

Summary of Q&A at Financial Results Briefing for Q3 Fiscal 2024

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Asahi Kasei Corporation

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Questions and Answers

Corporate:

Q: Do you plan to announce further structural transformation during FY 2024? Your announcements of structural transformation seem to be delayed; are you encountering difficulties in negotiations?

Horie: Structural transformation is still in progress, and we are continuing to consider measures for the targeted businesses. We are also exploring all possibilities for structural transformation in the petrochemical chain-related business, including reforming businesses from the perspective of the best owner and optimizing them through collaboration with other companies. Therefore, the effects of structural transformation will become more visible as we move forward, and we will steadily proceed so that we can announce them as soon as possible. In addition, we are steadily proceeding with the business transfers decided in FY 2024, and we expect to record transfer gains, etc. in FY

2025 or later.

Q: FY 2024 results have been strong, but what is the outlook for operating income for FY 2025?

Horie: We aim to continue to increase operating income through FY 2025, and hope to soon exceed our record-high operating income of 209.6 billion yen. In Homes and Health Care, we have achieved steady operating income growth to date, and we expect to continue to do so during the next MTP period, which begins in FY 2025. In Material, growth-driving businesses centered on Digital Solutions and strong niche businesses such as ion-exchange membrane chlor-alkali electrolysis will continue to perform well, and the overall business structure will be transformed into one that can generate stable operating income.

Material:

General

Q: Could you please explain the factors behind fluctuations in operating income for each of your businesses from Q2 to Q3 and again in Q4?

Tanaka, Onodera: In Environmental Solutions, operating income declined from Q2 to Q3 due to lower sales volume and capacity utilization in Basic Materials, as well as the impact of plant maintenance turnarounds. In other businesses, including the separator business, operating income was generally flat. The business of Hipore wet-process lithium-ion battery separator was affected by higher SG&A expenses and a change in the product mix, but operating income increased due to a temporary increase in shipments before the end of sales for existing projects in automotive applications.

From Q3 to Q4, Basic Materials expects an increase in sales volume due to alleviation of the effects of plant maintenance turnarounds, but a decrease in income due to increased seasonal fixed costs and other factors. Other businesses are also expected to see a slight decrease in operating income, mainly due to an expected decrease in sales volume in the Hipore separator business, especially for automotive applications.

Moriwaki: In Mobility & Industrial, operating income declined from Q2 to Q3. In car interior material, although sales volume increased, operating income remained flat due to increased fixed costs and other expenses and a difference in product mix. On the other hand, in engineering plastics, operating income decreased due to a delay in the recovery of sales for industrial applications and decreased sales volume as an impact of plant maintenance turnarounds.

We expect an increase in operating income from Q3 to Q4. Although sales volume in car interior material is expected to decline due to the impact of the Chinese New Year, sales in engineering plastics are expected to increase for both automotive and industrial applications, and the impact of plant maintenance turnarounds is expected to be resolved.

Igarashi: In Life Innovation, operating income increased in Q2 and Q3 due to strong sales of ICs for smartphone camera modules and other products in Digital Solutions, as well as solid performance in fibers, consumables, and other businesses.

We expect a decrease in operating income from Q3 to Q4 due to demand skewed toward Q3 due to seasonality and an increase in fixed costs in Q4. However, we expect the business environment to remain firm.

Environmental Solutions

Q: What is the background behind the upward revision of the full-year operating income forecast for businesses other than Basic Materials from the November forecast? To what extent does the separator business contribute to the upward revision?

Tanaka, Onodera: The upward revision is mainly due to fixed cost reductions, the impact of yen depreciation, and improved terms of trade in synthetic rubber & elastomers. The upward revision in the separator business accounts for about 20% of the upward revision in all businesses except Basic Materials. While sales volume of Hipore for automotive applications was lower than expected, the upward revision was due to steady sales in consumer electronics applications, an improved product mix, and lower fixed costs.

Q: Various policy changes are expected with the inauguration of the new U.S. administration. How do you see the impact on the North American investment strategy of the separator business?

Horie, Onodera: With the change of administration in the U.S., policy changes are expected, such as reduction or elimination of subsidies with amendments to the U.S. IRA (Inflation Reduction Act), relaxation of environmental regulations, and higher tariffs, etc. These changes are expected to affect the speed of growth of the EV and separator markets, and the business environment in North America. In addition to policy developments, based on the supply chain situation in the U.S. including the location of LIB manufacturers and automobile manufacturers who are our customers, we will promote specific measures to ensure that we, as a separator supplier in North America, can offer the best solutions to our customers' issues. Examples include exporting base film manufactured at the Canadian plant, which is currently under construction, to the North Carolina facility in the U.S. for coating using the coating facilities that are currently under construction, and horizontal collaboration in the U.S. supply chain. Since the Canadian plant is scheduled to start operations in the second half of 2027, we will collaborate closely with our partners to appropriately manage risks, such as expanding our customer portfolio to include other regions.

Life Innovation

Q: What is the background behind the upward revision of the full-year operating income forecast for Digital Solutions from the previous forecast?

Igarashi: Operating income was revised upward due to strong sales of glass fabric, mainly for AI servers, and Pimel photosensitive insulator.

Q: With regard to the increase in operating income mentioned on p. 20 of the presentation material, how much of the 13.6 billion yen in volume factor for Life Innovation is attributable to Digital Solutions?

Igarashi: About 60% of the volume comes from Digital Solutions.

Q: Regarding the core products of Digital Solutions listed on p. 23 of the presentation material, how much did sales for the April-December period grow compared to the same period a year earlier? Do you expect this growth to continue in Q4?

Igarashi: Sales of glass fabric grew by about 28%, Pimel by about 24%, and ICs for camera modules for mobile devices by about 14%. Although sales volume varies depending on the season, we believe that demand will continue to be strong in Q4 and beyond.

Q: With regard to Digital Solutions, which products do you expect to grow further in FY 2025? Regarding glass fabric, is it possible that the procurement of yarn, the raw material for glass fabric, will be the rate-limiting factor for growth?

Igarashi: We expect sales of Pimel and glass fabric in electronic materials, and ICs for camera modules for mobile devices in electronic components, to continue to grow in FY 2025, as we capture demand for AI servers, high-end smartphones, and other applications. As for yarn, we are continuing discussions with several suppliers to ensure stable procurement, and we hope to meet the growth in

demand for glass fabric.

Q: How do you see the AI DeepSeek from China, and China's consumer electronics policy, affecting Digital Solutions?

Igarashi: There is no particular impact from DeepSeek at the moment. We will continue to develop and provide products that our customers need, while monitoring the impact of this matter on the market. We are also keeping a close eye on China's consumer electronics policy, but since our products are widely used outside the Chinese market, we do not anticipate any major impact at this point.

Health Care:

Health Care business category

Q: What are the reasons for the expected declines in sales and operating income from Q3 to Q4?

Okajima: The businesses that are expected to post lower sales and operating income are mainly Pharmaceuticals. Sales volume decrease in Q4 is not unusual. Q4 tends to have the lowest sales volume of the year due to inventory build-up before the year-end and New Year holidays, and having fewer business days, as well as the impact of restrained purchasing in Japan ahead of the NHI price revision in April. Furthermore, we expect an increase in amortization of goodwill and other intangible assets due to the finalization of purchase price allocation (PPA) of Calliditas Therapeutics AB in Q4, and fixed costs, including R&D expenses and newly introduced projects, will be concentrated in Q4, resulting in a decrease in operating income.

Q: What is the background behind the upward revision of the full-year operating income forecast from the previous forecast?

Okajima: The upward revision was mainly due to Pharmaceuticals. The main reason for the upward revision is that Envarsus XR immunosuppressant had a one-time revenue and unit price increase during the price negotiation process, which elevated the performance in Q3.

Q: Do you expect the same growth rate in sales of Envarsus XR for FY 2025 as you did in FY 2024?

Okajima: Since FY 2024 is progressing at a higher-than-expected growth rate due to price negotiations and other factors, it is possible that the FY 2025 growth rate may appear to be slightly lower than FY 2024. However, on a 3-5 year average, we believe that a growth rate in the low 20% range can be expected.

Q: To what extent will the curtailed shipments of Kevzara for rheumatoid arthritis have an impact on business performance in the future? Have doctors shifted their prescriptions to competing products?

Okajima: The curtailment of Kevzara shipments was lifted in mid-September 2024 and the inventory has now normalized, but the temporary shift of some patients to competing products and the inability to gain new patients during the period of curtailed shipments resulted in lower sales volume in the second half of FY 2024, and we expect the effect to persist into FY 2025. However, prescriptions by physicians are gradually recovering and a return of prescriptions from competing products to Kevzara has been observed, so we expect the product to return its original growth path in the future.

Critical Care

Q: What are the factors behind the increase in sales and operating income from Q3 to Q4?

Nakano: For defibrillators, sales volume is expected to increase due to progress in sales expansion of AEDs and the fact that some orders will be shifted to Q4. Orders for LifeVest wearable defibrillator are also expected to remain steady in Q4, as orders are improving in H2 because of replenishing the sales force for LifeVest.

Q: What is the background behind the downward revision of the full-year operating income forecast from the previous forecast?

Nakano: Both defibrillators and LifeVest were revised downward from the previous forecast. As for defibrillators for professional use, sales progress has been slower than planned due to a longer than expected period of time for customers to consider purchasing the products as an effect of new product launches by competing manufacturers and expectations of our new product launches. Since we are not losing market share to competing manufacturers, we expect sales to remain firm in FY 2025. As for AEDs, we expect sales volume to be lower than expected due to somewhat protracted inventory adjustments by customers, but we expect orders to recover, including the effect of cultivating new markets. As for LifeVest, we expect volume to be lower than expected, but orders have been growing recently, and we anticipate steady sales through FY 2025.

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.