kudo: We may become relatively more cost competitive, but we are not optimistic due to the timing of the coating capacity expansion that is currently underway.

Q: Regarding the North American operations of your Overseas Homes, I believe that about 50% of construction materials in the U.S. market are imported from China, Mexico, and Canada, to what extent have you factored in tariff effects as a risk?

Kudo: We are not disclosing the amount of impact, but we believe that we are not inferior to our competitors. We intend to deal with the tariff impact by negotiating with our customer builders, including price pass-through.

Healthcare:

Q: The new MTP targets significant growth in Healthcare earnings. In Pharmaceuticals, Calliditas is performing well, but you expect to be impacted by competing drugs coming out in the future.

Critical Care will be affected by tariffs because it procures parts and materials from outside the U.S., in addition to the weak performance growth in dollar terms over the past few years. What is the background behind setting high targets for each of the Healthcare businesses, given the various risks that are anticipated?

Kudo: Regarding Pharmaceuticals, Calliditas' sales are growing faster than expected at the time of acquisition. We had assumed that peak sales would exceed US$500 million in FY 2030 or later, but it is possible that this will be achieved two to three years ahead of schedule. Of course, it will be necessary to monitor trends in various markets, but we expect steady growth for the new MTP period.

In Life Science, we are taking a hard look at the CDMO business, but expect Planova to continue to grow steadily.

In Critical Care, we expect to further gain market share in defibrillators through the launch of new products. LifeVest has room for growth not only in the U.S. but also in Europe, and Itamar and Respicardia are also expected to grow in the future. The impact of tariffs will need to be monitored closely, but we will consider how to respond to the tariffs, including passing on price increases.

Whether the Healthcare targets can be achieved depends on Critical Care, but there are no major concerns at this stage.

Q: I would like to ask about the operating income growth of the major M&A projects listed on page 21 of the presentation material: While Veloxis Pharmaceuticals, Inc. (Veloxis) operating income for FY 2024 is expected to grow by about 10% year on year, this is because FY 2024 operating income include one-time revenues from the price negotiation process for Envarsus XR immunosuppressant, and sales are expected to continue to grow by about 20% in dollar terms?

Kudo: The growth rate of Veloxis' operating income growth appears low due to the inclusion of one-time income in FY 2024 and the fact that the FY 2027 plan includes R&D and in-licensing costs for new drugs. However, if those effects are excluded, Veloxis plans to perform well.

Q: M&A in Healthcare did not necessarily produce the expected results during the three years of the previous MTP. We have heard that you have accumulated knowledge and expertise through M&A projects, but we believe that there are not only successes but also failures that have resulted in knowledge and expertise. How do you intend to utilize this knowledge and expertise in the future?

Kudo: M&A projects that deviated significantly from the assumptions made in the previous MTP include Bionova and Respicardia, both of which are early-stage businesses. As for Respicardia, we are involved in the development of new implantable medical devices, so it is a business that is still in the early stages of market development. We realize that M&A of early-stage companies is very difficult.

Based on past M&A experience, we believe that we have accumulated knowledge and discerning ability to evaluate M&A from the perspectives of whether the management team is attached to the business and will continue to manage it after the acquisition, how to set the acquisition price for an early-stage M&A deal, and so on. The acquisition of Calliditas was also a large M&A deal, and Veloxis' human resources played an active role in this acquisition. They were able to use their discernment skills to identify the superiority of Calliditas' drug and the quality of its employees. We believe that it is important to acquire a company based on the value of its business by utilizing the ability to discern.

Q: As you indicate on page 23 of the presentation, the capital invested in Healthcare appears to be significant. What synergies were behind the growth of Veloxis and Calliditas? In Healthcare, there is the risk of litigation and the risk of significant changes in market conditions due to the launch of competing drugs. Therefore, it seems to me that more synergies must be generated to improve ROIC.

Kudo: There are definitely synergies from acquisitions in Pharmaceuticals, as the acquisition of Calliditas is in the renal disease area, which is our focus, and we can share the same personnel in R&D and sales. Calliditas has a large number of talented people, which has helped to improve management efficiency in the pharmaceutical business. We will consider future acquisitions and in-licensing in adjacent disease areas, aiming for synergies.

We recognize that improving ROIC in Healthcare toward 2030 is a major challenge. Since we are also implementing M&A for growth, it may take some time to improve ROIC. However, looking at the growth of Calliditas and Veloxis, we believe that the ROIC target for the new MTP could be raised. We will continue to monitor the situation closely and take necessary measures to ensure that we can steadily reap the fruit of past investments.

Q: Regarding Healthcare, I thought I heard that after the acquisition of Calliditas, you do not expect any large-scale M&A projects for a while.

Kudo: With regard to M&A, we are constantly reviewing the short list and the long list, but at this point, we are not in a situation where we have already started negotiations for a deal. We are planning our investment cash flow based on the assumption that new M&A deals will emerge during the new MTP period.

Apart from M&A deals, we also expect a cash outflow of 30 billion yen for in-licensing. We believe that expanding our pipeline while narrowing our focus on disease areas is essential for the future growth of Pharmaceuticals.

Q: Regarding the operating income before amortization of goodwill in Healthcare shown on page 41 of the presentation materials, when operating income is subtracted from the goodwill amortization expense, the amount is 25.5 billion yen for FY 2024 and 28.0 billion yen for FY 2027, an increase of about 3.0 billion yen. Does this increase include the amortization of goodwill due to new M&A projects in Pharmaceuticals during the new MTP period?

Kudo: The FY 2027 numerical plan includes new M&A in Pharmaceuticals. However, we have assumed that amortization of goodwill will not increase significantly because the amount allocated to intangible assets in purchase price allocation (PPA) is generally large for M&A in Pharmaceuticals.

Homes:

Q: Overseas Homes plans to increase operating income by approximately 20 billion yen during the new MTP. You are targeting sales of 500 billion yen in FY 2030. Please give us a breakdown of growth from existing businesses and growth from additional M&A. The U.S. housing market may be constrained by such factors as high interest rates, rising costs due to tariffs, and a shortage of labor due to immigration issues. What is your forecast for housing starts? Also, have you been able to realize synergies from the acquisition of ODC Construction, LLC (ODC)?

Kudo: We believe that FY 2027 operating income is a highly achievable as it mostly relies on existing business growth, and the FY 2030 sales target includes the revenue increase effect of additional M&A.

The successful Synergos model in Arizona has been expanded to Nevada, and we have also acquired ODC in Florida. We aim to establish this Synergos model in Florida in the future. We are also considering expansion into Texas, with M&A expected in FY 2026. Although there is a high degree of uncertainty in the business environment, including interest rates, the balance of supply and demand for housing is basically unchanged. In particular, we expect the supply-demand balance to remain tight in the three states which we have entered, as well as in Texas. Securing workers is the biggest risk, but we will continue to monitor the situation closely.

Q: Overseas Homes plans to increase operating income by about 20 billion yen during the new MTP. If most of the increase is due to growth in existing businesses, the growth rate is very high. Is the increase in operating income due to volume factors or cost factors as well?

Kudo: About 80% of the improvement is due to volume factors and about 20% is due to improved profitability. The improvement in profitability is due to shorter construction periods and higher work efficiency, but the speed of improvement has not reached the level we had initially anticipated, so we are strengthening our measures to address this issue.

Material:

Q: I would like to ask about the growth of Material during the new MTP period, which is shown on page 17 of the presentation materials. You expect a considerable increase in operating income in Energy & Infrastructure. I think you expect the separator business to increase operating income, but I am skeptical that it will really grow this much given the recent outlook for the EV market. Is this level of operating income growth possible based on the projects you have already won and the status of the expansion of coating capacity?

Kudo: Although Energy & Infrastructure appears to have a large increase in operating income, the scale of operating income in FY 2024 is very small, and we have not set a very large target for FY 2027. We are not optimistic about the performance of the Hipore business and expect it to continue to face difficult conditions in FY 2025. However, in FY 2026-2027, we expect our performance to recover from the current difficult situation due to shipments of projects that have been won, cost reductions, and other factors. Please understand that this increase in operating income is due to the stable growth of the ion-exchange membrane chlor-alkali electrolysis business as well as the recovery of the Hipore business from the current difficult situation.

Q: Why do you expect a large decrease in operating income in Chemical in the new MTP? Is it because the assumptions for petrochemical market prices have been considered in a very conservative manner?

Kudo: Operating income for FY 2024 is considerably underpinned by the impact of foreign exchange and naphtha, especially in the first half of FY 2024. In addition, there is a possibility of structural changes in some businesses during the new MTP period, and the FY 2027 plan has this range of operating income decline. Please understand that we are carefully scrutinizing our operating income plan for Chemical due to the uncertainties in the business environment.

Q: Regarding the reforms from the best owner's perspective described on page 22 of the presentation material, has the process been unsuccessful in some projects? And have negotiations gone back to square one for relatively large projects?

Kudo: Negotiations were underway for several relatively large projects, but no decisions were reached during the previous MTP. We will continue to consider these projects and aim to implement the reforms during the new MTP.

Q: Regarding page 23 of the briefing material, I think it is fair to say that the invested capital in commodity chemicals is about 3% of your total capital, since there is almost no book value of plant & equipment left due to the impairment in the petrochemical-related business in FY 2023 and other factors. Is it correct to understand that the direction of the structural transformation of the petrochemical chain-related business has been generally decided?

Kudo: As you understand, the direction is generally set.

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