

Financial and Capital Policy



Toshiyasu Horie, CFO
Director, Senior Executive Officer

■ Enhancing Capital Efficiency

The Asahi Kasei Group focuses on the cost of shareholders' equity and seeks to continuously realize return on equity (ROE) exceeding that cost. While pursuing the optimal capital structure, we will work to heighten return on invested capital (ROIC) in each business by portfolio transformation, building competitive advantage, raising productivity, and carefully examining investment projects to ensure effective returns.

■ Achievements of the Previous Medium-Term Management Plan

In fiscal 2021, the final year of our previous medium-term management plan (MTP), net sales exceeded the initial target while profitability and capital efficiency fell short. This was largely due to lower than expected operating income and ROIC in the Material sector which was impacted by changes in the operating environment from around fiscal 2019, such as the global

economic slowdown as an effect of United States–China decoupling and the COVID-19 pandemic. In response, we are advancing strategy reformulation following evaluations of businesses that were unable to maintain certain levels of operating income, ROIC, and revenue growth.

Despite the impact of changes in the operating environment, we maintained a sound financial foundation thanks to the success of our three-sector management. While emphasizing financial discipline, we made proactive investments in the Health Care sector, where we expect growth over the medium to long term, in lithium-ion battery separators and other growth businesses, and to strengthen our business platform, such as by digital transformation and measures for decarbonization. Regarding shareholder returns, the cumulative dividend payout ratio over the three years of the previous MTP (fiscal 2019 to 2021) was 41%, essentially in line with the initial plan.

Primary Financial Metrics

	FY2018	FY2019	FY2020	FY2021	FY2021 initial plan (as of May 2019)	
Profitability	Net sales (¥ billion)	2,170.4	2,151.6	2,106.1	2,461.3	2,400.0
	Operating income (¥ billion)	209.6	177.3	171.8	202.6	240.0
	Operating margin	9.7%	8.2%	8.2%	8.2%	10.0%
	EBITDA (¥ billion)	313.6	295.6	305.1	350.8	370.0
	EBITDA margin	14.5%	13.7%	14.5%	14.3%	15.4%
	Net income (¥ billion)	147.5	103.9	79.8	161.9	180.0
	EPS	¥106	¥75	¥57	¥117	¥130
Capital efficiency	ROIC	8.8%	6.6%	4.9%	6.6%	9.0%
	ROE	11.1%	7.6%	5.6%	10.3%	11.1%
Financial health	D/E ratio	0.31	0.52	0.45	0.45	Around 0.50
	Net D/E ratio	0.17	0.36	0.30	0.31	—
	Capital ratio	53.6%	48.2%	50.3%	50.4%	—

■ Policies in the New Medium-Term Management Plan Framework for capital allocation

By raising our overall cash generation capability and capital efficiency, over the three years of the new MTP we expect to achieve operating cash flow between ¥750 billion and ¥900 billion, and investing cash flow between ¥800 billion and ¥900 billion including capital expenditure and financial investments. Shareholder returns of between ¥150 billion and ¥180 billion are expected along with profit growth. We plan to increase interest-bearing debt to augment cash as needed, expecting to borrow between ¥50 billion and ¥300 billion depending on the circumstances. Anticipating a debt-to-equity (D/E) ratio of between 0.4 times and 0.7 times, we will pursue optimal capital efficiency while maintaining financial soundness.

Capital expenditure and investments

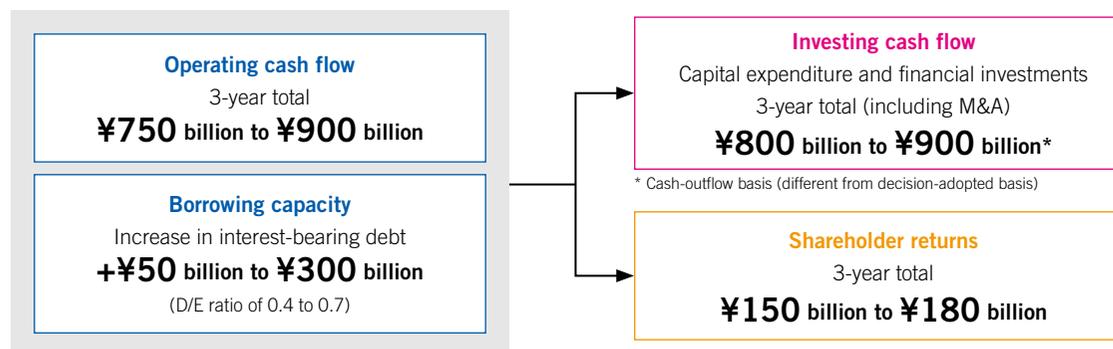
Over the three years of the new MTP, we plan to make investments exceeding ¥1 trillion, of which we expect to invest approximately ¥600 billion in the GG10 businesses. In selecting investment projects, we will emphasize financial discipline in both large and small investments for growth by carefully examining projects from the three perspectives of environmental value (whether it is worth investment even considering carbon pricing), investment efficiency (whether it will ultimately contribute to improved ROIC), and the investment scenario (whether it is better to invest with capital outside Asahi Kasei.)

Shareholder returns

We will determine the level of shareholder returns based on the medium-term outlook for free cash flow. Shareholder returns will basically be by dividends, with an aim to maintain or increase dividends per share. We will strive to steadily increase

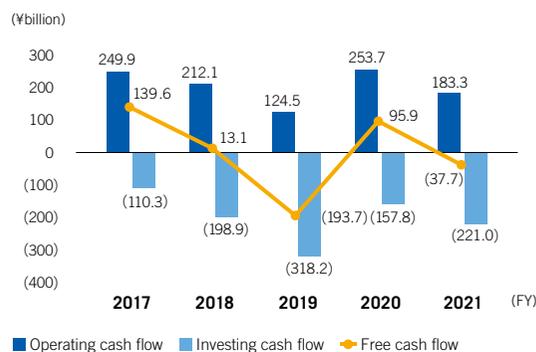
the level of shareholder returns, with a payout ratio of around 30% to 40% (total for the three years of the new MTP.) Share buybacks will be performed as deemed appropriate based on comprehensive consideration of the suitable level of equity, investment items, and the share price.

Framework for Capital Allocation (three-year period FY2022–2024)



* Cash-outflow basis (different from decision-adopted basis)

Cash flows



Dividends per share and dividend payout ratio

