

## Summary of Financial Results Briefing for Fiscal 2022

May 10, 2023

Asahi Kasei Corporation

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### **Presentation**

#### P. 2 Focus of FY 2022 results and FY 2023 forecast

Horie: Today's presentation will focus on the FY 2023 forecast, which assumes that the business environment will remain generally difficult in H1 of the year, but will gradually improve in H2.

Regarding shareholder returns, the year-end dividend for FY 2022 was 18 yen per share, as planned, for a total of 36 yen per share for the full year, and we basically presume we can maintain this level for FY 2023.

With regard to the business portfolio transformation outlined in the medium-term management plan, we recently announced the decision to close the Iwakuni Plant of Asahi Kasei Construction Materials.

#### 1. Consolidated results for FY 2022

#### P. 4 Financial results for FY 2022 (consolidated)

FY 2022 sales were 2,726.5 billion yen, a record high. Operating income was 128.4 billion yen, slightly higher than the forecast announced on March 8.

Net loss attributable to owners of the parent of 91.3 billion yen was recorded due to the impact of the 186.4 billion yen impairment loss on Polypore.

## P. 5 Results by segment

Operating income in Health Care declined from FY 2021. In Critical Care, there were the temporary impact of acquisitions and difficulty in parts procurement, as well as normalization of the effect from a surge in demand for ventilators.

Homes performed well, posting an increase in operating income over the previous year.

Material recorded a significant decrease in operating income from the previous year. In Basic Materials, in addition to deterioration of the terms of trade, the supply-demand balance worsened due to economic slowdown mainly in China. In businesses other than Basic Materials, shipments of LIB separators and engineering plastics declined.

## P. 6 Statements of income

Non-operating income/loss decreased by 16.2 billion yen from the previous year to a loss of 6.8 billion yen. The reasons include deterioration of net equity in earnings of affiliates due to the decreased earnings of PTT Asahi Chemical Company Limited and other companies. In addition, some businesses with long lead times from order receipt to delivery suffered foreign exchange losses due to yen depreciation because of early foreign exchange forward contracts.

## P. 7 Extraordinary income and loss

Extraordinary income/loss deteriorated significantly from the previous year due to the recording of an impairment loss on Polypore. Other factors include a provision for removal costs of the coal-fired equipment at a power plant in Nobeoka, Miyazaki Prefecture, in loss on disposal of noncurrent assets, and expenses related to the Bemberg plant fire in April 2022 in loss on fire at plant facilities.

## P. 8 Balance sheets

On the balance sheets, intangible assets decreased due to the impairment on Polypore, while inventories increased. As a result, total assets amounted to 3,454.5 billion yen, up approximately 100 billion yen from the end of March 2022.

In net assets, retained earnings decreased in relation to the impairment on Polypore, while in liabilities, noncurrent liabilities increased.

## P. 9 Cash flows

Operating cash flow was a net cash inflow of approximately 90 billion yen due to an increase in working capital and other factors. Free cash flows after dividends were a net cash outflow of approximately 170 billion yen.

## P. 10 Main KPIs

In FY 2022, the operating margin declined significantly. ROIC, the numerator of which is operating income minus income taxes, also dropped to 4%; ROE, the numerator of which is net income, was negative in FY 2022.

## 2. Forecast for FY 2023

### P. 13 Current situation and outlook for management environment

Regarding the business environment as the premise for the FY 2023 forecast, we expect a gradual improvement toward H2 of the year in general, but still quite severe conditions in H1.

### P. 14 FY 2023 operating performance forecast (consolidated)

For FY 2023, we are forecasting record-high sales of 2,865 billion yen and operating income of 160 billion yen. The operating margin is expected to improve though not yet fully recover. Net income is expected to be 100 billion yen, a significant improvement from the net loss recorded in FY 2022 due to the impairment on Polypore. The forecast assumes exchange rates of 130 yen per US dollar and 135 yen per euro, and 68,000 yen per kiloliter for the domestic naphtha price.

#### P. 15 FY 2023 operating performance forecast by segment

Now I will explain the operating income trends for each segment compared to FY 2022.

In the Health Care segment, the Health Care business category is expected to see a decrease in operating income due to higher R&D and activity costs in Pharmaceuticals and the impact of higher feedstock and fuel costs in Medical, despite steady sales of mainstay products. Critical Care is expected to see an increase in operating income, as the parts procurement difficulties are expected to gradually improve and demand is expected to recover in H2. The segment as a whole is expected to post increased operating income.

Homes is also expected to increase its operating income with steady performance.

In Material, there is a decrease in amortization of goodwill, etc., of 14.7 billion yen related to the impairment on Polypore, but operating income is expected to increase even excluding this.

#### P. 16 Shareholder returns

As mentioned earlier, we intend to maintain the current dividend level in FY 2023, despite the uncertainties in the business environment.

### 3. Results by segment

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

The graph shows the factors that contributed to increases and decreases in Material from FY 2021 to FY 2022. The largest factor after feedstock costs is the others factor of -51.2 billion yen, of which approximately -20.0 billion yen is for Mobility & Industrial and -9.0 billion yen is for Life Innovation. In Mobility & Industrial, shipments of engineering plastics declined due to sluggish demand, and fixed cost deterioration, such as capacity utilization difference, was a major negative factor. In Life Innovation, negative factors included a decrease in the transfer of expenses related to the semiconductor plant fire to extraordinary loss, and an increase in fixed costs due to capacity expansion etc. in several businesses.

The others factor in Environmental Solutions was -0.6 billion yen, but this includes 30.2 billion yen of profit from internal sales. Actually, there is a negative factor of over 30.0 billion yen from inventory valuation losses, deteriorated fixed costs such as lower capacity utilization due to lower shipments, and other factors. The profit from internal sales is offset for Material as a whole, but as an adjustment to present the analysis clearly, we put positive and negative 30.2 billion yen in the feedstock cost factor and the others factor, respectively, in "Others in Material."

#### P. 19 Material: Overview by Business

We expect operating income/loss in Environmental Solutions to increase from a loss of 2.3 billion yen in FY 2022 to income of 16.4 billion yen in FY 2023, including the effect of a 14.7 billion yen decrease in amortization of goodwill, etc. on Polypore, as well as a gradual improvement in demand and market conditions in Basic Materials toward H2 of the year. Mobility & Industrial is expected to see an increase in operating income from 10.8 billion yen to 12.3 billion yen. Although overall supply and demand will not improve significantly, we expect a recovery in shipments of car interior materials and engineering plastics. Operating income in Life Innovation is expected to increase from 27.8 billion yen to 30.5 billion yen with expansion of Digital Solutions, which is one of our growth businesses.

#### P. 21 Material: Separator business condition

Let me explain the situation of the separator business in more detail. The graph on the left shows the sales volume of Hipore wet-process LIB separator. The light blue area is consumer electronics applications, and the dark blue area is automotive applications. Automotive applications have been growing since around FY 2020 and now exceed consumer electronics applications.

In the figure on the right, the bar graph shows the sales of the total separator business, and the line graph shows EBITDA. In FY 2022, EBITDA declined significantly due to decreased demand in high-end consumer electronics applications in China, in addition to a decrease in the average price of Hipore as the ratio of automotive applications increased.

**P. 22 Homes: Sales and operating income increase/decrease**

Operating income in Homes increased to 76.0 billion yen in FY 2022 from 72.9 billion yen in FY 2021. In domestic order-built homes, an increase in the average unit price due to larger and higher value-added units offset the impact of higher material prices. Real estate and overseas businesses also grew.

**P. 23 Homes: Overview by business**

For FY 2023, we expect a slight decrease in operating income in domestic order-built homes, mainly due to a decrease in orders received in FY 2022. On the other hand, real estate is expected to see an increase in operating income due to firm performance in the rental management business and the completion of large condominiums, while overseas operations are also expected to see an increase in operating income as operating margins improve with progress in passing on higher material prices in the Australian operations. As a result, the segment as a whole is expected to increase its operating income compared to FY 2022.

**P. 27 Health Care: Sales and operating income increase/decrease**

Operating income in Health Care declined to 41.9 billion yen in FY 2022 from 52.2 billion yen in FY 2021. The others factor is -11.7 billion yen with several special factors. In addition to the impact of the consolidation of Bionova in Medical, in Critical Care there were the remaining effect of the surge in demand for ventilators due to COVID-19 in FY 2021, the impact of consolidation of Itamar, and the positive effect of accounting treatment on the Respicardia acquisition in FY 2021.

**P. 28 Health Care: Overview by business**

In FY 2023, the Health Care business category is forecasting a slight decrease in operating income. In Pharmaceuticals, license income was high in FY 2022, and an increase in SG&A, including licensing-in costs, is expected in FY 2023, while steady growth for Veloxis' Envarsus XR is forecasted.

Critical Care is expected to see an increase in operating income. In addition to firm performance of LifeVest, the impact of parts procurement difficulties for defibrillators is expected to improve toward H2. Orders for defibrillators for professional use have been slowing down since H2 of FY 2022, but are expected to improve gradually through H2 of FY 2023.

**P. 30 Health Care: Performance trend in Critical Care (dollar-based)**

The graph shows the performance of Critical Care in US dollars. As mentioned earlier, several special factors contributed to the decrease in operating income from FY 2021 to FY 2022: from H2 2019 to H1 2021, there was special demand for ventilators due to COVID-19; FY 2022 saw the loss of that effect, as well as the negative impact of the consolidation of acquired companies. In FY 2023, we expect Critical Care to return to a growth path.

**Questions and Answers**

Questioner 1: Regarding the FY 2023 forecast, while the economy is heading for a downturn, the H2 operating income of 108.5 billion yen is higher than H2 of the year in which the highest income was recorded for the full year in the past. Please explain your view of the significant increase in profit from H1 to H2.

Horie: With regard to Material, we have factored in the impact of maintenance turnaround for the naphtha cracker etc. in the Mizushima Works in H1, but there will be no such turnaround in H2. We also expect acrylonitrile (AN) market prices to gradually increase from H1 to H2. This is due to the fact that global demand for AN, which declined year-on-year in FY 2022, is expected to increase again in FY 2023, and that Chinese manufacturers are expected to add fewer units in FY 2023 than

in the previous year. In addition, the ammonia price, which had been soaring, is coming down, and that will have a significant positive impact, too.

As for Homes, in addition to the usual seasonality of domestic order-built homes, where earnings are weighted toward H2, sales of condominiums in real estate will be concentrated in H2 of FY 2023. As for overseas operations, despite the financial instability in the U.S., fundamentally there is a shortage of homes in Arizona and Nevada, where we operate, and demand is expected to recover toward H2.

In Health Care, sales of AEDs and LifeVest are expected to improve in H2. Parts procurement difficulties for defibrillators still remain, but they have been resolved to a large extent. The slowdown in orders for defibrillators for professional use is also expected to improve gradually from H1 to H2.

Questioner 2: Could you elaborate on the FY 2023 forecast for Health Care? In Critical Care, you mentioned that parts procurement difficulties for defibrillators are being resolved. Is the situation no longer a concern for production? Are there any other risks in this business?

Otsubo: The impact of parts procurement difficulties is expected to be largely resolved between FY 2022 and FY 2023. Even for those parts that are still difficult to procure, they are not entirely unavailable, and the situation is improving. As a result, we expect an increase in shipments of AEDs in particular, in FY 2023. As for defibrillators for professional use, the slowdown in orders since H2 of FY 2022 will remain in FY 2023, but the situation is expected to gradually improve.

Questioner 2: Regarding the Health Care business category, sales growth from FY 2022 to FY 2023 is expected to be only 7.5 billion yen for Pharmaceuticals and 10 billion yen for Medical. Sales in Pharmaceuticals seems a bit low considering the growth of Envarsus XR, even with the NHI price reduction. In addition, you mentioned that Medical is affected by soaring feedstock and fuel prices, but is it difficult to pass on costs to prices even for B-to-B products such as virus removal filters? Please explain the factors that are putting pressure on the profitability of the Health Care business category in FY 2023, the probability that these factors will be resolved, and the background to them.

M. Takahashi: I will answer about the domestic pharmaceuticals business. We had significant license income in FY 2022, but this will not repeat in FY 2023. Sales of Teribone, Kevzara, and Plaquenil are expected to grow steadily, but as for Teribone, the increase in autoinjectors is expected to be partially offset by the decrease in the conventional formulation due to the impact of a generic.

Otsubo: Regarding the overseas pharmaceuticals business, sales of Envarsus XR grew by about 30% from FY 2021 to FY 2022, and are expected to grow similarly through FY 2023.

As for Medical, in addition to the increase in shipments of Planova, we also expect increased income from Bionova, a CDMO consolidated in July 2022. The higher feedstock and fuel prices will still have an impact, although we are working to raise prices. In addition, we have factored in an increase in activity costs with the subsidence of COVID-19.

Questioner 3: With regard to Material, I would like to know greater detail on the factors of increase and decrease in operating income through FY 2023 for each subsegment.

As for Digital Solutions in Life Innovation, the increase in operating income appears to be large compared to the general demand environment for electronic materials and components. On the other hand, Comfort Life is expected to see a decrease in operating income, and even if there is an impact from the integration of the spunbond nonwovens business, the decrease appears to be large. What factors are there respectively?

Regarding Mobility & Industrial, I have the impression that the plan is conservative, considering the price pass-on situation at Sage and other factors. How do you see the impact of the recovery in automobile production?

T. Takahashi: I will explain about Environmental Solutions. In Basic Materials, earnings deteriorated in FY 2022 each quarter from Q1 to Q4. In addition to a general decline in demand, falling market prices, and worsening terms of trade, the negative impact of inventory valuation loss due to falling feedstock prices was also a major factor. In addition, there was a one-time factor of coal inventory write-down in Q4. In contrast, in FY 2023, we expect a gradual recovery in demand and an improvement in inventory valuation toward H2. We plan a maintenance turnaround at the Mizushima Works in H1, and expect earnings to improve toward H2.

As for businesses other than Basic Materials, one of the major factors is a decrease in goodwill amortization in the separator business due to the impairment on Polypore. Excluding this, operating income is not forecasted to increase, but shipments of LIB separators are expected to grow.

Moriwaki: Let me explain about Mobility & Industrial. Global automobile production is estimated to be 76 million units in 2022 and 83 million units in 2023, and in response, we expect an improvement in shipments and capacity utilization in FY 2023 for engineering plastics, car interior materials, and other products. Although feedstock and fuel costs, especially energy costs, are expected to remain high, we expect operating income to increase year-on-year in FY 2023.

Igarashi: I will explain about Life Innovation. In Digital Solutions, semiconductor-related products performed well in H1 2022, but market conditions deteriorated in Q3 and Q4. A recovery in market conditions is expected toward H2 2023. In addition, in both electronic components and electronic materials, we expect to obtain new projects in the high-end areas that we are targeting in the medium term, from H2 2023 onward.

Comfort Life, on the other hand, expects a year-on-year decline in operating income in FY 2023. Market conditions will gradually recover, but fixed costs are expected to increase. Some expenses related to the Bemberg plant fire, which were transferred to extraordinary loss in FY 2022, will be returned to operating expenses as operations resume, as well as the impact of higher energy costs and higher amortization expenses due to capacity expansion in some products.

Questioner 3: With regard to Mobility & Industrial, why are sales flat in FY 2023 despite the assumption that shipments will increase in line with the recovery in automobile production?

Moriwaki: This is due to price declines in some products and market conditions not recovering enough for some products, especially in H1.

Questioner 3: The H2 2023 forecast for Digital Solutions appears somewhat strong. What kind of projects are you expecting to obtain in the areas you are targeting?

Igarashi: For example, in the area of substrate materials among electronic materials, we are focusing on high-performance packaging applications. In the area of electronic components, sound management-related products for automotive applications are beginning to show results for relatively high-end vehicle models.

Questioner 3: In Environmental Solutions, operating income of the businesses other than Basic Materials is forecasted to decrease by about 2 billion yen excluding the reduced amortization related to Polypore. What is the reason for this?

T. Takahashi: In the synthetic rubber business, there is an impact from high-cost inventories produced in FY 2022. As for the separator business, although shipments are expected to grow, it will take some time for operating income to recover due to increased fixed costs and other factors.

Questioner 4: I would like to ask you about Health Care. In the Health Care business category, you explained that sales of Veloxis' Envarsus XR would grow by about 30% year-on-year in FY 2023, but sales declined from Q3 to Q4 of FY 2022, and the growth rate from FY 2021 to FY 2022 has also

slowed down slightly. Please elaborate on the situation. Also, you mentioned that Bionova is expected to grow in FY 2023. What is your assumption regarding the financial instability in the U.S.?

Regarding Critical Care, defibrillators for professional use have been affected by the economic conditions in the U.S. How sure are you of recovery toward H2? Also, what was the status of LifeVest in Q4 2022?

Otsubo: Regarding Envarsus XR in Pharmaceuticals, sales in the U.S. for FY 2022 grew 30% year-on-year, which is in line with our expectations. We expect a similar level of growth in FY 2023, and consider the decline in sales in Q4 2022 to be within the normal range of fluctuation. Prescriptions for new kidney transplant patients have increased beyond initial expectations. We believe that our share of the tacrolimus market has reached over 15%. Veloxis is obtaining new customers as constraints on sales activity due to COVID-19 have been removed.

For Bionova in Medical, we expect steady growth in both sales and operating income in FY 2023. While financial instability in the U.S. has made it difficult for bio-startup companies to raise funds, Bionova has had almost no cancellations, although some customers have postponed projects or prioritized their pipelines. New orders are also being received.

As for Critical Care, the impact of parts procurement difficulties for defibrillators is improving, and AED shipments are expected to increase in FY 2023. On the other hand, orders for defibrillators for professional use have slowed down since H2 2022, and are expected to remain sluggish until H1 2023. We expect this trend to gradually improve in H2 2023. Regarding LifeVest, in FY 2022, we were able to offset the impact of lower orders due to a shortage of sales personnel by improved reimbursement status, etc. In FY 2023, in addition to the improvement in reimbursement status, an increase in sales personnel will take effect in H2, leading to increased business performance.

Questioner 5: I would like to ask about Material. The operating income of Digital Solutions of Life Innovation was 3.2 billion yen in Q3 2022 and 500 million yen in Q4 2022. I understand that this business is highly seasonal, but from there, you plan a significant improvement to 7.1 billion yen in H1 2023. Please tell us about the status of electronic materials and electronic components, respectively. Based on the current market conditions, I do not expect much improvement from Q4 to Q1. I think the impact from smartphones in China is also significant to your company, but how do you see the improvement?

Also, what is the outlook for shipments of LIB separators in FY 2023 for consumer electronics and automotive applications, respectively? Will the growth be for European automakers or North American automakers?

Igarashi: Regarding the operating income of Digital Solutions, the H1 2023 forecast of 7.1 billion yen is at a lower level than the 6.7 billion yen in Q1 2022, and will only be a partial recovery from the 500 million yen in Q4 2022. As the basis for expecting a recovery, for example, according to statistics from America's Semiconductor Industry Association, global semiconductor sales (on a 3-month moving average) for March 2023 turned positive month-on-month for the first time in 10 months. Also, a major Taiwanese foundry announced that its sales were positive for the second month in a row on a month-on-month basis, although still negative year-on-year. Our customers' order plans also show an increase in volume from October onward, and in some cases from July onward.

Onodera: Regarding the separator business, the sales volume of Hipore LIB separators is shown on page 21 of the briefing material. In FY 2020 and FY 2021, sales for consumer electronics applications grew significantly due to the COVID-19 stay-at-home demand. In FY 2022, in addition to the decline in reaction, sales for consumer electronics applications dropped significantly, especially in Q4, due to the economic slowdown and a change in COVID-19 policy since December 2022 in China. FY 2023 is expected to see a gradual recovery from Q1 to Q4, depending on economic trends in China. However, it will not reach the levels of FY 2020 and FY 2021.

For automotive applications, FY 2022 saw a decline in shipments in Q1 due to the shortage of automotive parts caused by the Russia-Ukraine situation, in addition to the shortage of semiconductors. The circumstances are gradually improving, and we expect an increase in shipments

from Q1 to Q4 in FY 2023. Through existing customers centered on Asia, we will meet demand in Asia and Europe, as well as the U.S. where market expansion is expected in the future.

Questioner 5: Is the recovery in consumer electronics applications for specific major smartphone manufacturers or the overall recovery trend? Also, what is your estimate of the growth in shipments of LIB separators in FY 2023?

Onodera: We expect an overall recovery in consumer electronics applications, especially in the smartphone market in China, and we plan for shipments of LIB separators in FY 2023 to grow by about 50% over FY 2022.

Questioner 6: In the Homes business category, you are forecasting a year-on-year decrease in operating income for FY 2023, with operating income of 11.2 billion yen in H1 and 22.9 billion yen in H2, with a bias toward H2. Is this forecast based on the assumption that orders will recover from the current sluggish situation, or are there other factors other than that? Also, your FY 2023 order target is a 10% increase year-on-year. What is the reason for this high growth?

Kume: Performance will increase in H2 because of seasonal factors as well as the increased average unit price. Regarding the order target, we still have room for growth in the middle- to high-end market for both unit homes and apartment buildings, and we intend to achieve the target by promoting larger and higher value-added units, which we have been working on for some time. For unit homes, we launched a new heavy steel-frame, large-roofed product in April 2023, expanding the product lineup for the affluent class. For apartment buildings, we will pursue collaboration between Asahi Kasei Homes and Asahi Kasei Realty & Residence, and focus on orders for apartment buildings with higher added value.

Questioner 6: Which has more impact on achieving a 10% increase in orders: unit price or volume?

Kume: Unit prices are expected to increase mainly for apartment buildings.

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.

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