Summary of
Financial Results Briefing
for Q1 Fiscal 2022,
held on August 4, 2022

Asahi Kasei Corporation

Note: The forecasts and estimates mentioned in this document are dependent on a variety of assumptions and economic conditions. Plans and figures depicting the future do not imply a guarantee of actual outcomes.

Participants

Toshiyasu Horie
CFO
Motomichi Kishino
Senior General Manager, Corporate Accounting & Finance
Yozo Sato
Senior Managing Executive
Takuya Takahashi
Senior General Manager, Planning & Coordination, Environmental Solutions SBU
Takahiro Onodera
General Manager, Separator Planning & Strategy, Environmental Solutions SBU
Nobuhiro Yamaguchi
Senior General Manager, Planning & Coordination, Mobility & Industrial SBU
Hiroyuki Igarashi
Senior General Manager, Planning & Coordination, Life Innovation SBU
Yuta Kume
General Manager, Accounting & Control Dept., Asahi Kasei Homes Corp.
Keiichiro Sato
General Manager, Business Strategy & Planning, Asahi Kasei Pharma Corp.
Tomoo Otsubo
General Manager, Investor Relations

Presentation

P. 2 Focus of Q1 2022 results and H1 2022 forecast

Horie: In Q1 FY 2022, net sales reached a record high due to the impact of depreciation of the yen and soaring market prices for petrochemical products. On the other hand, operating income decreased year-on-year due to the impact of the slowdown in demand and soaring feedstock prices caused by the lockdowns in China, the lingering semiconductor shortages, the Russia-Ukraine situation, etc.

As for the forecast for H1 FY 2022, the severe operating climate will continue and the operating income for Material will decrease year-on-year, but the impact of the lockdowns in China is expected to ease slightly. We will strive to suppress the impact of the severe operating climate by passing on feedstock prices, reducing costs, and implementing optimal inventory management.

There is no change in the shareholder returns forecast from the announcement in May, and the interim dividend for H1 FY 2022 is forecasted to be 18 yen per share. We will also continue to consider share buybacks in accordance with the capital allocation policy and shareholder returns policy outlined in the medium-term management plan (MTP).

Here are 2 items shown as progress in Q1 of the efforts of the MTP initiatives. As an investment for growth, in Medical Devices, we acquired the U.S.-based Bionova Scientific, LLC, which is engaged in the CDMO business of next-generation antibody drugs. In terms of business portfolio transformation, we decided to transfer the photomask pellicle business to Mitsui Chemicals, Inc.

P. 3 Current Situation and Outlook for Business Environment

With regard to the effects of operating climate changes, China lockdowns affected demand for products for automobiles, smartphones, etc.

As for the semiconductor shortages, the demand for automotive-related products in Material has decreased due to reduced vehicle production, while the procurement of defibrillator parts has been affected in Health Care. However, the procurement of defibrillator parts is being improved.

The Russia-Ukraine situation also affected Material with reduced vehicle production centered in Europe due to difficulty of procuring parts by OEMs.

As for the soaring feedstock prices, Material and Homes have been affected, but we are working to pass on the higher costs and suppress the deterioration in terms of trade.

P. 6 Financial results for Q1 2022 (consolidated)

Net sales were 670.4 billion yen, a record high for Q1. Operating income was 49.4 billion yen, down 18% year-on-year. EBITDA was 90.5 billion yen, down 6% year-on-year. Net income attributable to owners of the parent was 29.8 billion yen, declined year-on-year more than operating income. This will be explained later. The average exchange rates for Q1 were 130 yen to the dollar and 138 yen to the euro.

P. 7 Results by segment (year-on-year)

Health Care saw higher sales and lower operating income year-on-year. However, behind the decline in operating income were special factors in Q1 FY 2021, such as the remaining effect of surge in demand for ventilators and the accounting treatment associated with the acquisition of Respicardia, Inc. Excluding these factors, the operating performance was generally firm.

In Homes, sales and operating income increased year-on-year. Performance of overseas business was particularly firm.

Material saw higher sales and lower operating income year-on-year. In Basic Materials, which is petrochemicals-related, operating income was roughly on par with the previous year, but amid the severe operating climate, shipments declined for LIB separators and engineering plastics, which were affected by reduced vehicle production.

P. 8 Operating income increase/decrease (Material)

Operating income in Material decreased by 4.3 billion yen year-on-year. The sales prices factor contributed 25.0 billion yen and the foreign exchange factor contributed 8.1 billion yen, for a combined 33.1 billion-yen increase in operating income. On the other hand, the feedstock costs factor reduced operating income by 35.8 billion yen. The difference of 2.7 billion yen is the amount we could not pass on the rising feedstock costs. There was no significant impact from the sales volume factor. “Others” included a slight increase in fixed costs.

P. 9 Operating income increase/decrease (Homes)

Operating income in Homes was largely flat year-on-year. In the order-built homes, while there was an increase in fixed costs in addition to the impact of rising material prices, those were absorbed by the effect of higher average unit prices due to larger and higher value-added units, and an improvement in profitability through cost reductions.

P. 10 Operating income increase/decrease (Health Care)

Operating income in Health Care decreased by 5.7 billion yen year-on-year. The sales volume factor was a positive 1.7 billion yen, in which the Health Care business category was positive, while Critical Care was negative. In the Health Care business category, Veloxis Pharmaceuticals, Inc. recovered from COVID-19 impact in the previous year.

“Others” had a negative impact of 7.5 billion yen in operating income. In Critical Care, in addition to special factors in Q1 FY 2021 such as the remaining effect of surge in demand for ventilators and the accounting treatment related to the acquisition of Respicardia, there was also an impact of the consolidation of Itamar Medical Ltd. in Q1 FY 2022.

P. 11 Operating income trends in Q1 2022 (year-on-year)

This table shows the year-on-year operating income trends and the business environment for the main businesses.

In Environmental Solutions, LIB separators were affected by reduced vehicle production and slowdown in demand for smartphones and other consumer electronics applications due to the economic downturn in China.

Mobility & Industrial was similarly affected by reduced vehicle production.

Life Innovation saw an increase in operating income. In Digital Solutions, although electronic materials widely used in consumer electronics applications were affected by semiconductor shortages, electronic devices and electronic materials for high-end smartphones and other applications were firm.

In the Homes business category, operating income was flat.

In the Health Care business category, shipments of Envarsus XR immunosuppressant of Veloxis showed recovery, and shipments of Teribone osteoporosis drug were firm.

In Critical Care, the procurement of parts continues to be difficult due to the semiconductor shortages.

P. 12 Overseas sales

Overseas sales accounted for the majority of consolidated sales in Q1. There is no particular change in the situation.

P. 13 Statements of income

Non-operating income decreased by 2.5 billion yen year-on-year. The main factor was declined equity in earnings of affiliates due to lower earnings at PTT Asahi Chemical Company Limited.

P. 14 Extraordinary income and loss

Extraordinary items resulted in a net loss of 1.9 billion yen, a 5.2 billion-yen deterioration year-on-year. Extraordinary income decreased by 4.8 billion yen mainly due to gain on sale of investment securities from the sale of strategic shareholdings being smaller than in the previous year.

As for extraordinary loss, expenses related to the fire at the Bemberg plant in Nobeoka City, Miyazaki Prefecture, were recorded as a loss of 1.6 billion yen. The cause of the fire is currently being investigated, and the expenses include fixed costs of the plant that is not in operation. Loss on valuation of investment securities of 1.0 billion yen was recorded as a loss on valuation of shares held by the NXT Building Group Pty Ltd (formerly McDonald Jones Homes Pty Ltd) in Australia as a result of a decline in market prices.

P. 15 Balance sheets

Comparing the end of June to the end of March 2022, total assets increased by 284.1 billion yen to 3,633.2 billion yen. Inventories increased by 67.2 billion yen due to higher feedstock prices and increased months of inventory, and intangible assets increased by 111.7 billion yen due to acquisitions, etc.

In net assets, accumulated other comprehensive income increased by 129.9 billion yen, which was due to an increase in foreign currency translation adjustment due to depreciation of the yen.

There was no significant change in the ratio of net worth to total assets, but the D/E ratio went from 0.45 to 0.51.

P. 16 Cash flows

Net cash provided by/used in operating activities was a cash outflow of 40.1 billion yen. In addition to the increase in working capital such as inventories, special factors included an increase in income tax payments related to reconfiguration of Veloxis organizations, and an increase in income tax payments which resulted from a significant improvement in business performance centered on Material from FY 2020 to FY 2021. Approximately half of the year-on-year deterioration in cash provided by/used in operating activities is attributable to these increased tax-related expenses. We intend to manage inventories to an appropriate level.

P. 18 H1 2022 operating performance forecast (consolidated)

As for the H1 forecast, net sales are expected to be 716.6 billion yen in Q2 compared to 670.4 billion yen in Q1, for a total of 1,387.0 billion yen in H1. Operating income is forecasted to be

36.9 billion yen in Q2 compared to 49.4 billion yen in Q1, for a total of 86.3 billion yen in H1. Operating income is expected to decrease by 24% compared to H1 FY 2021. The net income is expected to be 52.8 billion yen for H1, partly due to extraordinary losses.

The forecast assumes an average exchange rate of 135 yen to the dollar for Q2, 132 yen for H1, and the domestic naphtha price of 81,500 yen per kiloliter for Q2, 83,800 yen for H1.

P. 19 H1 2022 operating performance forecast (by segment)

For H1 FY 2022, Health Care is expected to see higher sales and lower operating income year-on-year. Behind the decline in operating income are the special factors described earlier, as well as the remaining impact on shipments due to the difficulty in procuring defibrillator parts in Critical Care.

Homes is also expected to see higher sales and lower operating income in H1 year-on-year. The main reason for the decline in operating income is decreased deliveries of condominium units in the real estate. In FY 2022, we plan to deliver more condominium units in H2 than H1.

In Material, basically the situation in Q1 will continue and we forecast higher sales and lower operating income in H1 year-on-year. While sales of products for high-end smartphones in Digital Solutions are firm, lower shipments of LIB separators and engineering plastics are expected, which are affected by reduced vehicle production due to semiconductor shortages, as well as worsening terms of trade and impact of the economic downturn in China in Basic Materials.

P. 20 Operating income trends in H1 2022 (year-on-year)

This table shows the year-on-year operating income trends in H1 forecast and the business environment for the main businesses.

In Environmental Solutions, operating income is expected to decline for LIB separators affected by reduced vehicle production as well as a slowdown in demand for consumer electronics applications such as smartphones due to the economic downturn in China.

In Mobility & Industrial, shipments are expected to decline due to reduced vehicle production.

Life Innovation is forecasted to be flat, with Digital Solutions remaining firm centered on high-end products applications, while Comfort Life being affected by higher costs of feedstocks and logistics.

The Homes business category is expected to be flat, as in Q1.

In the Health Care business category, despite the negative impact of the consolidation of Bionova, overall performance is expected to remain firm centered on Teribone and Envarsus XR.

In Critical Care, the impact on defibrillator shipments from difficulties in procuring parts due to semiconductor shortages is improving, but will still remain. Operating income is expected to decrease due to special factors including the effect of the accounting treatment related to acquisition of Respicardia in the previous year and the impact of the consolidation of Itamar in H1 this year.

P. 22 Operating income forecast by business category

Operating income for H1 FY 2022 is projected to be 86.3 billion yen, a year-on-year decline centered on Material, where shipments are expected to decrease in Environmental Solutions and Mobility & Industrial.

In the forecast announced in May, the full-year operating income was projected to be 210.5 billion yen, which has not been revised this time. The H1 operating income forecast announced this time is 86.3 billion yen, and you may feel that there is a considerable discrepancy. However, in addition to the anticipated H2 bias in Homes, we expect to be able to recover some of the impact of the higher feedstock prices that have not yet been fully passed on. Also, the May forecast was based on an exchange rate assumption of 115 to the dollar. We will report on the H2 forecast at the next earnings announcement in November 2022 after careful examination of the exchange rate situation and demand trends.

Question and Answer Session

Questioner 1: In Environmental Solutions of Material, Q1 operating income in Basic Materials was flat year-on-year, and increased from Q4 FY 2021. Is the impact of the inventory valuation difference a significant factor behind this? I would also like to ask about the status of acrylonitrile (AN), as well as trends toward Q2 in Basic Materials.

In addition, operating income in Environmental Solutions excluding Basic Materials declined significantly year-on-year. You explained that the separator business was in a tough situation. Please tell us about the trend in shipments, including the outlook for Q2.

Takahashi: Operating income in Basic Materials in Q1 was flat year-on-year, as a result of the positive and negative factors. Positive factors include a slight increase in shipments due to the absence of large-scale maintenance turnaround at the Mizushima Works this year, and the impact of inventory valuation gain caused by rising feedstock prices. Negative factors include deterioration in terms of trade due to the fact that we have not been able to completely pass on the increased costs resulting from the rise in feedstock prices. As for AN, the terms of trade have deteriorated due to the fall in market prices.

From Q1 to Q2, operating income is expected to decline due to the elimination of inventory valuation gain and continued worsening of terms of trade.

As for AN, demand was strong before the China lockdowns, but has been sluggish since the lockdowns were lifted, especially for ABS resin. Spreads have not deviated significantly from the levels initially expected, but the impact of lower shipments and lower capacity utilization due to declining demand was felt in Q1 and Q2. Market prices have also been somewhat weak.

As for businesses other than Basic Materials, Q1 shipments declined year-on-year centered on the separator business due to the impact of semiconductor shortages, China lockdowns, and a slowdown in the Chinese smartphone market. In addition, the impact of higher costs for feedstocks and logistics is also a major factor behind the decline in operating income. From Q4 FY 2021 to Q1 FY 2022, operating income increased due to the impact of the weaker yen, inventory valuation gain, and a decrease in fixed costs.

Questioner 1: How much was the impact of the inventory valuation gain? Also, inventories increased significantly for the group as a whole. Is the increase in Environmental Solutions significant?

Takahashi: We do not disclose specific figures for the inventory valuation gain, but the year-on-year difference is not that large since the same period last year was also in a phase of rising feedstock prices and we recorded the inventory valuation gain.

The increase in group-wide inventories is mainly in Environmental Solutions. The amounts increased due to a rise in overall market prices in addition to the impact of a decline in demand. We will adjust the inventories as appropriate according to future demand trends.

Questioner 1: In Critical Care, you explained that the year-on-year decline in operating income was largely due to special factors. But I understand that ventilator shipments in the same period last year were not that large. Please tell us a little more quantitative breakdown. I would also like to ask about trends toward Q2.

Otsubo: In Critical Care, despite the effect of the consolidation of Itamar, sales declined year-on-year on a dollar basis due to decreased shipments resulting from difficulties in procuring defibrillator parts. The increase in sales on a yen basis was due to foreign currency translation adjustment.

Please refer to page 10 of the presentation material for operating income. In the table showing breakdown of year-on-year changes, Critical Care posted a negative 5.7 billion yen in “others” of operating income. This was primarily due to 3 factors: the first was the impact of accounting treatment related to the acquisition of Respicardia in Q1 FY 2021, the second was the impact of the consolidation of Itamar, and the third was the remaining favorable cost effect in Q1 FY 2021 associated with the large increase in ventilator production in FY 2020.

As for defibrillators, the impact of semiconductor shortages has been improving each quarter, from Q4 to Q1 and Q2. Both sales and operating income are expected to increase from Q1 to Q2 mainly driven by greater shipments of defibrillators.

Questioner 2: Regarding Homes, I would like to hear again what cancelled the impact of higher steel prices. Also, with the application of the Accounting Standard for Revenue Recognition, earnings may not be skewed toward H2 that heavily. How much bias are you expecting?

In addition, I would like to ask about the status of the overseas business, including whether rising interest rates may be a cause for concern.

Kume: The impact of the steel price hikes was contained in Q1 with higher average unit prices due to larger and higher value-added units, etc., which we have been promoting in the order-built homes. Fixed costs also increased slightly, but this was offset by higher sales and an improvement in the marginal profit ratio. We aim to further improve the profit margin toward H2.

The quarterly bias is smaller than before due to the application of the Accounting Standard for Revenue Recognition. However, the situation of more units being completed in H2 remains unchanged, which results in continued trends of more construction work in H2 and higher earnings in H2. In FY 2022, the number of condominium units delivered in the real estate is also expected to be low in H1 and skewed toward H2. We have not revised the full-year earnings forecasts in this announcement, but expect operating income will remain at the same level as initially projected. We forecast an increase in operating income from H1 to H2. Fixed costs and other expenses will also be reviewed.

In the overseas business, the North American business was firm in Q1. In Q4 FY 2021, we were able to pass on higher costs when the lumber prices rose. Then in Q1, the lumber prices fell and margins expanded. Operating income in H1 is expected to increase year-on-year centered on the North American business. In the U.S. market, there are concerns about the impact of rising mortgage interest rates, material prices, labor costs, etc. However, in the region where we operate, centered in Arizona, the population continues to grow due in part to the presence of semiconductor companies and other businesses, and we believe housing demand is firm.

Questioner 2: In Health Care, I understood that Critical Care was largely affected by special factors, but what is the situation in the Health Care business category? Looking at page 29 of the presentation material, the growth rate of Envarsus XR sales seem to have recovered in Q1. Can we assume that it will keep the annual growth rate again at around 30%? Also, are there any factors of concern regarding the impact of competing products for Teribone, or about Kevzara treatment for rheumatoid arthritis, or Reclast osteoporosis drug? With respect to Plaquenil immunomodulator, which was launched in H2 FY 2021, has the effect of the inventory buildup at the time of launch already been resolved?

K. Sato: I will answer regarding Pharmaceuticals. As for Teribone, there are no competitive products that were newly launched in Q1 or the recent past. Our initial assumption was that a generic product for the conventional formulation of Teribone would be launched in June, but it has not yet been launched. So we have upward revised the H1 sales forecast for the conventional formulation of Teribone. As for autoinjector of Teribone, on the other hand, we downward revised the sales forecast slightly due to the impact of COVID-19, which restricts MRs' visits to hospitals. They canceled each other out, and the sales of Teribone as a whole are expected to be in line with initial forecast in H1.

Sales of Reclast increased by around 10% year-on-year, and we believe it will continue to perform steadily.

Sales of Kevzara are growing firmly due in part to the synergistic effect of enhanced presence in the field through the launch of Plaquenil.

The marketing business of Plaquenil was transferred from Sanofi K.K. to us in October 2021, and sales have been steady since our launch. Although there was a buildup of inventory at the time of launch, sales have been growing steadily and there are no particular concerns.

Otsubo: Envarsus XR is performing well, and Q1 sales increased 37% year-on-year. Demand slowed slightly in FY 2021 due to the impact of COVID-19, etc., but the market is expected to expand steadily in FY 2022, and Envarsus XR is expected to grow accordingly. Q1 was particularly strong, but we expect a similar growth rate in the future.

Questioner 3: Regarding Homes, orders received in the order-built homes were largely flat year-on-year. How will it recover toward its initial forecast of an annual increase of 15%?

Also, steel prices seem to have peaked out rapidly in overseas markets recently. There will be a time lag before it is reflected in domestic steel prices, but is the impact of the steep rise in materials prices expected to be moderated slightly in H2 in the order-built homes?

Kume: We forecast a 2% year-on-year growth in orders in the order-built homes in H1. Although the environment is challenging due to the resurgence of COVID-19, we are strengthening our sales capabilities, including further utilizing digital marketing, to acquire orders. In unit homes, a new product line in the mid- to high-priced range launched in May is performing well. In apartment buildings, we will also increase orders for larger and higher value-added buildings by strengthening customer acquisition through business referrals. With the introduction of government subsidies for ZEH (net zero-emission houses) purchases, we plan to further focus on ZEH-compliant apartment buildings and increase orders for higher value-added products. The annual growth rate in orders of 15% year-on-year is a very high target, and we may consider revising it while reviewing the situation in H2.

With regard to steel prices, due in part to a time lag with overseas markets, we do not expect the impact to ease sharply in H2. We expect prices to rise even further from Q2 onward throughout the fiscal year, and intend to compensate for this by increasing sales of larger and higher value-added homes.

Questioner 3: In Life Innovation, operating income increased by 7.2 billion yen from Q4 FY 2021 to Q1 FY 2022. I suppose there is some seasonality, but what factors contributed to the operating income increase? Also, from Q1 to Q2, the forecast is for an increase of 4.7 billion yen in sales, but a decrease of 5.8 billion yen in operating income. What are factors behind this? Are there temporary costs, etc.?

Igarashi: Life Innovation consists of 2 major domains, Digital Solutions and Comfort Life.

From Q4 to Q1, both domains saw higher sales and operating income.

As for Digital Solutions, in the electronic devices, shipments of products for smartphone cameras and for automotive audio increased. In the electronic materials, despite the impact of higher material costs and China lockdowns, there was a recovery in demand from Q4, which was affected by the Chinese New Year, as well as the increased shipments of semiconductor materials. The weaker yen contributed to earnings in both the electronic devices and the electronic materials.

In Comfort Life, each business performed firmly.

From Q1 to Q2, we expect lower sales and operating income in Digital Solutions, and higher sales and lower operating income in Comfort Life.

In Digital Solutions, operating income decrease is expected mainly in the electronic devices. Shipments of sensors for fan motors and products for smartphone cameras are expected to decline due to the slowdown in the Chinese markets in particular. Decline in operating income will be greater than the impact of the decline in sales due to deterioration in the product mix. The electronic materials will be similarly affected by the slowdown in the Chinese markets, and sales will slow down centered on smartphone applications.

In Comfort Life, market conditions are not that bad, but operating income is expected to decline due to the impact of plant fire on shipments of Bemberg cupro fiber from Q2 onwards, and increased fixed costs for some products from Q1 to Q2.

Questioner 4: Regarding Critical Care in Health Care, have the constraints on defibrillator shipments due to semiconductor shortages bottomed out in Q1? Is it possible that while you are unable to ship, your competitors are able to ship and your market share is declining?

Otsubo: We believe the shipment constraints for defibrillators bottomed out in Q4 FY 2021.

Shipments have increased from Q4 to Q1 and are expected to increase further in Q2.

We hear that other companies are also seeing impacts on shipments, and do not see any significant change in the competitive environment at present.

Questioner 4: The recent major M&A are listed on page 31 of the presentation material. As for Bionova, the most recent acquisition in Health Care, the amount of goodwill accrual is almost equal to the acquisition price. If we assume that the amortization period is 20 years, the annual amortization would be about 2 billion yen. Is that about right?

Also, the M&A in Health Care, including Itamar in Critical Care, are high in value and goodwill is large, too. What are your thoughts on the prospects for the ramp-up of these businesses?

Y. Sato: Please be aware that the purchase price allocation (PPA) for the Bionova acquisition has not yet been completed and the amount of goodwill is provisional. The goodwill amortization period is basically considered to be 20 years, although it depends on the results of the PPA.

Horie: With regard to the acquisition value and growth potential view in Health Care, in the Critical Care, ZOLL intends to expand from its existing businesses to peripheral businesses and pursue growth in the area of cardiac disease, with the aim of generating profits throughout the chain, including uncovering potential demand. Although we cannot give a specific time frame for this strategy, we believe we will steadily grow and expand the business.

Questioner 4: What about Bionova? It is a CDMO for biopharmaceuticals and I think the story is different from Critical Care. There seem to be some cases where CDMOs do not always go well, but what is your confidence regarding the ramp-up of the company?

Otsubo: We have long been engaged in the bioprocess business centered on Planova virus removal filters in Medical Devices, and hold a large share in the global market. In recent years, we have acquired 2 companies in a closely related area: Virusure Forschung und Entwicklung GmbH and Bionique Testing Laboratories LLC, which are both contract biosafety testing companies (CROs). The acquisition of Bionova, a CDMO, is a follow-on development, and we believe we can provide high value to our customers in these businesses, leveraging our expertise in bioprocessing. Bionova has a competitive advantage in process-development capabilities for next-generation antibody drugs, and we intend to grow these capabilities in the future.

This concludes the briefing. Thank you for your participation.