Summary of Financial Results Briefing for Q1 Fiscal 2023

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Asahi Kasei Corporation

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Presentation

P. 2 Focus of Q1 2023 results and H1 2023 forecast

Horie: In Q1 2023, both sales and operating income declined compared to the same period last year. The decline in operating income was due to the delayed recovery of demand and falling market prices in Material, and the impact of acquisitions in Medical in Health Care. However, we are largely in line with our initial forecast for FY 2023 announced in May.

For H1 2023, we expect a year-on-year decrease in operating income under the assumption that the business environment will remain challenging in Material. On the other hand, the performance of Homes and Health Care is anticipated to exceed the initial forecast. We recognize that accelerating business portfolio transformation in Material is a major challenge.

Regarding shareholder returns, there is no change from the initial forecast, and the interim dividend is expected to be 18 yen per share.

P. 4 Q1 2023 consolidated financial results

Net sales for Q1 totaled 650.7 billion yen, down slightly less than 3% year-on-year. Operating income was 21.8 billion yen, down 56% year-on-year. Net income attributable to owners of the parent was 9.6 billion yen, down 68% year-on-year.

P. 5 Q1 2023 results by segment

Operating income in Health Care declined by 5.3 billion yen year-on-year. This was due to the effect of the consolidation of Bionova and an increase in SG&A expenses in the Health Care business category.

Operating income of Homes declined by 1.9 billion yen. The profit margin deteriorated due to higher material prices in order-built homes, and leveling off of the lumber prices in the North American business, where we were able to maintain high selling prices despite declining lumber prices in the same period of the previous year.

Material posted a sharp decline in operating income of 19.1 billion yen. In the petrochemical-related business, decrease in sales volume due to slow recovery of demand in China and inventory valuation loss resulted in the decreased operating income. In Life Innovation, sales volume also declined due to a slowdown in demand in some areas.

P. 6 Statements of income

Non-operating income decreased by 2.6 billion yen year-on-year, mainly due to a deterioration in net equity in earnings of affiliates from a gain of 1.6 billion yen to a loss of 0.3 billion yen, centered on the deteriorated performance of PTT Asahi Chemical Company Limited.

P. 7 Extraordinary income and loss

Extraordinary items amounted to a loss of 2.4 billion yen, a 0.5 billion yen deterioration from the same period last year. Although there were some changes in the individual items, no major differences were seen overall, so I will not provide a detailed explanation.

P. 8 Balance sheets

Total assets increased by 151.2 billion yen from the end of March 2023. Both current assets and fixed assets increased, with a slight increase in inventories under current assets. In liabilities, noncurrent liabilities increased by 60.0 billion yen. In net assets, accumulated other comprehensive income increased by approximately 100 billion yen, due to an increase in foreign currency translation adjustment as a result of the weaker yen.

D/E ratio rose by 0.03 to 0.59.

P. 9 Cash flows

Operating cash flow was a net cash inflow of 30.2 billion yen, an improvement of 70.3 billion yen year-on-year. Investment cash flow saw a decrease in cash outflow, and as a result, free cash flow improved by 97.3 billion yen year-on-year. Inventories increased in FY 2022, and we are working to reduce them in FY 2023. Since the effects are not yet fully realized, we will continue our efforts to improve operating cash flow. Cash and cash equivalents increased by 56.6 billion yen from the end of FY 2022.

P. 11 H1 2023 consolidated operating performance forecast

As for the H1 forecast, net sales are expected to be 1,345.0 billion yen, almost unchanged from the same period last year. On the other hand, operating income is expected to be 24.2 billion yen in Q2, compared to 21.8 billion yen in Q1, for a total of 46.0 billion yen in H1, a 46% decrease year-on-year. Net income for H1 is projected at 22.0 billion yen, a decline of 57%.

P. 12 H1 2023 operating performance forecast by segment (year-on-year)

Regarding H1 operating income, Health Care is forecasted to decline by 6.8 billion yen year-on-year. While Critical Care is expected to see an increase, the Health Care business category is expected to see a decrease due to negative factors associated with the consolidation of Bionova in Medical and an increase in SG&A expenses, such as R&D expenses, in Pharmaceuticals.

In Homes, we forecast a ¥2.8 billion decrease year-on-year. Although order-built homes has been affected by the rising cost of materials, the business has been relatively strong due to the steady promotion of high value-added products.

Material is expected to decrease by 28.5 billion yen due to a decline in sales volume and other factors, as demand growth is impaired by the slow economic recovery in China.

P. 13 H1 2023 operating performance forecast by segment (vs. forecast in May)

H1 operating income was revised upward in Health Care and Homes from the initial forecast.

On the other hand, Material has been revised downward, and we need to push forward with business portfolio transformation and cost reductions amid a slower-than-expected recovery in the Chinese economy.

P. 15 Material: Sales and operating income increase/decrease

Now I will explain the situation by segment.

The graph shows the factors of year-on-year increase/decrease in operating income for Material. The sales volume factor was a negative 7.5 billion yen. Terms of trade, which is the sum of sales prices, feedstock costs, and foreign exchange factors, were positive, but the others factor was a negative 14.9 billion yen. The deterioration in the others factor was due to a decline in capacity utilization against the backdrop of lower shipments, and inventory valuation loss.

P. 16 Material: Overview by Business

The following is an explanation of the trends in operating income for each business in Material from Q1 to Q2. Environmental Solutions is expected to deteriorate further, from a loss of 0.7 billion yen to a loss of 3.5 billion yen. This is due in part to special factors such as a maintenance turnaround in Basic Materials.

Mobility & Industrial is forecasting a decrease in operating income from 3.0 billion yen to 1.6 billion yen. Engineering plastics is expected to remain relatively firm, but car interior materials is expected to see a decrease with seasonal factors that brought forward shipments to Q1 due to the summer vacation season in Europe and the U.S.

Life Innovation is expected to increase its operating income from 4.5 billion yen to 5.8 billion yen. In Digital Solutions, Q1 saw a slight struggle due to a decline in demand for mid- to low-end smartphones and other products in China, but we expect shipments to improve in Q2.

P. 18 Homes: Sales and operating income increase/decrease

In Homes, there was no significant change in operating income year-on-year. The 1.5 billion yen decrease in operating income from overseas operations, which is included in the others factor, is mainly due to fluctuations in lumber prices.

P. 19 Homes: Overview by business

We expect that order-built homes, real estate, and overseas operations will all see an increase in operating income through Q2. In order-built homes, there is a seasonal factor that raises the volume of construction work in Q2, and in real estate, the number of condominiums sold is expected to increase. In overseas operations, the main factor is that the profit margin will improve in Australia due to progress in the construction of properties for which higher material costs have been passed on to selling prices. In general, Homes is on pace to exceed the initial forecast.

P. 22 Health Care: Sales and operating income increase/decrease

As for Health Care, operating income decreased by 5.3 billion yen year-on-year. The main reason was a negative 5.8 billion yen in the others factor. This was due to the negative impact of the consolidation of Bionova in Medical and an increase in SG&A expenses in Pharmaceuticals.

P. 23 Health Care: Overview by business

Through Q2, we expect a slight decrease in operating income in the Health Care business category due to an increase in SG&A expenses, although sales are strong.

In Critical Care, we expect an increase in operating income with sales growth of defibrillators, despite decreased profit in LifeVest wearable defibrillator that performed well in Q1.

For Health Care as a whole, performance has been exceeding the initial forecast.

P. 28 Overseas Sales

Overseas sales in Q1 were 54% of the total, up from the same period last year. While sales in Asia decreased from 21% to 18%, the portion in the U.S. and Europe increased. Within Asia, the portion in China decreased from 9.4% to 9.0%. The increase in the U.S. reflects solid performance especially in Health Care and the consolidation of the Focus Companies in the North American operation of the Homes business category.

We have not revised the full-year forecast at this time. The H1 operating income forecast has been revised slightly downward from 51.5 billion yen to 46.0 billion yen, but we plan to closely examine the H2 forecast. We will proceed with cost reductions and business portfolio transformation based on the assumption that the recovery of demand in China will be slow.

Questions and Answers

Questioner 1: I would like to ask about business portfolio transformation. I think the target area is Material in particular, but what specific measures will you take to accelerate the transformation?

Horie: At the April management briefing, we reported on our intention to move forward with structural transformation in the petrochemical chain-related business. We are now in the process of formulating concrete action plans. We are not yet at the stage of making an announcement, but we are working urgently to implement it. We are advancing discussions including the perspective of whether or not we are the best owner, and some businesses could be sold. In some cases we are having negotiations, and in some cases we are in the process of developing overall plans.

Questioner 1: Do you have any figures that you can show us, such as how much ROE will improve as a result of the business transformation?

Horie: What we are particularly focusing on is improving our balance sheets. We would like to reduce our assets somewhat and prevent them from continuing to increase. This is also related to what amount of invested capital will be required for our growth businesses, so we need more time to announce specifics.

Questioner 2: I would like to ask about Homes. In order-built homes, orders received in Q1 were quite weak. Q2 is expected to increase compared to the same period last year, but how confident are you about it?

Kume: Orders received in Q1 fell sharply, by 16% from the same period last year. The most significant factor was a large drop in April due to the particularly high orders in April last year. Year-on-year variance has been improving since May, with positive 11% in June, and we expect the recovery to continue in July. The forecast for Q2 orders is positive 6% year-on-year, but due to the large decrease in Q1, the forecast for H1 as a whole is negative 5%.

Questioner 2: Orders for unit homes, which account for a large percentage of total orders, have been decreasing, but Q2 orders are expected to recover considerably and exceed 100 billion yen for the first time in a long time. Do you have a high degree of certainty, including a recovery in unit homes?

Kume: Although the number of buildings of orders for unit homes is declining, there is still room to expand with the strategy of larger and higher value-added products in regional cities, etc., and we have launched new products in the higher price range. While the products targeting the mid- to high-end segment have been driving orders mainly in the Tokyo metropolitan area, we expect orders for unit homes to recover by promoting the higher value-added strategy in regional cities as well.

Questioner 2: I would like to ask about your overseas business in the Homes business category. You are forecasting sales decrease and operating income increase from Q1 to Q2. Is this due to an improvement in the product mix in Australia? Also, is it correct to assume that the improvement of performance in the overseas business continue in H2 as the lumber prices have leveled off?

Kume: In the overseas business, both Australia and North America are expected to remain strong from H1 to H2. However, in North America, we are closely monitoring the situation of high interest rates, and we conservatively forecast a slight decrease in net sales. Operating income is expected to increase due to an improvement in the profit margin, as construction work on properties in Australia, for which prices were raised in response to increased material costs, progresses in Q2.

The number of construction starts in North America improved from Q1 to Q2, and is expected to remain steady through H2.

Questioner 2: The North American business is in a very difficult situation, as you can infer from the market prices of vinyl chloride resins. What is the basis for your view of improvement while there is no sign that interest rates will come down?

Kume: Although there are concerns that mortgage rates will remain high, actual demand for homes in Arizona and Nevada, where we operate, is firm. Demand is strong, with a large population inflow and a continuing shortage of existing homes, and we expect construction starts to recover.

Questioner 3: With regard to Health Care, you have revised upward your H1 operating income forecast by 1.1 billion yen from the previous forecast. Please explain the factors behind this and the latest situation. I am looking at page 24 of the presentation material, and what are the factors behind the downward revision of sales in Medical? Also, the operating income forecast for Critical Care has been revised upward by about 30%. Is this because the parts procurement difficulty is being resolved faster than expected?

Otsubo: The downward revision to net sales in Medical is due to the fact that Bionova, a CDMO acquired in FY 2022, has been affected by the difficulty of biotech venture companies in raising funds. Although orders have been received, they have not been executed and sales have not been recorded as expected. In addition, shipments of Planova virus removal filters have been lower than initially expected, as some customers are adjusting their inventories, which had increased due to COVID-19.

The upward revision to operating income in Critical Care is due to a better-than-expected improvement in parts procurement difficulties for defibrillators, etc., which have continued since FY 2022. In particular, shipments of AEDs, automated external defibrillators, have been strong. In addition, sales of Itamar, which deals in diagnostic devices for sleep apnea, acquired in FY 2021, are a little higher than initially expected.

Questioner 3: Looking at the sales of main pharmaceuticals on page 25 of the presentation materials, Teribone appears to be slightly sluggish. Is there an impact from a competitor's new drug?

Takahashi: There are two types of formulation for Teribone: autoinjectors and the conventional lyophilized formulation. Sales of the conventional formulation declined in Q1 year-on-year due to the launch of a generic product in September 2022, although we have been able to defend against it better than expected. Autoinjectors, on the other hand, are steadily growing in sales volume, but somewhat slower than initially forecasted. We believe this is because we have concentrated our resources on defending the conventional formulation against the generic product, which resulted in insufficient promotion of autoinjectors. We plan to shift resources to autoinjectors and increase shipments in H2.

We don't believe that we are particularly affected at this stage by the new drug from the competitor.

Questioner 3: You mentioned that orders for LifeVest are recovering, but what is the status of orders for defibrillators for professional use, for which sales were weak in H2 2022? Also, are orders for AEDs continuing to be strong?

Otsubo: Weak orders for defibrillators for professional use are still having an impact, and shipments declined slightly from Q4 to Q1. We are watching closely to see if orders will recover in Q2 and H2. However, we originally expected AEDs to drive the defibrillators business in FY 2023, and we are doing better than expected in this respect.

As for LifeVest, revenue tends to vary from quarter to quarter. In Q1, revenue was firm year-on-year due to an improvement in reimbursement conditions, but there was no volume growth due to a shortage of marketing personnel. Now, however, we have nearly sufficient personnel, and expect to improve orders and increase revenue in H2.

Questioner 4: With regard to Material, I would like to know the Q1 results and Q2 forecast for acrylonitrile (AN) market prices and spreads, as well as the utilization rate.

In addition, regarding the shipments of LIB separators, your initial assumption was to increase them by about 50% in FY 2023 year-on-year, but how are the Q1 results and H1 forecast?

Also, the downward revision of the H1 forecast for Digital Solutions is significant. Is this mainly due to the slump in electronic components and materials for smartphones that was explained earlier?

Tanaka: I will answer regarding AN. The utilization rate continues to be around 70% due to weak demand. The same level is expected to continue in Q2 for inventory reduction. Regarding market prices and spreads, in Q1, $1,339/ton for AN and $834/ton for propylene, for a spread of $505/ton. In Q2, we are assuming slight deterioration: $1,150/ton for AN and $700/ton for propylene, for a spread of $450/ton. Shipments will increase slightly from Q1 to Q2, but demand remains weak.

Onodera: The initial assumption for the LIB separator shipments was that demand for both consumer electronics applications and automotive applications would recover in FY 2023 and that they would grow by about 50% year-on-year. Q1 growth was in the single-digit percent year-on-year, and Q2 growth is expected to be 10–20% year-on-year. We are now closely scrutinizing the full-year shipments forecast, paying particular attention to economic trends in China.

Igarashi: In Digital Solutions, as you pointed out, the deterioration in Q1 was mainly due to smartphones, with middle- to low-end smartphones in particular being affected by the Chinese economy. Both electronic components and electronic materials were affected by the weak smartphone and server-related markets. Electronic components were also affected by the subsiding of COVID-19-related demand for power tools and other products. In addition to lower shipments and the resulting deterioration in capacity utilization, inventory valuation loss exacerbated the operating income decrease.

Questioner 5: In Environmental Solutions, with respect to businesses other than Basic Materials, what is the background behind the year-on-year operating income increase in Q1 being smaller than the decrease in amortization of goodwill associated with the impairment on Polypore? Also, what are the price trends and the supply-demand balance for LIB separators? What is the reason for your sluggish shipments while major battery manufacturers' sales seem to have increased significantly year-on-year?

Onodera: Q1 results for the separator business show lower sales and higher operating income year-on-year, but lower operating income excluding the effect of lower amortization of goodwill, etc. Shipments of LIB separators for automotive applications improved from the same period last year, when Russia’s invasion of Ukraine and other factors impacted sales, but those for consumer electronics applications declined due to the economic downturn in China. In addition, there was an impact of lower capacity utilization and decline in selling prices due to the usual price revisions.

Questioner 6: Regarding Mobility & Industrial, you explained the seasonality of car interior materials as one reason for the decrease in operating income from Q1 to Q2, but sales are expected to increase over the same period. Is that due to the difference in product mix?

Also, what were the reasons for the Q1 year-on-year decline in operating income for Comfort Life of Life Innovation?

Moriwaki: In Mobility & Industrial, although sales of car interior materials are expected to decline from Q1 to Q2, sales of engineering plastics are expected to increase. In addition to the operating income decrease due to lower sales of car interior materials, we plan a maintenance turnaround and expect inventory effects in nylon intermediates, while performance coating materials is expected to have decreased sales in China and lower market prices and lower spreads for general-purpose grades in Asia. There was also a nonrecurring factor that contributed in Q1. These factors add up to the forecast of sales increase and operating income decrease.

Igarashi: In Comfort Life, the decline in shipments was the main reason for the year-on-year decrease in operating income in Q1. After the Bemberg cupro fiber plant fire in April 2022, we were able to meet demand in Q1 last year through sales of inventories, but production is currently not sufficient to meet demand. Shipments of several other products also declined due to the economic slowdown. In addition, there is also an impact of higher depreciation and other expenses for products for which capacity was increased in FY 2022.

Questioner 6: With regard to Comfort Life, do you expect that operating income in Q2 will not reach the level of the same period last year?

Igarashi: We see it that way. However, due to the recovery of the Chinese market and the increase in production of Bemberg, we are expecting higher operating income than in Q1.

Questioner 7: Regarding Envarsus XR, sales were strong in Q1, but the past trends seem to vary from quarter to quarter. What are the reasons for sales not continually increasing? Also, do you expect sales to increase from Q1 to Q2?

Otsubo: Q1 sales of Envarsus XR grew more than expected, up 32% year-on-year. Q2, on the other hand, is expected to fall slightly from Q1. This is due to seasonal factors, such as a tendency for prescriptions to decline during the U.S. summer vacation season. For H1 as a whole, we expect sales to grow as expected year-on-year.

Questioner 8: You explained that the growth of CDMO business by Bionova has been slower than expected. Please tell us about measures to promote synergies and your ideas for mid- to long-term business expansion for Bionova, Itamar, and Respicardia?

Otsubo: Itamar and Respicardia in Critical Care are involved in devices for the diagnosis and treatment of sleep apnea. Sleep apnea is believed to be interrelated with heart disease, and we believe that synergies can be expected by, for example, introducing these devices to medical institutions that handle LifeVest.

As for Itamar, it will take a little more time to turn a profit, but sales are growing year-on-year and losses are steadily decreasing. We expect to see synergies in the future.

Questioner 8: Regarding Itamar, Respicardia, and Bionova, is the situation that all are growing in line with your assumptions at the time of acquisition and no concerns about impairment losses? Or are they lagging behind expectations?

Otsubo: We are not aware of any signs of impairment at this time. Bionova was acquired in FY 2022, but the current situation is slightly behind our initial expectations due to fundraising difficulties for U.S. biotech startups. Itamar and Respicardia were acquired in FY 2021. Although the current situation is slightly behind our initial expectations, they are growing steadily and we expect them to grow in the future.

Questioner 8: With regard to Bionova, some U.S. biotech startups are experiencing serious difficulties in raising capital. Even taking this into account, you still see no need to consider impairment risk?

Otsubo: That's the way we see it. We will continue to monitor the business environment closely. That concludes the financial results briefing. Thank you for your participation.