Progress on Medium-Term Management Plan 2024—Be a Trailblazer

The Asahi Kasei Group is working to achieve the targets of its medium-term management plan (MTP) for fiscal 2024 focused on the theme "Be a Trailblazer" by promoting business portfolio management and strengthening its business platform in accordance with the basic policy. We continuously take on challenges and pursue transformation to realize our vision.

Basic Policy

Business Portfolio Management

Challenging investment for growth
Focusing resources on 10 Growth Gears (GG10) that will drive future growth and aiming to have them provide more than 70% of operating income around fiscal 2030

Implement both with an emphasis on speed, asset-light, and high value-added

Cash generation from structural transformation and strengthening existing businesses
Integrated approach to structural transformation comprising reform of strategic restructuring businesses and fundamental business structure transformation

Strengthening Business Platform

- Transformation in the key areas of green (G), digital (D), and people (P)
- Maximum use of intangible assets

April 2022

Fiscal 2022 Results

FY2022

Financial KPIs

Operating income ¥**128.4** billion

ROE **−5.5**%　ROIC **4.0**%

Non-Financial KPIs

Scope 1 and Scope 2 GHG emissions
3.68 million t-CO_2e[1]

Volume of GHG emission reduction contributions of environmental contribution products
120 (index)[2]

Percentage of women among managers and Group Masters
3.8%

Number of digital professional human resources
1,206

Digital data usage
2.6 times (compared with FY2021)

Number of Group Masters
294

Fiscal 2024 Targets

FY2024

Financial KPIs

Operating income ¥**200** billion

ROE ≥**9**%　ROIC ≥**6**%

Non-Financial KPIs

Number of digital professional human resources
2,500

Volume of digital data usage
10 times (compared with FY2021)

Number of Group Masters
360

Long-Term Outlook for Around FY2030

Vision

Two Mutually Reinforcing Aspects of Sustainability

Contributing to sustainable society

Non-Financial KPIs

Scope 1 and Scope 2 GHG emissions
Reduction of ≥**30**% (compared with FY2013)

Volume of GHG emission reduction contributions of environmental contribution products
At least **double** (compared with FY2020)

Percentage of women among managers and Group Masters
10%

Sustainable growth of corporate value

Financial KPIs

Operating income ¥**400** billion

ROE ≥**15**%

ROIC ≥**10**%

[1] Preliminary figure; may be revised due to third-party evaluation
[2] Indexed to FY2020 baseline as 100

Review of Fiscal 2022

In fiscal 2022, Asahi Kasei achieved record-high net sales of ¥2,726.5 billion, increasing sales across all business segments with expansion of existing businesses, continued weakening of the yen, and rising prices for petrochemical products. Meanwhile, operating income decreased to ¥128.4 billion, due in part to prolonged shortages of semiconductors, stagnant demand stemming from the impact of lockdowns in China, and surging feedstock and fuel prices. In addition, we incurred a net loss as a result of recording an impairment loss of ¥186.4 billion in March 2023 on Polypore International, LP, our U.S. subsidiary which produces battery separators. In light of these setbacks, we expect to achieve the initial fiscal 2024 target of ¥270 billion for operating income two or three years behind schedule. We will continue to seek growth from a medium- to long-term perspective, targeting ¥200 billion in operating income as well as return on equity (ROE) of 9% or more and return on invested capital (ROIC) of 6% or more for capital efficiency in fiscal 2024. We are determined to return to a trajectory of growth through steady implementation of our strategy set forth in the initial plan.

Fields for Provision of Value / Sectors and Businesses	Fiscal 2022 Achievements and Issues		Direction for Fiscal 2030
Environment & Energy **Material sector Environmental Solutions**	In Environmental Solutions, we focused resources on three approaches—expediting green solutions, cultivating energy storage businesses, and promoting actions to achieve carbon neutrality—with the aim of realizing green transformation. Operating income deteriorated significantly to an operating loss of ¥2.3 billion in contrast with the original forecast of ¥42.3 million. This outcome was attributable to the sluggish performance of the basic materials and separator businesses. We recognize that revising the strategy of the separator business and further accelerating the structural transformation of petrochemical chain-related businesses are pressing issues.	▶	We will continue to make forward-looking investments in the separator business and in hydrogen-related businesses. For the separator business, we will improve the earnings base of existing businesses and revise our strategy to accelerate expansion considering the use of outside capital and alliances. Although it will take time for hydrogen-related businesses to contribute to profits, we will advance development in preparation for future expansion of demand. To accelerate structural transformation, we will consider drastic measures with regard to commodity products centering on petrochemical chain-related businesses.
Mobility **Material sector Mobility & Industrial**	In Mobility & Industrial, we enhanced our lineup of products in car interior material and next-generation mobility. In particular, we advanced concept proposals combining a diverse range of technologies and expertise in products for electric vehicles. Operating income of ¥10.8 billion was well below the original forecast of ¥23.8 billion, reflecting the impact of sluggish growth in the automobile industry as a result of semiconductor shortages and other factors. We recognize the need to carefully monitor automobile industry trends and to make progress toward restoration of earnings.	▶	We are committed to accelerating the provision of innovative materials and solutions through the establishment of close partnerships with key automobile manufacturers to clearly ascertain signs of recovery in the automobile industry and restore earnings. We will strengthen the business structure by focusing on improving cost competitiveness and revising the product portfolio.
Life Material **Material sector Life Innovation**	In Digital Solutions, we integrated the electronic components and electronic materials businesses and proactively explored new business opportunities to address the needs of a digital society. While operating of ¥27.8 billion was lower than the original forecast of ¥37.4 billion due to factors including delays in the recovery of market conditions for certain products and the impact of a plant fire in Comfort Life, Digital Solutions achieved adequate earnings. We recognize that we must increase the production capacity of the electronic materials business to expand Digital Solutions.	▶	We expect Digital Solutions to deliver strong growth and maintain high ROIC. In addition to expansion of existing products, we will implement aggressive expansion measures for cutting-edge semiconductors and packaging processes by exploring co-creation opportunities to provide new value. For Comfort Life, we will focus on rebuilding the earnings base.

Fields for Provision of Value / Sectors and Businesses	Fiscal 2022 Achievements and Issues	Direction for Fiscal 2030
Home & Living **Homes sector**	We pursued customer satisfaction by strengthening cooperation among business units amid challenging business conditions in the domestic business, while proactively expanding operations in the overseas business. Despite a difficult operating environment in the order-built homes business, including rising construction material costs, we increased net sales and operating income with higher average sales prices due to larger and higher value-added homes, as well as reduction efforts. In the overseas business, we advanced forward-looking business portfolio transformation by expanding the regions of operations through new acquisitions in North America and Australia. As a result, we recorded operating income of ¥76.0 billion, slightly exceeding the forecast at the beginning of the fiscal year. We recognize that the Homes sector faces challenges in terms of raising the productivity and profitability of various businesses to ensure their continued and consistent cash generation.	In the order-built homes business, we will instill marketing strategies, including those for high-end customers. In addition, we will promote high value-added strategies by raising our proportion of homes compliant with Net Zero Energy House (ZEH) and ZEH Mansion (ZEH-M) standards and work to realize a sustainable society in various ways, such as achieving the goal of the RE100 initiative. In the overseas business, we will build a business platform resilient to material costs and fluctuations in demand with the aim of improving efficiency through industrialization and providing high-quality homes by raising productivity.
Health Care **Health Care sector**	In Health Care, we are advancing toward becoming a global health care company by capturing a broad range of opportunities in global markets in both the pharmaceutical and medical device businesses to drive overall income growth. Despite strong sales growth for mainstay products in the pharmaceutical and medical businesses, operating income was ¥41.9 billion compared to the original forecast of ¥58.0 billion. This was largely attributable to the difficulty of procuring components due to semiconductor shortages, and a slowdown in orders stemming from U.S. economic downturn, resulting in a pause in growth in the critical care business. We entered the biopharmaceutical CDMO business through an acquisition in the medical business to achieve growth over the medium term. Although results were below the original forecast in fiscal 2022, we expect the sector to grow over the medium to long term. This will require steady implementation of the growth strategy set forth in the MTP.	Identifying the critical care, global specialty pharma, and bioprocess businesses as growth areas, we will seek to expand existing businesses and reap the benefits of proactive investments thus far. In addition, we will continuously capture growth opportunities in the global market by leveraging business development measures including M&A and in-licensing to pursue further expansion of sales and profit.

Challenging Investment for Growth

In fiscal 2022, we focused resources on the GG10 businesses to drive future growth. We aim for GG10 to account for over 70% of our overall operating income by around fiscal 2030. We are actively exploring M&A opportunities and making bold investments to achieve this. While our approach of focusing resources on GG10 will continue in fiscal 2023, we will further clarify the priority of resource allocation among GG10 as we make investment decisions.

Positioning of Investments	GG10	Investment Scale and Direction (FY2022–2024, decision-adopted basis)	Profit[1] Growth Target (increase in FY2024 compared with FY2021)
First Priority Maintain proactive investments for growth over the medium term, increase focus on gaining income from past investments	**Health Care**		
	Critical Care Global Specialty Pharma Bioprocess	Up to ¥200 billion in investments is planned, including the acquisition of Bionova Scientific, LLC (Bionova), a U.S. biopharmaceutical CDMO, in May 2022. We will continue to proactively explore investment opportunities to achieve growth in Health Care. Regarding previous M&A investments, sales at Veloxis Pharmaceuticals, Inc. (Veloxis), declined amid the impact of the COVID-19 pandemic, and progress is delayed by one or two years from the initial plan. Respicardia, Inc., and Itamar Medical Ltd., (Itamar), aim to expand sales by steadily creating synergies with ZOLL Medical Corporation (ZOLL). Bionova has decided to increase its capacity for process development and GMP[2] manufacturing of next-generation antibody drugs while aiming to increase profits by expanding orders.	Approx. ¥15 billion increase ↑
	Life Material		
	Digital Solutions	We plan to invest up to ¥200 billion, including the fiscal 2022 decision to increase production capacity of Pimel™ photosensitive polyimide. We will continue to seek growth through proactive investments, including inorganic growth.	Approx. ¥10 billion increase ↗
Growth Potential Make upfront investments while cooperating with other companies to strengthen competitiveness as drivers of future growth	**Environment & Energy**		
	Energy Storage Hydrogen-Related CO_2 Chemistry	We plan to invest over ¥200 billion, primarily in the separator business and hydrogen-related businesses, which have high growth potential over the medium term, as upfront investments in future growth drivers. For the separator business in particular, we are examining the possibility of making large-scale investments, such as to establish manufacturing of Hipore™ LIB separators in the North American market.	– →
Earnings Base Expansion Explore and examine investment opportunities to steadily expand earnings scale, continue to consistently generate earnings	**Home & Living**		
	North American and Australian Homes Environmental Homes and Construction Materials	We plan to make investments up to ¥100 billion, including the acquisitions of the Focus Companies of the U.S. in November 2022 and Arden Homes Pty Ltd. of Australia in February 2023. Regarding previous investments, we expect Synergos Operations LLC, our North American homes business, to see persistently firm demand, reflecting acute shortages of homes in the regions where it operates. NXT Building Group Pty. Ltd., our Australian homes business, will accelerate growth by streamlining construction processes and improving efficiency.	Approx. ¥10 billion increase ↗
	Mobility		
	Car Interior Material	We plan to invest up to ¥100 billion, including the fiscal 2022 investment to expand car interior material in the U.S. We will concentrate on reaping the benefits of previous investments while focusing on investments with a high degree of certainty going forward. Although the performance of Sage Automotive Interiors, Inc., (Sage) stagnated due to sluggish growth in the automobile market, it will return to a growth trajectory in line with market recovery.	Approx. ¥10 billion increase ↗

[1] Profit: Operating income + amortization from PPA
[2] Good Manufacturing Practice, a collection of regulations related to manufacturing with which manufacturers of pharmaceuticals are required to comply. The manufacture of pharmaceuticals according to strict GMP regulations is referred to as GMP-compliant manufacturing.

Cash Generation from Structural Transformation and Strengthening Existing Businesses

We will further accelerate the structural transformation of businesses in response to underperformance compared with the initial targets set forth in the MTP. At the outset of the MTP, we advanced such transformation under the two approaches of reform of strategic restructuring businesses—which saw a deterioration in recent performance due to the impact of the COVID-19 pandemic and other factors—and fundamental business structure transformation, in terms of both performance and compatibility with our medium-term vision. As these efforts involve businesses with interdependent supply and demand relationships, such as for raw materials, we are currently examining ways to achieve structural transformation through the integration of the two approaches. Net sales of businesses to be targeted for structural transformation totaled more than ¥700 billion in fiscal 2021. Of these, we aim to complete the structural transformation of multiple businesses with net sales totaling ¥100 billion or more by fiscal 2024, including those identified as Exit businesses in the reform of strategic restructuring businesses. Meanwhile, we will undertake the structural transformation of petrochemical chain-related businesses, which we have designated as businesses handling commodity chemicals, the earnings volatility of which has once again become prominent. Although there is some overlap with the aforementioned businesses with net sales totaling ¥100 billion or more, net sales of petrochemical chain-related businesses total approximately ¥600 billion. Discussions on petrochemical chain-related businesses are proceeding with particular emphasis on whether such businesses can be sufficiently profitable considering the investments required to achieve carbon neutrality and related costs including carbon taxes.

We have established three major options for the direction of business structure transformation: 1) collaborative operation with other companies through joint ventures and other arrangements, 2) exit from the business, and 3) developing carbon-neutral technologies and increasing added value. We are exploring the possibility of the third option while also examining the first and second options. We have already confirmed the direction and taken concrete action for several businesses, such as seeking suitable partners from the best-owner perspective and advancing negotiations, and will finalize the direction and steadily implement the structural transformation of the remainder by fiscal 2024. Although the removal of some businesses from the scope of consolidation due to business withdrawal or the launch of joint ventures with other companies will result in a decline in the operating income of petrochemical chain-related businesses, we will seek to transition to an earnings structure that enables stable earnings growth. In addition, we aim to achieve carbon neutrality throughout our supply chain and to generate profits through a licensing business by developing technology related to bio-based feedstocks.

Directions of Business Structure Transformation Under Consideration

- **Planning to implement structural transformation of businesses with sales of more than ¥100 billion during FY22–24 (incl. those designated as Exit in the Strategic Restructuring Business)**
- **Examining the medium-term direction of the petrochemical chain-related business with sales of approximately ¥600 billion with a view to carbon neutrality**

Sales of subject businesses
(FY21 results)

¥700 billion or more

Policy of Structural Transformation of Petrochemical Chain-Related Businesses

	Approaches	Example of Initiatives
1) Collaborative operation with other companies through joint ventures, etc.	• Raising competitiveness • Sharing required investment and cost burden • Mutual utilization of innovations for carbon neutrality	Established JV for spunbond nonwovens
2) Exit from the business	• Plant downsizing/closure • Sale of the business to the best owner	Divestiture of photomask pellicles
3) Developing carbon-neutral technology and increasing added value	• Using proprietary or licensed technology for carbon neutrality • Transformation of product portfolio with value for customers	Developing proprietary technology for basic feedstocks from bioethanol