Summary of briefing on Medium-term Management Plan 2024

April 11, 2022

Asahi Kasei Corporation

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Presentation

Kudo: I would like to explain our new medium-term management plan (MTP) starting from FY 2022. The new MTP has a theme "Be a Trailblazer." The word "Trailblazer" means a pioneer who makes a mark on trees while moving through an uncharted forest in order to guide the way for those who come after. The word came up in discussions among younger personnel from around the world when we were formulating the new MTP, and I chose it as the theme of the MTP because I felt it was perfectly suited to what I had been thinking of as Asahi Kasei's recent challenges.

The future is uncertain with concerns about the continuing impact of COVID-19 and the impact of Russia's invasion of Ukraine and other factors on the global economy, but I will explain the direction Asahi Kasei aims to take when looking at society from a medium- to long-term perspective and our three-year management plan to achieve this goal.

P. 2 Preface

The year 2022 marks the 100th anniversary of our company's founding. The photo shows the engineers who realized ammonia synthesis in Nobeoka soon after the founding of the company. As set forth in the theme of the MTP "Be a Trailblazer," we will continue to take on new challenges for the next 100 years.

P. 3 Key takeaways

Here are five essences I would like to share with you today.

The first is to create new traditions by blazing a trail that is not on the map. Asahi Kasei has historically been said to have an unbridled spirit, in part because it does not belong to a major *keiretsu*. While I recognize that Asahi Kasei is a company with a heritage of pioneering new businesses ambitiously, I am concerned that this "Asahi Kasei spirit" has grown quieter in recent years. My motto is "Tradition is what we create, not what we preserve." I would like to make Asahi Kasei a group where employees, organizations, and the company can evoke the "Asahi Kasei spirit" and push forward to create new traditions.

The second is to aim for continuous corporate value growth with profit increase, ROE, and ROIC as key indicators, and to shift to management with a strong awareness of investment efficiency by setting ROE and ROIC as key indicators.

The third is to strike a balance between "challenging investment for growth" and "cash generation from structural transformation and strengthening existing businesses." We believe it is necessary to increase the speed of both of these more than ever.

The fourth is to pursue speed, asset light, and high value-added tactics in implementing our strategy. Asset light is an important concept in both transformation of existing businesses and creation of new businesses. Breaking free from the preconception of developing businesses with our own facilities and assets, the pursuit of asset light will directly lead to speed and high value-added.

The fifth is to continue to strengthen sustainable management foundations to continue providing value over the next 100 years. We will focus particularly on the three perspectives of "GDP" (Green/Digital/People).

1. Review of Cs+ for Tomorrow 2021

P. 5 Net sales/Operating income

During the previous MTP, in addition to major changes in social and industrial structures due to COVID-19, a number of factors had major impacts on our businesses, including the semiconductor shortage, trade friction between the U.S. and China, and Russia's invasion of Ukraine. In this unstable business environment, growth temporarily stagnated, but the company's performance has been recovering in FY 2021 due to earnings improvement measures, etc. Although uncertainties continue, we will respond flexibly and aim to return to a growth trajectory and achieve sustainable profit growth.

P. 6 Management KPI

The main profitability indicators are expected to be lower than the initial plan for FY 2021 of the previous MTP announced in May 2019. However, net income attributable to owners of the parent is expected to be around the initial plan of 180 billion yen in FY 2021, due to the tax reduction effect of approx. 24 billion yen related to the reconfiguration of Veloxis Pharmaceuticals, Inc.

In terms of capital efficiency indicators, ROIC is expected to improve compared to FY 2020 due to a recovery in operating income and the effect of lower tax related to the Veloxis reconfiguration, but will not reach the initial plan. ROE is expected to exceed the initial plan of 11.1%, but we believe that it will be around 10% in terms of actual performance, excluding the increase in net income due to lower tax mentioned earlier.

As for financial health indicators, D/E ratio is within our target range of around 0.5, and the company maintains a strong financial base.

P. 7 Financial performance by sector

Material suffered a significant drop in FY 2020 results due to COVID-19, but recovered in FY 2021 thanks to measures taken to improve profitability and a recovery in demand. However, it is expected to fall far short of the initial plan.

Homes was also affected by COVID-19, with the restriction of admission to model homes and a decline in the number of visitors, but its performance in FY 2021 recovered to a level higher than in FY 2018, and we aim to achieve the initial plan approximately one year later than originally planned.

Health Care is expected to achieve its initial plan with significant growth.

P. 8 Investment

In the previous MTP, the company decided to invest in growth businesses such as Health Care and LIB separators, and infrastructure reinforcement including digital transformation (DX) and sustainability-related, with medium-term growth prospects. The decision-based investment amount in FY 2019–2021 is about 850 billion yen, which is much higher than the 670 billion yen in FY 2016–2018, and a little more than half is expansion investment. In FY 2016–2018, more than three-quarters of the expansion investment was in Material, but in FY 2019–2021, more than half was in Health Care, more than 90% of which was for M&A. The acquisition of Veloxis was made for transformation into global specialty pharma and the acquisition of companies related to the treatment of sleep apnea and acute myocardial infarction were made as new developments in the critical care area.

P. 9 Summary of Cs+ for Tomorrow 2021 actions

In the previous MTP, in addition to promoting growth strategies through aggressive M&A in Health Care and Homes, we focused on the technological development and commercialization of hydrogen, CO_2 chemistry and others, which could become the next pillars of Asahi Kasei. In addition, the company conducted a business portfolio evaluation and promoted reform of the strategic restructuring businesses, whose performance has been sluggish due to the impact of COVID-19 and other factors. Regarding the strengthening of the foundation, the company reinforced efforts from the perspective of "GDP" (Green/Digital/People). In the new MTP, the approach to value provision remains unchanged, and we will accelerate the deepening of initiatives and the creation of results.

2. What we want to be

P. 11 Look back on the path we have travelled

Founded in 1922, we are celebrating our 100th anniversary this year, and over the past 100 years, we have created diverse businesses and transformed our business portfolio by continuing to take on the challenges of changing social issues over time. In FY 2021, the company has grown into a group with sales of over 2.4 trillion yen and operating income of over 200 billion yen in the three sectors of Material, Homes, and Health Care.

P. 12 Asahi Kasei Group philosophy and sustainability for Asahi Kasei

Our group philosophy system was set forth in 2009–2010, and we are proud to say that it was ahead of recent “purpose management.” We will continue to pursue our group mission of “contribute to the life and living for people around the world” as our ultimate purpose.

In addition, as in the previous MTP, we aim to contribute to all stakeholders through a virtuous cycle of two aspects of sustainability: contributing to sustainable society and sustainable growth of corporate value.

P. 13 Towards the realization of sustainable society

COVID-19 is bringing about changes in the world that are greater than anything we have ever experienced. People’s values have changed dramatically, and the social issues that humanity must address, such as life, health, and climate change, have become even clearer. In response to such social issues, we aim to contribute to society from two perspectives, “Care for People: active life in the new normal” and “Care for Earth: carbon neutral sustainable world.”

P. 14 Vision for 2030

Toward 2030, we will develop our businesses by focusing on five fields for provision of value toward the challenges facing society. The important point about these social issues is that the boundaries between industries are becoming lower and they are more interrelated across various industries.

With our diverse business operations, we are able to provide value in a variety of fields, and we recognize that we have significant business opportunities. We would like to take on challenges of these business opportunities with our core technologies, culture to seek transformation, and diverse human resources. As a result, around FY 2030, we aim to achieve operating income of 400 billion yen, ROE of 15% or more, ROIC of 10% or more, and GHG emissions reduction of 30% compared to the FY 2013 level.

3. New Medium-Term Management Plan 2024 — Be a Trailblazer

P. 16 Vision for 2030 and Positioning of the New Medium-Term Management Plan

The three-year period of the new MTP is positioned as the first step toward achieving the company’s vision for 2030. From the viewpoint of business portfolio evolution, we will allocate resources to the next growth businesses, reap the results of growth investments, and reform the strategic restructuring businesses in parallel. In addition, the company will embark on the fundamental business structure transformation for 2030 and beyond, targeting operating income of 270 billion yen, ROE of 11% or more, and ROIC of 8% or more for FY 2024.

P. 17 Basic Guidelines for Business Portfolio Evolution

In the evolution of the business portfolio, it is essential to achieve both “challenging investment for growth” and “cash generation from structural transformation and strengthening existing businesses.” In doing so, we will be strongly conscious of the three elements of speed, asset light, and high value-added.

Regarding asset light, it is important to think through the best business model and scenario for each business, without being constrained by conventional ideas of the process industries. There are two perspectives to this.

The first is a historical perspective. We will pursue how to generate profits by maximizing the use of existing business assets. In particular, we will consider “exit” of some businesses in Material from the perspective of GHG reduction toward carbon neutrality.

The second is a future perspective. When launching a new business, the company will thoroughly pursue the best use of capital, including the use of capital from other companies, rather than investing in R&D from scratch or owning its own commercialization facilities.

It has been said that Asahi Kasei had not been able to produce new or innovative things in recent years. I believe that this is true, but we are confident about the materials we are developing. The challenge lies in the tactic of how quickly we can bring them to the market, which is why I have set out speed, asset light, and high value-added in the new MTP.

P. 18 Next growth businesses

For challenging investment for growth, we will focus on “10 Growth Gears” (GG10). The term combines two meanings: “Gear” for driving Asahi Kasei’s growth, and “Gear” for driving changes in society.

In Material, there are five specific businesses of GG10: hydrogen-related, CO_2 chemistry, energy storage including separators, automotive interior material, and digital solutions. There are two in Homes: one is North America and Australia homes, and another is the environmental homes and construction materials. And in Health Care, there are three businesses: critical care, global specialty pharma, and bioprocess.

We intend to aggressively search for M&A opportunities and make bold investments in GG10. The total operating income of GG10 is currently about 35% of the group profit before corporate expenses and eliminations, but we aim to increase this to more than 70% around 2030.

P. 19 Active investment for growth

Over the three years of the new MTP, we plan to invest a total of over 1 trillion yen. Over half of this amount, or about 600 billion yen, is planned to be invested in GG10, which will drive the next growth. In selecting investment projects, the company will place emphasis on financial discipline, and in addition to careful examination from the perspectives of environmental value, investment efficiency, and investment scenario, it will also be conscious of speed and asset light.

P. 20 Cash generation from structural transformation and strengthening existing businesses

Cash generation from structural transformation and strengthening of existing businesses is also a major challenge. The progress of reforms of the strategic restructuring businesses is divided into three categories: “Recovery” businesses, which are recovering profits; “Follow” businesses, for which turnaround strategies are being formulated and implemented; and “Exit” businesses, which are being considered for downsizing or sale. Each has about one-third of the number of businesses. Going forward, while determining “Follow” businesses and completing the execution of “Exit” businesses as quickly as possible, the company will periodically evaluate its business portfolio and promptly begin restructuring strategies for underperforming businesses.

Furthermore, as the fundamental business structure transformation, we will promote structural transformation based on compatibility with Asahi Kasei’s vision, even if performance is not poor. We will assess our businesses from the five perspectives listed here, including the perspective of the best owner. During the new MTP period, we will formulate a roadmap for its implementation, take concrete actions, and allocate the resources obtained to GG10 to accelerate portfolio evolution.

P. 21 Financial targets

By steadily implementing these action plans, we will pursue capital efficiency improvement in addition to sustained growth in operating income, aiming for ROIC of 10% or more and ROE of 15% or more in the medium term.

P. 22 Capital allocation

The company plans three-year cumulative operating cash inflow of 750–900 billion yen, and investment cash outflow of 800–900 billion yen due to capital expenditure including M&A.

Shareholder returns are planned to total 150–180 billion yen over the three-year period in line with profit growth. Cash shortfalls will be covered by interest-bearing debt, and the company plans to raise 50–300 billion yen, depending on the situation. As a result, the D/E ratio is expected to be 0.4 to 0.7. The company will look to both aggressive growth investments and shareholder returns.

In terms of shareholder returns, the annual dividend per share has been 34 yen for the past several years, for a total dividend of 47–48 billion yen, which, when added up for three years, would be less than 150 billion yen. The shareholder return plan in the new MTP is expected to exceed this level.

P. 23 Shareholder returns

The basic concept of the shareholder return policy has not changed. The dividend payout ratio for the three years of the previous MTP was 38%, which is within the 30–40% range that we have set as a guideline. The company's basic policy is to return profits to shareholders through dividends, and it will continue to aim to increase dividends in line with profit growth, while considering share buybacks when the time is right.

P. 25 Direction of sector business portfolio

The direction of Asahi Kasei's portfolio is explained by the operating income composition of the three sectors. For FY 2024, the final year of the new MTP, we target operating income of 130 billion yen in Material, 95 billion yen in Homes, and 80 billion yen in Health Care.

In Material, we will stabilize earnings from petrochemical-related businesses and increase profits from high value-added businesses to create a more profitable structure that is less susceptible to market conditions. In Homes, we will realize profit growth by realizing the fruits of our growth investments in North America and Australia, and further enhance our ability to generate stable cash. In Health Care, we will generate profits from our investments in critical care, global specialty pharma, and bioprocess to generate more than a quarter of the Group's operating income in FY 2024 and drive profit growth.

By aiming for a well-balanced profit structure in the three sectors of Material, Homes, and Health Care, we believe we can aim for sustainable profit growth even in an unstable business environment. This will allow us to aggressively make forward-looking investments from a medium-term perspective, leading to growth over a long span of 10 to 20 years. This is one of Asahi Kasei's strengths and one of the reasons why we are pursuing management in three sectors.

P. 26 Material (basic direction)

Now I will describe the strategies for each sector.

The basic strategy of Material is to implement optimal strategies and tactics, not an extension of existing ones, to transform the portfolio and improve profitability and investment efficiency in order to achieve carbon neutrality. We will manage our business with speed and asset-light in mind.

In Material, while aggressively investing in GG10, it will be important to generate cash by maximizing the use of existing assets. We will strive to earn as much return as possible from our investments to date, and we will also actively pursue new ideas for business development utilizing intangible assets. As management indicators to follow such a direction, we have set operating income growth, operating margin, and ROIC as KPIs.

P. 27 Material (mission and targets with new organization)

In April 2022, we carried out reorganization in Material to shift from a product-oriented organization to a business operation with a strong awareness of the market. Each organization corresponds to the fields for provision of value, that is, Environment & Energy, Mobility, and Life Material, which were set forth in the previous MTP. Under the new organization, instead of siloed business operations that focus only on individual products and businesses, the members involved will promote the business from the perspective of the fields for provision of value toward the same vector.

We also believe that the new organization will clarify the axis of decision making for the business portfolio transformation. We will speed up the change and shift to operations with a greater focus on growth areas.

P. 28 Material (Environment & Energy)

Here I explain strategies for the three fields for provision of value in Material.

Environment & Energy will promote three major actions to realize GX (Green Transformation). The first is expediting green solutions. We will promote launch of hydrogen-related businesses and multifaceted development of CO_2 chemistry. The second is cultivating energy storage businesses. We will continue to pursue growth in the separator business and search for new business development opportunities by leveraging the knowledge we have cultivated in the separator business. And the third is promoting actions to achieve carbon neutrality. We will accelerate transformation of petrochemical-related business from medium-term view and GHG reduction initiatives across the Group.

P. 29 Material (Environment & Energy: H_2-related business)

For commercialization of hydrogen-related business, we will accelerate the establishment of a business foundation by utilizing demonstrations conducted under the NEDO Green Innovation Fund project. We aim for early commercialization through participation in projects around the world, specifically commercialization in FY 2025.

We believe that Asahi Kasei can be a key player in the hydrogen business. It is important for us to take the lead in building a supply chain structure. We have already received many offers for collaboration from around the world, and we are currently considering which companies to work with and in what form. In doing so, as I mentioned earlier, we will be strongly aware of the concept of asset light. Until now, we have tended to fall back on an in-house approach, but we would like to increase the speed of commercialization through aggressive partnering and take the lead in the growth of the market itself.

P. 30 Material (Mobility)

In Mobility, the company is developing its business with the aim of providing value in five major areas. In particular, the company aims to achieve growth through the development of automotive interior materials and products for EVs. In the automotive interior materials business, the company has advanced technology in Dinamica artificial suede and aims to become the No. 1 brand by further promoting environmental performance. Sage Automotive Interiors, Inc., a growth driver of automotive interior materials in the Group, aims to further strengthen its position as a top Tier-2 supplier of automotive interior materials by leveraging the business they acquired recently.

In EV-related areas, the company will promote concept proposals by multiplying diverse technologies and expertise to provide value as a development partner to automakers. Here, we would like to actively utilize our intangible assets, DX, IP landscaping, etc. For example, many of our products are used in automotive LIBs, and we will continue to expand our product offerings.

P. 31 Material (Life Material: Digital Solutions domain)

Lastly, we will introduce our efforts in the digital solutions domain in Life Material., which includes electronic components and electronic materials. By taking advantage of the uniqueness of having both of these businesses and deepening their integration, we aim to meet the needs of the digital society with distinctive components, materials, and solutions. In addition to enhancing the value of existing product lines, the company will actively seek new developments for the next growth. New projects were established toward this, and M&A will also be considered. We will aggressively seek out good business opportunities in automotive and digital devices as target applications.

P. 32 Homes (basic direction)

The basic strategy of Homes is to maximize lifetime customer value in the domestic business, and in the overseas business, to focus more on generating returns from past investments while continuing to invest in growth, and to increase cash generation capability while striving to maintain operating margin of 10% and ROIC of over 30%. As management KPIs to follow this direction, we will focus on operating income growth, operating margin, and free cash flow to sales ratio. The free cash flow to sales ratio is expected to be 3% in FY 2021, which we assess to be relatively high compared to our competitors in Japan, but we will focus on earning free cash flow with the goal of bringing it closer to 6%.

P. 33 Homes (overall strategy)

The foundation of the Homes business is customer satisfaction. Asahi Kasei Homes has been ranked No. 1 in the steel-frame homes segment in the ORICON Customer Satisfaction Survey for seven consecutive years. We will continue to pursue further customer satisfaction and business growth by creating a platform that protects the lives of our customers, enriches their lives, and supports their life.

To this end, making a good start, we provide our customers with the optimal housing, Hebel Haus unit homes and Hebel Maison apartment buildings, which are the first point of contact and the foundation of our business. After delivery, Asahi Kasei's unique technologies, proposals, and services are used to protect the customer's home and lives, and to help the customer utilize the house as an asset to lead a more fulfilling life. Hebel Haus can also be social assets which contribute to the environment. We believe that this strategy can only be realized if our customers are satisfied with our services, and we believe that it can be a platform for generating stable profitability over the long term. Leveraging the strengths developed here, we will aggressively expand into new businesses and markets, aiming for further growth.

P. 34 Homes (overseas business)

We have been expanding overseas in Australia since 2017 and North America since 2018. The goal is to innovate the construction industry and construction sites to provide high quality homes suited to the local market. We believe that we can leverage the strengths we have developed in our domestic business to address issues that have long prevented change, such as labor shortages, longer construction periods, and delays in the use of IT. Rather than bringing in our Hebel House itself, we will develop systems and know-how that can produce quality housing efficiently and grow it into a high value-added and profitable business. By providing customers with a new construction model with high added value, the company aims to achieve a high operating margin of 10%.

P. 35 Health Care (basic direction)

Under the mission of "Improve and save patients' lives," Health Care will seize a wide range of business opportunities in the global markets in both pharmaceuticals and medical devices to drive the Group's profit growth. In terms of challenging investment for growth, the company will pursue organic growth of the business base acquired in the previous MTP and continuous business development. Based on such strategy, we will emphasize EBITDA growth, EBITDA margin, and ROIC as management KPIs to follow.

P. 36 Health Care (critical care)

As for the growth business of Health Care, I would like to start with the critical care business. We consider the acquisition of ZOLL in 2012 to be an epoch-making M&A in our company's 100-year history. The critical care business has been driving growth in Health Care, and we will continue to pursue further growth in the area of serious cardiopulmonary conditions in the new MTP. In the cardiopulmonary resuscitation area, the company aims to achieve further growth by expanding the market position of its mainstay defibrillators and AEDs, and by expanding its product portfolio that supports the chain of survival, a series of life-saving emergency processes. In the area of cardiovascular diseases, we will provide multifaceted solutions for diagnosis, treatment, and management of such diseases by further penetrating the market for its unique LifeVest wearable defibrillator and expanding the scope of its business to the diagnosis and patient monitoring areas.

During the previous MTP period, the company made several M&As as milestones for future growth: Respicardia, Inc. and Itamar Medical Ltd. to enter the diagnosis and treatment of sleep apnea, a condition closely related to heart disease, and TherOx, Inc. to offer new treatment for acute myocardial infarction. We intend to bring to market innovative medical devices that address unmet needs in these disease areas and provide new value to healthcare professionals and patients.

P. 37 Health Care (pharmaceuticals)

In the pharmaceuticals business, the collaboration between Asahi Kasei Pharma and Veloxis will accelerate the evolution into a global specialty pharma business focused on immunology and transplantation and the adjacent areas. The knowledge and business bases of both companies will be linked to promote business development with the aim of acquiring new drugs, clinical development, and future sales.

In the Japanese and U.S. markets, we will continue to launch new drugs and expand sales by leveraging each company's domain knowledge and sales channels: orthopedics, critical care, and immunology for Asahi Kasei Pharma, and transplantation for Veloxis. As a global specialty pharma business, we will also aim to capture further growth opportunities by establishing a business base in Europe.

P. 38　Health Care (bioprocess)

In the bioprocessing business, demand for virus removal filters is surging, driven by continued market growth for biotherapeutics such as plasma derivatives and biopharmaceuticals, as well as the recent development of therapeutic drugs and vaccines for COVID-19. We expect this trend to continue. As a leading supplier, we will further expand our market position, and by expanding production capacity ahead of schedule in response to strong demand, we will achieve both continued business growth and a stable supply of products.

In addition to the existing virus removal filter and equipment business, the company is also working to establish new growth drivers and acquired Virusure Forschung und Entwicklung GmbH in 2019 and Bionique Testing Laboratories LLC in 2021, to enter into biosafety testing services for pharmaceutical companies, so-called CRO business. In the new MTP, the company will strengthen and expand the CRO business and pursue further business scope expansion to capture growth in the pharmaceutical market, including next-generation drugs. Through these measures, we aim to evolve into a premium partner for pharmaceutical companies, contributing to improved drug safety and productivity.

P. 39　Financial targets by sector

By implementing these strategies, we aim to achieve the FY 2024 targets in each of the three sectors. In accordance with each sector's own characteristics, we follow different KPIs.

P. 41　4 key areas for transformation

From the perspective of strengthening the management foundation, we will explain the four key themes to be addressed for the transformation. In the midst of continuing tectonic shifts, it is important to further strengthen the foundation. We will address transformation of "GDP," which consists of Green, Digital, and People (human resources), and utilization of intangible assets that will become increasingly important in the future, as key areas.

P. 42　Maximum use of intangible assets

The Group's strength lies in a diverse range of intangible assets, including human resources, core technologies, and marketing channels across its three sectors. By leveraging digital technology to connect these intangible assets, we will promote strategy building and creation of new businesses.

As one example, in marketing activities in the mobility field, we possess many diverse technologies and products that can add value to automobiles. By offering these technologies and products together as a Group through the utilization of the networks with automakers and the marketing data that each of our businesses has cultivated and accumulated, we can build strategic partnerships with automakers and greatly expand our business opportunities. We have introduced a key account manager system and are in the process of forming partnerships with automakers in Europe and the U.S. to promote the group-wide approach.

Another example is the use of IP landscaping to develop markets that leverage the strengths of our electrical current sensor products.

P. 43　Green Transformation

The Green Transformation aims to achieve carbon neutrality by 2050 with respect to our own GHG emissions. The timeline is divided into two parts: the first step is to reduce GHG emissions by 30% or more from the FY 2013 level by 2030, focusing on existing technologies; after 2030, the second step is to reduce emissions by new technologies toward 2050.

To reduce world's GHG emissions, we will focus on reducing the environmental impact of our products throughout their lifecycles, and will develop and expand products that contribute to the environment. The goal for 2030 is to more than double the current GHG reduction contribution and to increase sales ratio of environmental contribution products to approximately 50% of the Group's total sales excluding Health Care.

In order to achieve the target, the company is also advancing initiatives to accelerate GHG reductions. These include promoting and accelerating the Group-wide GHG reduction projects, use of carbon footprints, participation in rule formulation, internal carbon pricing, as well as incorporating the GHG reduction achievements into internal awards system.

The company plans to invest approximately 60 billion yen by 2024 in decarbonization-related investments. We are also accelerating efforts to reduce GHG emissions from an LCA perspective. In the technological area related to carbon neutrality, we believe that our accumulated knowledge of chemistry will be the key. We would like to link this to growth while keeping a close eye on the opportunities and risks associated with carbon neutrality.

P. 44 Digital Transformation

FY 2021 was the year of significant acceleration in the use of digital technology throughout the Group, including establishment of the Digital Value Co-Creation division and being selected as the only chemical company to be in "DX Stock 2021." We believe that the use of digital technology is the key to making the most of the Group's diverse businesses, human resources, and technologies, and that it will be a major source of strength.

Since 2018, we have been laying the foundation for DX under the timeline of Digital Introduction period and Digital Deployment period. From 2022, we will go one step further to Digital Creation period to work on three initiatives to reform business models, enhance management, and strengthen the digital platform that supports these efforts, based on the data management infrastructure with diverse data throughout the Group.

"DX-Challenge 10-10-10" was set as a KPI for the Group during the new MTP period. The first "10" is to increase the number of digital professionals by 10 times compared to FY 2021, and we have set a target of 2,500 professionals to be the core of our DX efforts, through training and employment. The next "10" is to increase the volume of digital data usage in the Group by 10 times compared to FY 2021. The final "10" is to contribute 10 billion yen in profit increase through the main DX projects.

In promoting DX, we expect to invest approximately 30 billion yen over the three years through FY 2024. We would like to fully utilize our diverse assets leveraging digital technology to change our business model at the fastest speed possible.

P. 45 People (transformation of HR)

The implementation of the strategies I have described depends solely on human resources. We believe that the linkage between management strategy and human resource strategy will become more important than ever before. We have always promoted our human resource strategy based on the basic policy that people are our most valuable assets, and everything starts from people. In order for us to thrive in the future, we believe that two perspectives are important.

The first is to ensure that each employee continues to take challenges and to grow. We call this "lifelong growth." It is important for each employee to develop his or her own career plan, learn and take on challenges for growth, and for leaders to strengthen their management capabilities to maximize the strengths of individuals and teams.

The second is to enhance "co-creativity" to create business together by leveraging the diversity of the Group. We believe it is important to have a perspective to "expand" diversity and a perspective to "connect" diversity. In the new MTP, we set KPIs for specific measures and implement them.

Through these efforts, we would like to work to improve both the well-being and work engagement of our employees, and the competitiveness of the Group.

P. 46 Main financial/non-financial KPIs

This page summarizes main financial and non-financial KPIs. The financial KPIs include perspectives on profit growth, capital efficiency, and business portfolio transformation. Non-financial KPIs include the proportion of patents in force for GG10, the number of digital professionals and

Group Masters, and the amount of GHG reduction contribution through our own GHG emissions reduction and environmental contribution products. We will accelerate the promotion of these.

P. 47 Opening Up New Avenues

Finally, I would like to describe the mindset that all management and employees of the Asahi Kasei Group must have in order to open up new avenues. The term “A-Spirit” here has two meanings: “animal spirit” and “Asahi Kasei spirit.” Specifically, we ask our employees to be keenly aware of the following four points.

The first is to have ambitious motivation to set high goals and boldly take on challenges without being satisfied with the current situation; the second is to have a healthy sense of urgency with a strong commitment to goals and a focus on generating results; and the third is to be quick and decisive, to take the next step rapidly and boldly with nimble connections and genuine communication. Lastly, we must have the spirit of advancement in creating new ways of doing things without being constrained by existing frameworks. With these four things always in mind, we will take a strong first step toward the next 100 years.

That concludes my presentation. Thank you for your attention.

Question and Answer Session

Mr. Yamada: I agree with you that it is very important to improve ROIC, but does your company include working capital when calculating ROIC? Homes’ ROIC of 32% is higher than I expected, if including working capital.

In addition, the company plans to invest 600 billion yen in GG10 over the three years of the new MTP, and more than 1 trillion yen in total if other investments are included. I estimate depreciation and amortization for the same period to be around 450 to 500 billion yen, resulting in a capital increase of around 500 billion yen. In contrast, the increase in operating income during the same period is about 65 billion yen, so ROIC does not seem to improve much when income taxes are taken into account. Is this because this stage is still a period of upfront investment, and although the fruits of the investments made up to the previous MTP can be reaped, the next round of upfront investment is still required? What kind of upfront investment are you considering?

Kudo: ROIC is calculated including working capital. Homes is not engaged in much of a developer-type business of purchasing land, and thus has a small inventory, which is why the figure is as it is.

Regarding the investment plan of over 1 trillion yen for the three years of the new MTP, some M&As are assumed, and not all businesses will be immediately profitable considering amortization. This plan is assuming that profit contribution from some investments will be made after FY 2025.

Mr. Yamada: I would like to ask you about your business portfolio strategy. Despite the high ROIC of Homes and the high growth of Health Care, the stock market valuation is at around 1x P/B ratio, and we believe that a conglomerate discount is occurring. For the sake of shareholder satisfaction, please tell us more about your business portfolio strategy from the perspective of eliminating the conglomerate discount as well as the concept of the best owner.

Kudo: Regarding your point about the conglomerate discount, we share your view that our stock price is low relative to the value of each of our businesses. The first and most important factor in how we promote the three-sector management will be whether or not each sector can grow, and I believe that all three sectors can.

In Homes, we develop distinctive businesses in North America and Australia, while promoting high value-added products in Japan, and enhance the cash-generating capability. We will also accelerate growth in Health Care.

The key is Material. While this is an important sector for a chemical company to create technological innovations, there are also many old businesses centered on petrochemical-related ones. Based on the best-owner perspective, we will discuss options such as partnering with other companies or considering an exit, without any preconditions. We intend to use the resources gained through those solutions to invest in growth and increase our corporate value.

Mr. Yamada: I don't disagree that Material is a source of innovation, but what are your thoughts on the asset-heavy nature of the business and the high degree of earnings volatility? Also, I have no objection to the high cash-generating capability of Homes, but if the synergy with your company's other sectors is not large, for example, by forming a joint venture with another company and making the ownership ratio 50:50, I think it would be possible to become asset-light while generating cash, and lead to the elimination of conglomerate discount. Do you have any thoughts on such an idea?

Kudo: We have no concrete plans that we can talk about at this time. As for Material, some projects will require large funds in the future, so consideration from a medium- to long-term perspective is necessary. For example, we are increasing production capacity of LIB separators, but demand is growing further and inquiries from customers are very strong. However, we must carefully consider whether we can continue to grow on our own in light of the severe price competition, the concept of local production for local consumption, cost performance, and other factors. With regard to petrochemical-related businesses, I believe that the macro trends are as described by Mitsubishi Chemical Holdings Corp., but individual situations vary widely, and there are many issues to be addressed in order to make adjustments. We believe that hydrogen-related businesses will also require a considerable amount of capital in the future, and depending on the situation, we may consider alliances, IPOs, etc. We are discussing each business without preconditions.

Mr. Yamada: I expect your rational management.

Mr. Miyamoto: I would like to ask you about the situation of Sage which is described on page 30 of the presentation material. Since the acquisition, the business environment has not been favorable and growth has been sluggish, but do you think you will be able to return to a growth trajectory? Also, I think that the business performance of Sage has not reached the level that you had initially envisioned, but are you making good progress with your strategy of integrating technologies and sales channels between Asahi Kasei and Sage, and developing new materials for automobile interiors?

Kudo: At the time of the Sage acquisition in 2018, I was in charge of the fibers business and was in a position to coordinate this matter. Since the acquisition, there has been decoupling between the U.S. and China, the COVID-19 pandemic, etc., and as you point out, growth has been sluggish, but we are taking various initiatives to achieve growth.

Sage is expanding globally into Mexico, Europe, and North Africa, with downstream sewing in North Africa. The company is simultaneously pursuing horizontal development in terms of regional expansion and vertical integration in terms of vertical development, while enhancing cost performance. The company is also expanding its lineup of materials, including the Dinamica brand, which uses Asahi Kasei's artificial suede, and PVC, a synthetic leather newly added through an acquisition in China. We are strengthening Sage through three strategies: global expansion, vertical integration, and expansion of materials.

Although the semiconductor shortage will continue to affect the first two quarters of FY 2022, we expect some recovery from the third quarter. We also expect annual automobile production to reach around 80 million units. We are aiming for a V-shaped recovery by solidifying our foundation.

Mr. Miyamoto: Do you expect to see significant growth in Sage's performance in the second half of the new MTP?

Kudo: Material has set a target of 130 billion yen in operating income in FY 2024, and one of the major growth and recovery factors toward that goal is Sage.

Mr. Miyamoto: I would like to ask you about the business restructuring. On page 20 of the presentation material, there is a description of the strategic restructuring businesses. Does this mean that the 15 businesses presented at the management briefing last May are divided into "Recovery," "Follow," and "Exit" businesses, one-third each? What is the composition in terms of sales rather than the number of businesses? Also, regarding the "Exit" businesses, can you tell us whether it is likely to be viable in the next three years, and whether it will be domestic or overseas?

Kudo: As you pointed out, this figure relates to the 15 businesses explained last year; the total sales of the 15 businesses are in the 400–500 billion yen range. Operating income in FY 2021 for the five "Recovery" businesses improved by nearly 15 billion yen from FY 2019–2020. While there is a recovery in demand, the recovery is largely due to measures such as changing strategies and applications. The "Follow" businesses are currently implementing a strategy to rebuild and will be assessed. We do not distinguish between overseas and domestic operations.

Mr. Umebayashi: I would like to ask you about the numerical targets by sector on page 39 of the presentation material. Over the next three years, Material is expected to increase sales by approximately 40 billion yen, while EBITDA is expected to increase by approximately 40 billion yen; Homes is expected to increase sales by approximately 100 billion yen, while EBITDA is expected to increase by approximately 30 billion yen; and Health Care is expected to increase sales by approximately 100 billion yen, while EBITDA is expected to increase by approximately 32 billion yen. Is the large increase in EBITDA relative to the increase in sales in Material due to structural reforms? In addition, I think that EBITDA should increase a little more in Health Care. Is this because of the headcount increase in addition to amortization of goodwill, etc.?

Kudo: You are right about Material. We will promote structural reforms to increase profitability. Another important point is the stability of the Basic Materials business centered on acrylonitrile (AN), and AN profit has been much less volatile over the past few years than in the past. This is the result of our efforts to adopt formula-based pricing that factors in feedstock costs.

The largest portion of the Group's projected operating income of 400 billion yen around 2030 will come from Health Care.

Mr. Umebayashi: I imagine that the marginal profit margin for Health Care is a bit higher, around 40%, but if fixed costs other than amortization are assumed at the same level, the margin is calculated to be 30%. Do you expect larger increase in personnel than other sectors?

Kudo: Personnel increase is kept modest, and R&D expenses are expected to be a major factor in cost increases. For example, in the pharmaceutical business, we plan to curb the increase of fixed costs by improving the efficiency of medical representatives. On the other hand, there is a factor that Veloxis, Respicardia, and Itamar, which were acquired during the previous MTP period, are growing slower than planned and have not realized the expected profitability due to the COVID-19 impact in the U.S., such as sales representatives not being able to visit hospitals.

Mr. Umebayashi: I would like to ask you about safety investments. There was a fire at the Bemberg plant in Nobeoka this past weekend, following a fire at a semiconductor plant in 2020, and an explosion at affiliated company Kayaku Japan Co., Ltd. What is the cause of the string of accidents and what safety initiatives is the company taking?

Kudo: We are taking these accidents very seriously. First of all, we must determine the cause of the accidents and take appropriate measures. We will not limit ourselves to hardware measures, but we will also tighten up our safety culture to ensure that each and every one of our employees is fully aware of the importance of safety.

The Bemberg plant and the plant of the affiliate where the accidents occurred are older facilities, but we recognize that we have made sufficient investments in the maintenance of them, and the maintenance investments are incorporated in the three-year investment plan of the new MTP. However, we take the fact very seriously that these accidents have caused so much anxiety, and we will redouble our efforts.

Mr. Umebayashi: I have visited the Bemberg plant in Nobeoka before. Although the facilities are old, they are carefully maintained and used, and I had the impression that the business has continued for 90 years as a result. I hope you improve your safety management.

As for the semiconductor plant, it appears difficult to restore it due to the condition of the building. We would like to ask for supplementary information on the status at this stage regarding the possibility of in-house production other than outsourced production.

Kudo: To prioritize safety, it is taking a long time to remove the debris. Even if the debris is removed and the land is cleared, it will be difficult to build a semiconductor plant that is the same as before the fire. However, we have many unique products including automotive applications centered on EVs, for which we are receiving strong inquiries. We hope to have a clear direction by the end of FY 2022.

Mr. Okazaki: You just mentioned Sage as one of the businesses that will significantly increase profits during the new MTP period. What other businesses are expected to grow? Also, looking at page 25 of the presentation material, the petrochemical-related business is expected to see a decrease in profit; is this factoring in the possibility of a review of the business itself, including from the perspective of GHG reduction, or is it based on market price assumptions? What is your view of the AN business, which you explained has become more stable?

Kudo: The three core growth areas of Material are Sage, Digital Solutions, and the separator business. We expect growth in the Digital Solutions business, including electronic materials.

For the petrochemical-related business, we plan to see lower profits in FY 2024 compared to FY 2018 or FY 2021. We assume that the profit for AN will be stabilized due to adoption of formula-based pricing in addition to the spreads between AN market prices and feedstock prices coming down from the high level kept for the past several years. These figures are also based on relatively modest assumptions for basic chemicals and the licensing business, which includes CO_2 chemistry. Petrochemical-related businesses will stabilize around these levels.

We are proud to say that we have been the best owner and have been successful in the AN business so far. However, going forward, we will consider whether we should continue to develop the business with 100% ownership from perspectives of two issues: the need for funds in terms of GHG emissions and other environmental measures, and the importance of local production for local consumption. While we have no intention of discontinuing the AN business, we are discussing new ways of continuing it, depending on the region.

Mr. Okazaki: Do you mean that at the moment, your company has no intention of reducing the assets it currently owns, but it is possible that you may partner with other companies?

Kudo: I don't have a specific candidate, but I mean that when we look ahead to 2030, we need to consider whether we can solve the two issues in our AN business in the same way as today.

Mr. Okazaki: With regard to Health Care, the new MTP calls for annual sales growth of about 8%. What about the growth of ZOLL and Veloxis respectively, and what are the background thoughts?

Kudo: I don't have detailed figures on hand, but the biggest growth will be in Veloxis, which has been struggling a bit due to COVID-19, but is already recovering and is expected to grow significantly.

In addition, the domestic pharmaceuticals business and the medical device business, centered on Planova virus removal filters, are also expanding steadily. The main market for Planova is Europe, and the new MTP assumes an exchange rate of 130 yen to the euro, which has a large impact on profit. Health Care is growing steadily in general.

As for ZOLL, however, we do not expect to see significant growth in performance as a result of recent acquisitions until FY 2025 or later.

Mr. Okazaki: In the critical care business, performance rose and fell during the previous MTP period due to special demand for ventilators, but if we exclude the impact of that, do you see sales in local currency growing at around 10% annually?

Kudo: I don't have the data at hand, but the impact of COVID-19 is subsiding and sales are growing steadily.

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