

Message from the CFO

# Aiming for a higher P/B ratio by improving profitability and capital efficiency through accelerated business portfolio transformation

Why does Asahi Kasei have a low price-to-book value (P/B) ratio? The context is our return on equity (ROE) being below the assumed cost of equity, which indicates that our results are not meeting the expectations of shareholders and investors. To address this issue, we will execute measures to improve our P/B ratio and demonstrate results through higher profitability and capital efficiency.

## Role of the CFO at Asahi Kasei

Since Asahi Kasei operates businesses across the three sectors of Material, Homes, and Health Care, it faces a variety of management issues, including individual business strategies and group-wide strategies. I believe that the role of the CFO of Asahi Kasei is to share all of the most important management issues with the President and aim to improve Asahi Kasei's corporate value by working together with the President to address them.

## Asahi Kasei's low P/B ratio

Since fiscal 2021, our P/B ratio has remained below one, currently standing at the low level of around 0.8 times. In my view, the primary factor behind this low level is that ROE has been persistently lower than the assumed cost of equity of 8%. The underlying cause of this situation is the decrease in our net income due to a decline in profitability in the Material sector following a substantial deterioration in the operating environment and to significant impairment losses for two consecutive years in fiscal 2022 and fiscal 2023.

I believe that the decline in profitability in the Material sector can be attributed to our inability to respond flexibly and quickly to dramatic changes in the operating

environment. The slowdown and low growth in the Chinese economy affected neighboring countries in Asia, which led to a breakdown in the balance between supply and demand for petrochemical-chain related products. As a result, earnings deteriorated significantly, primarily in the basic materials business. In addition, sluggish sales at major customers due to the expanded presence of Chinese companies in the supply chain for automotive batteries in the market for EVs led to a downturn in the separator business. Furthermore, in addition to lower-than-expected demand in the electronic device, semiconductor, and automotive markets, due in part to post-COVID-19 changes in demand, competition in products for standard applications intensified, leading to a deterioration of our earnings. As a result, return on invested capital (ROIC) is lower than our estimated weighted average cost of capital (WACC) of 6%, particularly in Environmental Solutions and Mobility & Industrial. In the final year of the current MTP, we will revise our strategies to address these changes in the operating environment, working to improve profits by bolstering sales activities and reducing costs from a short-term perspective and to accelerate business portfolio transformation from a medium- to long-term perspective.

While we have leveraged the stable financial foundation provided by three-sector management to make forward-looking investments on an ongoing basis, the recording of substantial impairment losses for two consecutive fiscal years effectively signifies that our assessments of past investments were too optimistic.

Toshiyasu Horie, CFO

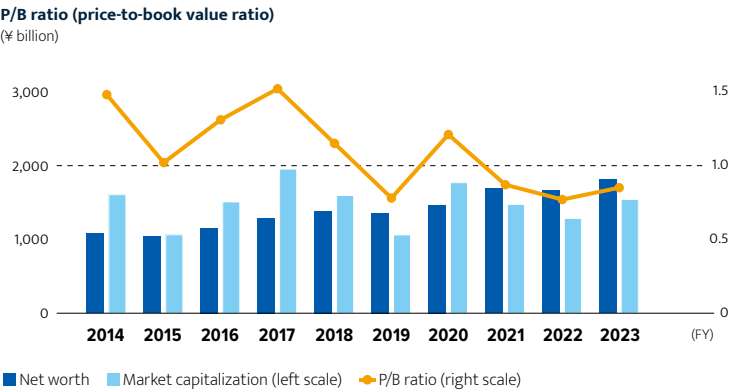
Representative Director,  
Primary Executive Officer

# Message from the CFO



Message from the CFO

Status of P/B ratio-related indicators



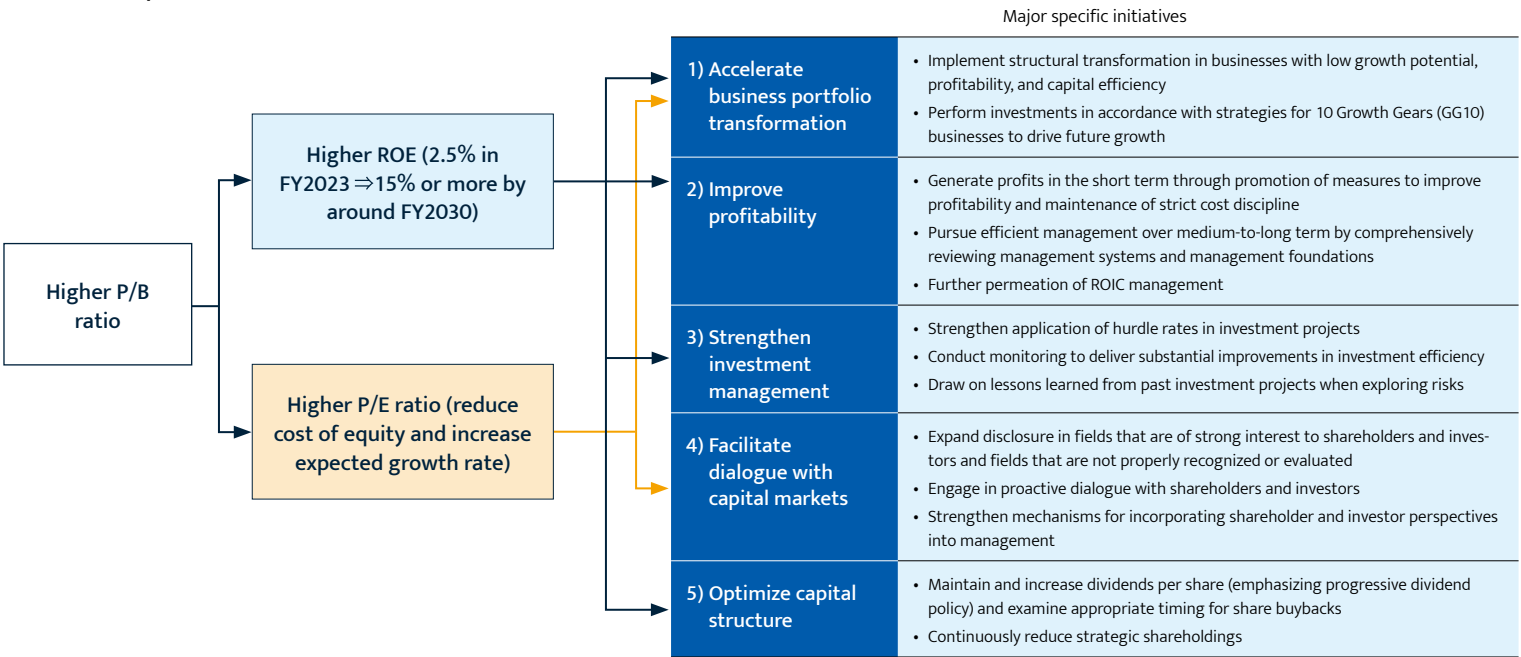
Accordingly, I believe that there was an issue with the likelihood of recovering investments. In the Material sector in particular, we sought to achieve growth through differentiation based on the performance of our products with the aim of contributing to society by leveraging our chemical technology. However, as Chinese companies close the technological gap, future investments must focus on establishing business models that leverage our intangible assets, including technology and intellectual property, and improving our strategies, in addition to technological superiority. In fiscal 2024, while we have announced investments for future growth, including the construction of an integrated plant in Canada for base film manufacturing and coating of Hipore™ wet-process lithium-ion battery (LIB) separators and the acquisition of Calliditas, I sense that some shareholders and investors have apprehensions about the certainty of the forecasts for these investments. To dispel these apprehensions, I believe that we must demonstrate an improvement in

profitability and capital efficiency in our results by steadily reaping returns from recent investment projects, including the two just mentioned.

At the same time, given that we are currently advancing structural transformation in petrochemical chain-related businesses and growth investments simultaneously, we recognize that now is a particularly difficult time for shareholders and investors to evaluate our efforts. Remaining fully mindful of the information gap with these stakeholders, I believe that we must promote further disclosure and dialogue directed toward deepening mutual understanding to earn proper recognition and evaluation for our strategies.

To address the aforementioned issues, we will demonstrate improvements in results for our profitability and capital efficiency by executing the following five initiatives intended to improve the level of our P/B ratio.

Initiatives to improve the P/B ratio



Message from the CFO

Initiatives to improve the P/B ratio

1) Accelerate business portfolio transformation

In business portfolio transformation, we will implement structural transformation in businesses with low growth potential, profitability, and capital efficiency, considering options including withdrawal, sale, and alliances with other companies. At the same time, we aim to replace them with robust businesses with high growth potential, profitability, and capital efficiency by making investments for future growth in GG10 businesses, which we identified as growth drivers, while maintaining strict financial discipline.

We are accelerating initiatives for structural transformation in two separate time frames: one for structural transformation targeting results during the period of the current MTP, and the other for structural transformation of petrochemical chain-related businesses over the medium-to-long term. For the former time frame, in fiscal 2023 we took steps that included deciding to close the Iwakuni Plant for autoclaved aerated concrete (AAC), transferring the businesses of Asahi Kasei Pax Corp., and implementing structural transformation of the Sepacell™ leukocyte reduction filters business. With these efforts, we have implemented structural transformation in businesses with sales on the scale of ¥40 billion in net sales, based on the inclusion of matters already decided in fiscal 2022. In fiscal 2024, we are examining structural transformation in businesses with sales on the scale of ¥100 billion, such as the transfer of chemical businesses in the Material sector, with the aim of making decisions within the fiscal year. As for the latter time frame, we are promoting structural transformation of petrochemical chain-related businesses based on three approaches—structural transformation from a best-owner perspective, optimization through cooperation with other companies, and the strengthening of businesses in-house or by collaboration with other companies—and we are examining possibilities with the aim of making decisions and clarifying our direction during fiscal 2024.

We are also making steady growth investments in accordance with the current MTP. These investments include the expansion of coating capacity for Hipore™ LIB separators and the construction of an integrated plant in Canada for their base film manufacturing and coating; the construction of a new plant for Pimel™ photosensitive polyimide; and the acquisition of Calliditas. In considering investments, we focus on whether we can create strong business models in which intangible assets can serve as a source of value, such as advantages in intellectual property (IP) using IP landscaping, strengths in human resources, and the use of propriety know-how.

Given the deterioration in the operating environment and the challenging earnings situation faced throughout the company, some people may take the view that we should refrain from growth investments at present to focus on structural transformation. However, I believe that the ability to simultaneously take on the challenge of transforming our business portfolio and capturing a diverse array of business opportunities in three sectors based on stable earnings generated through the operation of three-sector management while maintaining a strong financial foundation is a unique strength of Asahi Kasei, as well as a unique management style. We will therefore work to realize a balanced business portfolio that is distinctive to Asahi Kasei, with a high level of capital efficiency, growth, and stability, while combining structural transformation and growth investments.

2) Improve earnings power

In light of the pressing task of strengthening our earnings structure, we have begun to accelerate business process reforms on a group-wide basis by launching the Build-up to Trailblaze (BT) Project in fiscal 2023 to promote productivity improvement, so that we can properly allocate management resources to GG10 businesses and create a structure for efficient operation. In the short term, we will focus on generating profits through the promotion of measures designed to improve profitability and the maintenance of strict financial discipline; in the medium-to-long term, we will pursue efficient management that is distinctive to Asahi Kasei, including fundamental review of our management system and management foundations. In fiscal 2023, we raised efficiencies in shared fixed costs, reduced indirect material costs, and reviewed outsourcing costs, achieving a ¥10 billion reduction in costs. In fiscal 2024, we will continue to advance business process reforms with the aim of achieving a reduction of ¥20 billion cumulatively for fiscal 2023 and fiscal 2024.

Meanwhile, in improving profitability, we must abandon the approach of simply being satisfied if a business is making a profit and consider whether we can achieve the profitability and capital efficiency that the stock market requires and whether ROIC is at a level that exceeds the cost of capital (WACC)—namely, whether the spread between ROIC and WACC is sufficient. Accordingly, I believe that we must change mindsets throughout the company to that approach. Since fiscal 2021, we have been evaluating our business portfolio, including the ROIC of each business, and revising business strategies based on these evaluations, implementing various measures to fully instill an ROIC mindset among those on the front lines of our businesses. As a result, we have made progress in our bottom-up efforts to improve ROIC, which entail enhancing productivity in daily business processes. We will

continue to pursue higher capital efficiency and productivity while striving to establish a culture of proactively transforming our business portfolio. Although our first priority is to complete structural transformation in businesses with issues related to growth potential, profitability, and capital efficiency, such as structural transformation in our petrochemical chain-related businesses, that will not be the end of our business portfolio transformation. We are committed to further instilling ROIC management to realize a balanced business portfolio that is distinctive to Asahi Kasei with a high level of capital efficiency, growth, and stability.

3) Strengthen investment management

We manage investment projects over a certain amount by making decisions after setting a hurdle rate on a project-by-project basis. Although we have been applying hurdle rates for some time, we strengthened their application to scrutinize investment projects more rigorously. Specifically, we decide hurdle rates by adding to WACC by region a risk premium of between 2% and 6%—which is determined using quantitative indicators in relation to the volatility and investment efficiency of the business making the investment—taking into account individual factors specific to each project, such as past investment results, the positioning of the project in our business portfolio, and sustainability. We applied such a hurdle rate in studying the prospects for constructing an integrated plant in Canada for base film manufacturing and coating of Hipore™ separator, concluding that the investment was commercially viable and deciding to proceed with it after fully incorporating risks. We also follow up exhaustively after making investments, conducting monitoring that helps improve effective capital efficiency, such as examining how to achieve a recovery when the operating environment deteriorates.

In addition to these efforts, I feel that it is important to draw fully on lessons learned from past investments when examining investment project risks. There are a variety of risks in making investments, many of which are beyond our control, such as changes in the market environment and in government policies in various countries and regions. Accordingly, it is crucial to conduct strict risk management for aspects that are within our control, while planning ahead to create a mechanism to respond flexibly to unexpected changes. For this reason, when examining investment projects, we continuously ask ourselves if we can state with confidence that we have examined a project 100% from every conceivable angle.

For an example of factors taken into account in setting hurdle rates, please see [page 21](#)

Message from the CFO

4) Facilitate dialogue with capital markets

We are expanding our disclosure to gain shareholder and investor understanding and recognition for our strategies, investment projects, and initiatives for strengthening management foundations. In particular, we are keen to reduce the cost of capital by proactively expanding disclosure and providing careful explanations on fields that are of strong interest to shareholders and investors and fields that we sense are not properly recognized or evaluated. Specifically, we have strengthened disclosure on fields of strong interest in our everyday dialogue with shareholders and investors. For example, in fiscal 2023 we began disclosing information on changes in the performance of the separator business and of sales of Hipore™ in financial results briefing materials as well as information on changes in profit growth for major past M&A in management briefing materials. Meanwhile, at the Material sector briefing held in fiscal 2023, we provided an extensive explanation on Digital Solutions, which is one of the GG10 businesses. I felt that the briefing provided an opportunity to engage the interest of shareholders and investors in the strengths and growth potential of this business, which we had hitherto not been communicated adequately. In addition, as we are currently advancing structural transformation of petrochemical chain-related businesses and growth investments simultaneously, and implementing a variety of measures in accordance with our strategies, we recognize that now is a difficult time for shareholders and investors to evaluate our efforts. In full recognition of the gap between the time frames expected by shareholders and investors and the time frames that we envisage, I believe that it is critical to engage in dialogue continuously to close that gap.

In addition, I regard it vital to verify our strategies and their execution from the perspective of shareholders and investors, and to act promptly when areas for improvement are identified. We therefore endeavor proactively to create opportunities for dialogue with shareholders and investors. At forums including meetings of the Board of Directors, training courses for Executive Officers, and reports to Group Executives and Outside Officers after briefings are held, we provide feedback on opinions and other comments received from shareholders and investors in our dialogue with them. In this way, we are strengthening mechanisms to incorporate shareholder and investor perspectives into management.

I also feel that raising expectations for our future growth by demonstrating the results of improved performance in our dialogue with shareholders and investors is indispensable to improving our corporate value. In addition to indicating the direction of business portfolio transformation at an early stage, particularly structural

transformation of petrochemical chain-related businesses, we aim to return to a growth trajectory by generating results from our efforts to improve our profitability and from past investments.

5) Optimize capital structure

We strengthen shareholder returns from the perspective of optimizing our capital structure and continuously reduce our strategic shareholdings. No change has been made to our shareholder returns policy that was set out at the beginning of the current MTP. We place particular emphasis on the second of the four elements of its policy. With this element of our shareholder returns policy, we will demonstrate both growth and stability by providing progressive dividends, which are intended to give shareholders a sense of security. In fact, we have not reduced dividends since fiscal 2009, and we aim to continue to maintain and increase dividends per share. Neither has any change been made to our approach of considering share buybacks when an opportunity presents itself. We believe that we can expect to see a certain amount of cash inflow from the sale of businesses as we advance business portfolio transformation. Accordingly, we will explore the possibility of using that cash for measures including share buybacks.

Meanwhile, in dialogue with our shareholders and investors, we have received comments suggesting that we should take steps to strengthen shareholder returns and improve ROE by raising our financial leverage to a greater degree. However, our goodwill at the end of fiscal 2023 stood at ¥360.7 billion, equivalent to

approximately 20% of our net worth, which reflects the growth investments we have made, including M&A for taking on challenges to capture various growth opportunities in our three sectors. For us to pursue growth investments while managing such assets that are potentially at risk, we believe that we must judge financial leverage with due consideration of risks related to assets. The current MTP has adopted targets of around 0.7 for debt-to-equity (D/E) ratio and 0.5 for net D/E ratio, which we regard as appropriate for maintaining proper financial soundness, given potential risks.

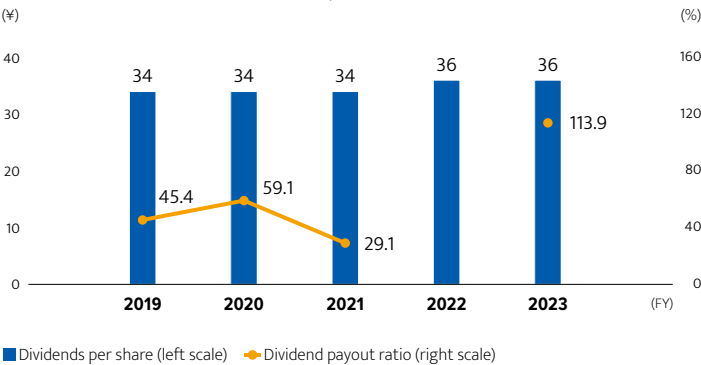
As for strategic shareholdings, we are continuously reducing their amount, taking into account factors including share price volatility risk, costs associated with such shareholdings, and capital efficiency, as well as the value and benefit of retaining them. In fiscal 2023, we sold strategic shareholdings in 13 stocks other than unlisted stocks for ¥31 billion, bringing the balance for our strategic shareholdings to less than 5% of net worth. In fiscal 2024, we will make further sales to reduce our amount of such shareholdings.

Strategic shareholdings [page 84](#)

Shareholder returns policy

- 1. Determine level of shareholder returns based on outlook for free cash flow over medium term
- 2. Aim to maintain and increase dividends per share, with basic policy of shareholder returns through dividends
- 3. Steadily increase level of shareholder returns, aiming for payout ratio of 30% to 40% (cumulative total over 3 years of MTP)
- 4. Examine and implement share buybacks based on comprehensive consideration of optimal capital structure, investment projects, share price, etc.

Dividends per share and dividend payout ratio



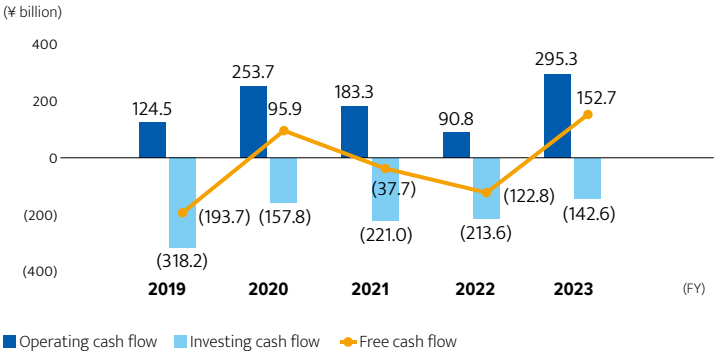
Message from the CFO

## Capital allocation policy

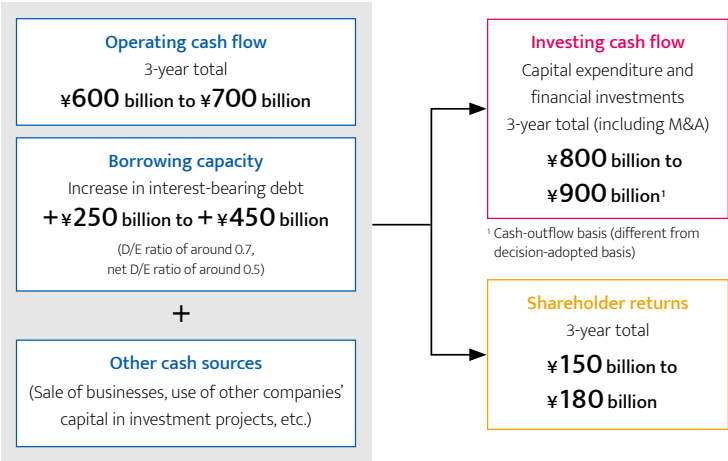
Turning to our capital allocation policy, we expect operating cash flow to be in the range of ¥600 billion to ¥700 billion and investing cash flow to be between ¥800 billion and ¥900 billion over the three years of the MTP, both of which are unchanged from the levels we indicated in fiscal 2023, based on the assumption that we make our planned growth investments. Nevertheless, given that our earnings are lower than in the initial plan from fiscal 2022, when we unveiled the current MTP, we are proactively studying the possibility of raising cash through methods such as the sale of businesses or the use of the capital of other companies. Although there is an element of uncertainty about the timing of any cash inflow, we could expect to see a certain amount of cash inflow from fiscal 2025 in the case of decisions to sell certain businesses during fiscal 2024. We will consider using this cash to strengthen shareholder returns, including share buybacks, as well as to make growth investments, as I have stated.

In our dialogue with shareholders and investors, we sometimes receive comments questioning whether our capital allocation policy is not biased toward investment. While we are currently working on business portfolio transformation as our top priority—conducting structural transformation and growth investments simultaneously—the results of these efforts will require a certain period of time, rather than bearing fruit immediately. Accordingly, we aim to further enhance the level of shareholder returns while taking into account the progress of business portfolio transformation.

### Cash flows



### Framework for capital allocation (three-year period FY2022–FY2024)



### Primary financial metrics

	FY2019	FY2020	FY2021	FY2022 <sup>2</sup>	FY2023
Net sales (¥ billion)	2,151.6	2,106.1	2,461.3	2,726.5	2,784.9
Operating income (¥ billion)	177.3	171.8	202.6	127.7	140.7
Operating margin	8.2%	8.2%	8.2%	4.7%	5.1%
EBITDA (¥ billion)	295.6	305.1	350.8	305.0	322.9
EBITDA margin	13.7%	14.5%	14.3%	11.2%	11.6%
Net income (loss) (¥ billion)	103.9	79.8	161.9	(91.9)	43.8
EPS (¥)	75	57	117	(66)	32
ROIC	6.6%	4.9%	6.6%	4.0%	5.9%
ROE	7.6%	5.6%	10.3%	(5.5) %	2.5%
D/E ratio	0.52	0.45	0.45	0.57	0.51
Net D/E ratio	0.36	0.30	0.31	0.41	0.32
Capital ratio	48.2%	50.3%	50.4%	48.1%	49.5%

<sup>2</sup> Figures for fiscal 2022 have been retroactively revised to reflect purchase price allocation completed in the first quarter of fiscal 2023 related to acquisition of the Focus Companies in the U.S. on October 31, 2022.

## Meeting your expectations

Looking back at the history of Asahi Kasei, continuous productivity improvement and bold business portfolio transformation have become part of our identity. Recently, structural transformation centered on petrochemical chain-related businesses has become an urgent task due to the significant deterioration in our operating environment. Viewing our current circumstances as an opportunity, we will accelerate business portfolio transformation to create a new Asahi Kasei that is suited to the coming era, without losing sight of our identity.

In the phase leading up to the next MTP, the measures promoted under the current MTP will gradually bear fruit. The return to a growth trajectory will lead to improvements in profitability and capital efficiency, and we aim to strengthen shareholder returns. Looking ahead to 2030, we will work to improve our P/B ratio by doing the utmost to ensure that shareholders and investors have expectations for the long-term growth of Asahi Kasei through efforts in the Material, Homes, and Health Care sectors to contribute to life and living for people around the world.