Summary of Financial Results Briefing for Q3 Fiscal 2023

February 7, 2024

Asahi Kasei Corporation

Participants

Toshiyasu Horie
CFO

Motomichi Kishino
Senior General Manager, Corporate Accounting & Finance

Yozo Sato
Senior Managing Executive, Corporate Accounting & Finance

Katsura Tanaka
Senior General Manager, Planning & Coordination, Environmental Solutions SBU

Takahiro Onodera
General Manager, Separator Planning & Strategy, Environmental Solutions SBU

Tsuguo Moriwaki
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.

Masayuki Takahashi
General Manager, Business Strategy & Planning, Asahi Kasei Pharma Corp.

Tomoo Otsubo
General Manager, Investor Relations

Presentation

P. 2　Focus of Q3 2023 results and FY 2023 forecast

Horie:　Operating income for the cumulative period of Q1–Q3 was lower than in the same period of the previous year. Homes remained firm and Critical Care in Health Care steadily recovered its performance, but Material was affected by slowing demand and declining market prices.

Operating income for FY 2023 is forecasted to increase from the previous year. Homes is expected to remain firm, and Critical Care is expected to drive earnings in Health Care. However, due to the slower-than-expected recovery of the business environment in Material and other factors, the forecast has been revised downward from that announced in November 2023. We continue to recognize the urgent need for structural reform of the petrochemical chain-related business and will accelerate our efforts.

Regarding shareholder returns, we maintain our annual dividend forecast of 36 yen per share.

As for progress of the mid-term management plan, in November 2023 we announced that our company, Gentari Hydrogen Sdn Bhd, and JGC Holdings Corporation had signed a memorandum of understanding for a front-end engineering design study for a 60 MW class alkaline water electrolyzer to produce green hydrogen in Malaysia.

P. 4　Financial results for Q3 2023 (consolidated, year-on-year)

Sales for the cumulative period of Q1–Q3 were 2,064.1 billion yen, largely unchanged from the same period last year. Operating income was 98.5 billion yen, down 15% year-on-year, and net income attributable to owners of the parent was 58.6 billion yen, down 11% year-on-year.

P. 5 Q3 2023 operating performance results by segment (year-on-year)

Now let me explain the factors behind the year-on-year increase or decrease in operating income in each segment.

Health Care reported a decrease of 1.6 billion yen in operating income. In the Health Care business category, operating income decreased by 6.9 billion yen due to an increase in SG&A expenses and nonrecurrence of the previous year's lump sum licensing income in Pharmaceuticals, and negative factors associated with the consolidation of Bionova in Medical. Critical Care reported an increase of 5.3 billion yen due to a steady recovery in earnings, reflecting improved reimbursement conditions for LifeVest wearable defibrillator, increased sales prices of other defibrillators, and increased AED sales volume due to improvement in parts procurement difficulties.

Both categories in Homes performed well. Operating income increased 3.1 billion yen in the Homes business category, and 2.0 billion yen in Construction Materials as a result of progress in price pass-through, resulting in an increase of 5.1 billion yen for the segment.

Material posted a decline of 18.0 billion yen. In Environmental Solutions, operating income declined by 9.8 billion yen, mainly due to the continued severe business environment in Basic Materials. The separator business is in a transitional period when there are changes in some of the vehicle models using our products in automotive applications, and although some new projects are launching, sales volume declined. In Life Innovation, sales volume of general-purpose products declined due to the economic slowdown mainly in China, resulting in a 5.8 billion yen decrease in operating income.

P. 6 Changes in quarterly operating income

The chart shows the consolidated operating income for Basic Materials and the rest of the businesses, both of which bottomed out in Q4 2022 and are on a recovery trend.

P. 7 Statements of income

SG&A expenses increased with an increase in the yen value of overseas expenses due to the weaker yen, as well as new consolidation factors.

P. 8 Extraordinary income and loss

Extraordinary items amounted to a gain of 4.5 billion yen, a 13.4 billion yen improvement year-on-year due to settlement income in addition to a gain from transfer of the pellicles business to Mitsui Chemicals, Inc.

P. 9 Balance sheets

Total assets were 3,650.7 billion yen at the end of December 2023, an increase of approximately 200 billion yen from the end of March 2023. Current assets increased by approximately 130 billion yen, partly due to an increase in cash and deposits as an effect of the last day of the period being a holiday. Noncurrent assets increased by approximately 70 billion yen.

Liabilities increased by approximately 110 billion yen due to an increase in the yen value of overseas liabilities resulting from the weaker yen. Net assets increased by about 90 billion yen. Accumulated other comprehensive income increased by about 80 billion yen, due to an increase in foreign currency translation adjustment also caused by the weaker yen.

The D/E ratio was 0.6, down 0.03 from the end of March.

P. 10 Cash flows

Operating cash flow was a net cash inflow of 170.9 billion yen, an increase of 169.7 billion yen from the same period last year. A decrease in working capital due to a reduction in inventories was a major contributor.

Cash used in investing activities decreased due to the absence of significant investments.

As a result, free cash flow was a net cash inflow of 54.2 billion yen, a 256.4 billion yen improvement year-on-year.

P. 12 FY 2023 operating performance forecast (consolidated, year-on-year)

The full-year operating income forecast is 130.0 billion yen, a downward revision of 10.0 billion yen from the previous forecast of 140.0 billion yen, and an increase of slightly less than 2% from the previous year.

The net income forecast was revised downward slightly to 80.0 billion yen from the previous forecast of 85.0 billion yen.

P. 13 FY 2023 operating performance forecast by segment (year-on-year)

Full-year operating income in Health Care is projected to be 47.0 billion yen, an increase of 5.1 billion yen from the previous year. As was the case through Q3, we expect a decrease in the Health Care business category, but a steady recovery in Critical Care.

In Homes, we forecast 80.0 billion yen, an increase of 4.6 billion yen from the previous year. We expect an increase in both the Homes business category and Construction Materials.

In Material, we forecast 36.5 billion yen, a decrease of 4.5 billion yen from the previous year. The decrease is mainly attributable to Environmental Solutions.

P. 14 FY 2023 operating performance forecast by segment (vs. forecast in Nov.)

Compared to the previous forecast, Health Care and Homes are generally progressing as expected.

The forecast for Material was revised downward by 13.0 billion yen from the previous forecast. The forecast for Environmental Solutions and Life Innovation were revised downward by approximately 10 billion yen and 3 billion yen, respectively.

In Environmental Solutions, Basic Materials continues to face a difficult business environment, and in Q4, we expect a decline in demand and worsening terms of trade, as well as an increase in fixed costs due to a plant malfunction. In separators, sales volume is expected to fall short of expectations due to delays in the launch of vehicle models that use our products in automotive applications.

In Life Innovation, in Digital Solutions, while sales in focused areas such as high-end smartphones and AI servers are generally performing as expected, the recovery of demand in general-purpose applications in Asia is sluggish, leading to the downward revision.

P. 15 Current business environment and outlook for Material segment

This slide describes the status of each business in Material.

In Digital Solutions of Life Innovation, earnings growth is sluggish partly because the market in the general-purpose applications is only partially recovering, although sales for high-end applications have been firm.

For Life Innovation excluding Digital Solutions, we expect to increase operating income by taking advantage of our strengths in niche markets.

In Mobility & Industrial, both car interior material and engineering plastics are steadily recovering earnings.

P. 16 Shareholder returns

The annual dividend forecast for FY 2023 is 36 yen per share, the same as the previous year and unchanged from the previous forecast.

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

Operating income of Material decreased by 18.0 billion yen year-on-year in the cumulative period of Q1–Q3. Terms of trade, which is the combination of sales prices, feedstock costs, and foreign exchange factors, improved, while sales volume factor was a negative 7.3 billion yen due to slowing demand. The others factor was a negative 18.9 billion yen due to inventory valuation loss and lower utilization resulting from lower sales volume.

P. 19 Material: Overview by business

Now I will explain the operating income trends from Q3 to Q4 for each business in Material.

In Environmental Solutions, both separators and Basic Materials expect operating income to decrease. In separators, sales volume will increase due to new adoptions, but product mix difference and higher fixed costs due to seasonality are expected. In Basic Materials, we forecast a severe business environment continuing and an increase in fixed costs due to some technical issues.

In Mobility & Industrial, operating income is forecasted to remain flat in car interior material, and to increase in engineering plastics & others, both of which are expected to remain strong.

Digital Solutions in Life Innovation is expected to see a decrease in operating income with shipments ahead of schedule and a seasonal increase in fixed costs.

P. 21 Homes: Sales and operating income increase/decrease

Operating income in Homes increased by 5.1 billion yen year-on-year in the cumulative period of Q1–Q3. In order-built homes, the negative sales volume factor due to fewer deliveries could not be overcome by higher unit prices and fixed cost reductions, resulting in a decrease in operating income. On the other hand, the others factor increased by 6.6 billion yen due to steady performance of real estate and progress in passing on higher costs in the Australian business and Construction Materials.

P. 22 Homes: Overview by business

Homes is expected to be generally firm from Q3 to Q4. Order-built homes is expected to see a slight decrease in operating income due to lower volume due to seasonal factors related to revenue recognition, but other businesses are expected to perform as expected.

P. 25 Health Care: Sales and operating income increase/decrease

Operating income in Health Care declined by 1.6 billion yen year-on-year in the cumulative period of Q1–Q3.

In Critical Care, operating income increased due to higher volumes and progress in passing on higher procurement costs, as well as the foreign exchange factor.

In the Health Care business category, sales volume grew, but operating income declined due to increased SG&A expenses and a negative others factor with nonrecurrence of the previous year's lump sum licensing income in Pharmaceuticals and impact of new consolidation of Bionova in Medical.

P. 26 Health Care: Overview by business

From Q3 to Q4, the Health Care business category is expected to see a decrease in operating income due to a seasonal increase in SG&A expenses and the others factor, while Critical Care is expected to see an increase in operating income due to steady growth in Q4.

P. 31 Overseas Sales

Overseas sales accounted for 52.9%, more than half of the total sales in the cumulative period of Q1–Q3. By region, sales to North America grew, while those to China and nearby countries affected by the Chinese economy were somewhat sluggish, and the percentage of sales to Asia declined to 18.9% from 20.4% in the same period of the previous year. There is no change in our policy of increasing overseas sales, mainly in the U.S.

Questions and Answers

Questioner 1: I would like to ask about Environmental Solutions. The operating loss in Basic Materials is expected to increase in Q4. What is the plant issue you mentioned earlier? Also, could you provide the capacity utilization rate and market price assumptions for this business? You also expect losses in other areas besides Basic Materials in Q4. I think this is mainly the separator business, but why don't we see the effect of reduced amortization of goodwill and other intangible assets due to the impairment on Polypore in FY 2022? Will you still make investments in North America under these circumstances? Could you outline the short-term and mid- to long-term prospects for the separator business?

Tanaka: In Basic Materials, demand has been sluggish since the beginning of FY 2023. With regard to acrylonitrile (AN), which is one of the businesses where we have strengths, the supply capacity of Chinese manufacturers has increased significantly, and although capacity was increased for ABS resins, the main derivative of AN, our sales volume has not grown, and the current utilization rate continues to be around 70%.

For Q4, we expect a decrease in profit due to the volume factor as well as the plant issue, including associated one-time fixed costs such as cleaning.

For FY 2024, we expect severe AN market prices in Asia to continue as the supply-demand balance remains loose due to China's continued economic slowdown and capacity expansion.

Onodera: The separator business was expected to see an increase in sales volume, especially from Q4 onward, due to launches of several new projects, but growth has been sluggish due to customers' circumstances and some changes in market trends. In addition, fixed costs specific to the end of the fiscal year are expected to negatively impact operating income.

In terms of market trends, growth in Europe has slowed down due to factors including Germany's discontinuation of subsidies for electric vehicles at the end of 2023 and the fact that demand for electric vehicles in the region has reached a plateau. In the U.S., on the other hand, from early spring to summer in 2023, battery manufacturers and automakers announced plans to build plants. While sales of electric vehicles in the U.S. had been growing by about 50% year-on-year in the summer, they have recently slowed down slightly due to higher interest rates on auto loans and stricter eligibility criteria for tax incentives under the Inflation Reduction Act (IRA). However, considering environmental regulations and other factors, the prospects for growth of the electric vehicle market are not expected to change significantly, although the time frame may vary.

Horie: We are carefully considering our plans for investment in North America, taking into account changes in the environment, but we are not expanding all at once, nor are we going it alone. We are evaluating comprehensively, including partners, capacity, subsidies, etc., and plan to enter the market in a cost-competitive way, taking advantage of our base film and coating technologies.

Questioner 1: What is your view of impairment risk in petrochemical-related businesses?

Horie: We do not have anything specific to say at this point, but since the environment is so severe, we will review and carefully evaluate the situation across the board.

Today, we made an announcement regarding the transfer of shares between two consolidated subsidiaries in the U.S. Currently, Polypore and other companies are under Asahi Kasei Energy Storage Materials, Inc. and ZOLL and other companies are under Asahi Kasei Holdings US, Inc. The share transfer will result in a capital restructuring to bring these together, and we expect a gain under total income taxes for FY 2023. Details will be disclosed when the figures are available.

Questioner 2: What is the background behind the downward revision of H2 operating income forecast for the Health Care business category? I understand that there is a seasonal increase in SG&A such as R&D expenses in Q4, but have expenses increased from the previous forecast? Also, is Planova virus removal filters recovering as expected?

Takahashi: SG&A expenses in the Health Care business category have not increased from the previous forecast. However, license income is expected to be lower than previously anticipated.

Otsubo: For Medical, sales were revised downward because the recovery in sales volume of

Planova was slower than expected due to ongoing inventory adjustments by customers. However, sales volume increased from Q2 to Q3 and is gradually recovering. Operating income, on the other hand, is expected to remain almost in line with the previous forecast due to reductions in SG&A expenses.

Questioner 2: In Pharmaceuticals, growth of Envarsus XR immunosuppressant appears to have slowed down slightly. At the Q2 results briefing, you mentioned that sales volume growth is expected to recover in H2, but has that been delayed? Also, were Q3 sales in line with your forecast?

Otsubo: Year-on-year growth in U.S. sales was +20% for the cumulative period of Q1–Q3 and +18% for Q3 alone. As noted, growth was slightly weaker, but within the expected range. The impact of inventory adjustments by wholesalers is improving, and we expect sales to grow by more than 20% year-on-year in Q4.

Questioner 2: Regarding Critical Care, when do you expect Respicardia and Itamar, acquired in FY 2021, to contribute to earnings?

Otsubo: Both Respicardia and Itamar posted double-digit percent sales growth in the cumulative period of Q1–Q3 year-on-year. Respicardia is still small in scale, but for Itamar, the decrease in operating loss made a factor in profit growth. Itamar is growing steadily, although it has yet to contribute to profits due to amortization of goodwill and other factors.

Questioner 2: Although Respicardia and Itamar have not turned to profitability, are they still within the range that you planned at the time of their acquisition? And does their situation cause no concern of impairment?

Otsubo: We are about one to two years behind our original plan, but we are not in a situation where we need to worry about impairment at this point.

Questioner 3: I would like to ask about Health Care. Regarding Critical Care, sales on a dollar basis appear to have leveled off from Q3 to Q4. What is the status of defibrillators for professional use, AEDs, and LifeVest? In addition, please tell us about the progress of replenishing the sales force for LifeVest, including current expenses incurred and anticipation for future sales expansion.

Regarding Pharmaceuticals, sales of Teribone osteoporosis drug were 10.6 billion yen in Q3, compared to 9.8 billion yen in Q2. Was this due to the impact of the injunction against the manufacture and sale of a generic of the lyophilized formulation, or was it due to growth in sales of the autoinjector formulation?

Regarding Bionova in Medical, it seems the demand environment is difficult. Please tell us about the current situation.

Otsubo: Regarding Critical Care, on a dollar basis, both sales and operating income were about flat from Q2 to Q3. Sales volume of AEDs had been increasing due to improvement from difficulty in parts procurement, but declined slightly from Q2 to Q3 as shipments of the accumulated order backlog wound down. On the other hand, the volume of defibrillators for professional use is gradually recovering. Sales of LifeVest remained basically flat from Q2 to Q3. Although we have made progress in replenishing sales personnel and there is sufficient headcount, it takes time before making a contribution to earnings, which is expected to be in Q4 or later.

Takahashi: With regard to the situation of Teribone in Q3, the decline in sales of the lyophilized formulation has been leveling off due to the injunction against the manufacture and sale of the generic, while growth of the autoinjector formulation is recovering as an effect of enhanced promotional activities.

Otsubo: Regarding Bionova, a biologics CDMO in Medical, the situation has not changed much since Q2, and we see that our client biotech startups continue to face difficulties in raising funds. New orders continue to come in, but we have yet to see a major improvement in sales.

Questioner 3: Is the slight decline in the operating margin of Critical Care from Q2 to Q3 due to the impact of upfront costs related to replenishing the sales force for LifeVest?

Otsubo: That’s right.

Questioner 4: Regarding Environmental Solutions, please tell us about Q3 results and Q4 assumption for the price spread of AN. Also, you mentioned earlier about a plant malfunction. Of the approximately 8 billion yen downward revision to H2 operating income forecast in Basic Materials, how much is due to the malfunction?

Tanaka: The AN market prices were considerably low in early Q3, averaging at about $1,170/ton for the quarter. The assumption for Q4 is $1,200/ton, slightly lower than the current level. The propylene market prices are $850/ton for both Q3 results and Q4 assumption.

The downward revision to H2 operating income forecast for Basic Materials is mainly due to worsening terms of trade, lower volumes, and the maintenance turnaround ahead of schedule due to the malfunction. The direct impact of the malfunction is limited.

Questioner 4: With regard to the sales volume of LIB separators, you had previously forecasted a 7% increase year-on-year for FY 2023. How is it reviewed this time? Also, what is the situation for automotive and consumer electronics applications respectively, and when do you expect sales volume to recover?

Onodera: We expect full-year sales volume of LIB separators to decline by a single-digit percentage year-on-year. Sales volumes for automotive and consumer electronics applications are expected to decline by the same rate. Sales for consumer electronics applications have been sluggish since FY 2022 due to the economic slowdown in China. We expect sales to grow from FY 2024, but we will closely monitor demand trends. As for automotive applications, an important factor will be whether or not vehicle models that use our separators are eligible for tax incentives set forth by the Inflation Reduction Act (IRA) in the U.S. We anticipate sales volume recovery from FY 2024 onward, but will continue to closely monitor the situation.

Questioner 5: Regarding Life Innovation, was it electronic materials that drove the increase in operating income from Q2 to Q3? Which products grew specifically? With regard to electronic components, is demand for high-end smartphones returning? Also, please tell us about the view for sustained growth in high-end smartphone-related products, and the demand outlook and growth rate for AI server applications.

Igarashi: Market conditions related to Digital Solutions have largely bottomed out, and we feel that the worst is over. High-end smartphones and AI servers were the first applications to see improving demand. For high-end smartphones, our camera module control ICs and Pimel photosensitive insulator for redistribution layers are growing in line with the robust market. For AI servers, our glass fabric insulator for printed circuit boards is benefiting.

On the other hand, other businesses have been significantly affected by the Chinese economy, and they have not recovered as expected despite having bottomed out. For example, the recovery of photosensitive dry film, which has a wide range of applications, has been slower than other products.

Questioner 5: I hear that there is a shortage of glass fabric and raw yarn for AI servers. What is the current situation?

Igarashi: Demand related to AI servers has continued to grow since H1 2023, albeit gradually and gently. Demand for low-dielectric glass fabric for applications other than AI, including servers, routers, and switches associated with high-speed communications, has been strong, so we intend to respond to this demand.

Questioner 5: Is the situation for smartphones such that you expect stable mid-single digit percentage growth in 2024 rather than rapid growth?

Igarashi: That's how we see it.

Questioner 6: With regard to Basic Materials, you mentioned that you will review the impairment risk of petrochemical-related businesses. Does this cover AN and its peripheral businesses alone, or does it include other businesses as well?

We are also aware that there will be no major global capacity expansion for AN in 2024, but since Chinese manufacturers have considerably increased their capacity to date, is the supply-demand environment expected to be severe in 2024 even without new capacity additions? I believe that you had planned to implement structural reform of your petrochemical-related businesses after FY 2025, when your next medium-term management plan starts, but is it possible to move this up to FY 2024 in light of the business environment?

Horie: With regard to impairment risk, we are taking a cautious view based on the assumption that the environment will not easily improve, and we will look not only at AN but also at petrochemical-related businesses in general.

Some structural improvements will take time, while others can be tackled relatively quickly. Not all of them will be undertaken in FY 2025, but some of them could be implemented during FY 2024, and we are currently studying the possibility. We are considering various methods for structural improvement and would like to move forward as quickly as possible.

Tanaka: To answer your question regarding AN supply and demand, a large plant started up in China at the end of 2023, and there is currently an oversupply of AN. We expect global demand for AN to remain flat or increase only slightly. Although there has been a significant increase in capacity for ABS resin, the main application for AN, we do not expect much increase in our sales volume as the domestic procurement rate of AN in China has increased. However, demand for acrylamide and other applications is growing steadily, and we plan to strengthen our sales efforts. Overall AN demand depends to a large extent on the Chinese economy, and our current view is that the situation remains challenging for us as an exporter of AN.

Questioner 6: Please let us know the situation by manufacturing site in Japan, South Korea, and Thailand.

Tanaka: In terms of dependence on China, our sites in South Korea and Thailand have been highly dependent, and most greatly impacted. The impact in Japan is limited.

Questioner 7: Regarding Homes, what is the background to your strong orders in order-built homes in the September–December period, while other companies struggled? On the other hand, orders received in January were negative 7% year-on-year. How do you see the order trend going forward, including for FY 2024?

Kume: Orders in January were down year-on-year, but the cumulative total for April–January is up 5%. The reason for the recovery is the penetration of marketing strategy in the middle- to high-end segment. In particular, corporate referrals now account for more than 30% of customers contacted for multi-dwelling homes, and the strong orders for larger homes have been a driving force behind the recovery. In addition, for multi-dwelling homes, collaboration with the rental management business at an early stage of order-taking activities has improved our proposal capabilities, and the ratio of value-added homes such as pet-friendly apartment buildings has increased from about 60%

to about 70–80% over the past year. For FY 2024, we aim to increase orders year-on-year.

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

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.