

Summary of Q&A at Financial Results Briefing for Q2 Fiscal 2025

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Asahi Kasei Corporation

Participants

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Questions and Answers

Corporate:

Q: You decided to perform a share repurchase up to ¥40 billion, but DOE (dividends on equity) still leaves room for further dividend increases toward the benchmark of 3%. Why did you choose a share repurchase instead of increasing dividends? Also, what is the rationale behind setting the amount at ¥40 billion?

Horie: Under the MTP, which emphasizes the enhancement of shareholder returns, we consider share repurchases to be a more flexible means of implementation compared to dividend increases. Amid ongoing business portfolio transformation from a medium-to-long-term perspective and the solid progress in this fiscal year's performance, we decided to implement the share repurchase as a message that we are not satisfied with the stock market's valuation of our company. Regarding dividends, we already anticipate a ¥2 increase for this fiscal year, but we will continue to review this based on future performance.

The ¥40 billion amount was determined based on the capital allocation outlined in the MTP, targeting approximately 2% of outstanding shares.

Healthcare:

Pharmaceuticals & Life Science

Q: Sales of Tarpeyo IgA nephropathy treatment from Calliditas Therapeutics AB and Envarsus XR immunosuppressant from Veloxis Pharmaceuticals, Inc. remained strong in Q2. Could you explain the background behind H1 results exceeding the previous forecast in July?

Nakano: In Pharmaceuticals, the main factors were strong sales of mainstay products, primarily Tarpeyo and Envarsus XR, and lower SG&A expenses.

Nefecon (marketed in the US as Tarpeyo) is recommended in *Kidney Disease: Improving Global Outcomes (KDIGO) 2025 Clinical Practice Guideline for the Management of IgA Nephropathy (IgAN) and Immunoglobulin A Vasculitis (IgAV)* as the only treatment for IgAN that has demonstrated a reduction in pathogenic IgA. Thanks to its inclusion in the KDIGO 2025 Guideline, Tarpeyo is progressing steadily with new patient prescriptions at a pace exceeding expectations. We see this trend continuing in H2 onward.

Sales of Envarsus XR are progressing steadily, driven by the success of strategic marketing activities aimed at further increasing its adoption among physicians.

Q: What effects can be expected from the inclusion of Tarpeyo in the KDIGO 2025 Guideline?

Nakano: The KDIGO 2025 Guideline recommends treatment with Tarpeyo for IgAN patients. The key point is that while conventional treatment was primarily limited to supportive therapy aimed at protecting the kidneys, the KDIGO 2025 Guideline formally positions Tarpeyo as a treatment for IgAN and clearly emphasizes the importance of early diagnosis and prompt initiation of treatment for IgAN. While some reaction was observed when the draft guideline was publicly released in FY 2024, its official publication is expected to further increase adoption among physicians. Consequently, an increase in new patient prescriptions is expected in H2 onward.

Q: Could you explain the background behind the forecasted decrease in operating income for Pharmaceuticals & Life Science from H1 to H2? Also, what is the sales outlook for Tarpeyo and Envarsus XR?

Nakano: In Pharmaceuticals, we expect decreased operating income due to factors such as increased R&D expenses resulting from in-licensing activities, in addition to the usual seasonal factors.

We expect Tarpeyo to continue performing steadily, with sales projected to grow at a rate in the low double digits from H1 to H2.

We also expect Envarsus XR sales to remain solid through H2.

Q: Regarding Tarpeyo, it appears a competing drug is scheduled for launch in H2 2025. How do you view the impact? Also, has the outlook for prescription share changed from the initial expectation at the time of the acquisition?

Nakano: We anticipate that the prescription share of Tarpeyo will be impacted to some extent by the launch of competing drugs. However, this has been anticipated since the time of the acquisition. As the first drug approved for IgAN, its widespread adoption is expected. Its unique characteristics also allow us to differentiate it from competing drugs. Therefore, we remain confident that it will be able to secure a certain position in the market even as competing drugs are launched.

Regarding the prescription share among IgAN patients, we initially projected approximately 10% by 2030 at the time of the acquisition. While future launches of competing drugs and the results of the ongoing post-marketing clinical trial for Tarpeyo could impact this, our current view remains unchanged from the initial expectations.

Q: Regarding Tarpeyo, peak sales of more than \$500 million were expected after FY 2030 at the time of the acquisition. Could you comment on the possibility of achieving this peak 2-3 years earlier?

Nakano: Due to factors such as the impact of the inclusion in the KDIGO 2025 Guideline, adoption among physicians has progressed beyond our initial expectations at the time of the acquisition, leading to increased new patient prescriptions. Consequently, we anticipate the possibility of achieving peak sales earlier than initially forecasted.

Critical Care

Q: What are the factors behind decreased operating income from Q1 to Q2?

Nakano: This was due to a decrease in sales volume of defibrillators for professional use and AEDs caused by issues during the launch of a new logistics center, combined with an increase in one-time SG&A expenses.

Q: Could you explain the background behind the forecasted increase in operating income for Critical Care from H1 to H2? Also, a new defibrillator product for professional use has been launched. What is the current order situation?

Nakano: The main factor is increased operating income from ACT (defibrillators for professional use, AEDs, etc.). Sales were slow in H1 due to customers waiting for the launch of the new defibrillator product and a period when shipments were delayed due to issues during the launch of the new logistics center. However, with the new product launched at the end of September, we plan to recover and ramp up shipments in H2.

Current orders for the new product are progressing at or above the anticipated pace.

Q: Could you provide the sales outlook for ACT and LifeVest wearable defibrillators for H2? Also, regarding AEDs, how do you view the impact of recalls by a competitor and customer inventory adjustments?

Nakano: We expect sales of ACT to increase by about 30% from H1 to H2. Sales of LifeVest are expected to remain steady in H2, at the same level as H1.

For AEDs, we see potential for an increase in sales of approximately \$10 to \$15 million due to recalls by a competitor. Furthermore, inventory adjustments by AED customers have already been resolved.

Homes:

Housing

Q: Regarding order-built homes, while performance remains solid due to the progress of larger and higher value-added units, how sustainable is this trend going forward, including the current order situation?

Sakai: Through strengthening corporate marketing and other initiatives, we have generally secured orders as anticipated. We believe there are no significant risks to performance at least through FY 2025.

Q: Regarding Overseas Homes, when do you anticipate demand recovery for the North American business? Also, while operating income is expected to improve from H1 to H2, is this improvement based on anticipating a recovery in demand, or are there any measures for improving performance through your own efforts?

Sakai: The most significant factor influencing demand recovery in the North American business is

the decline in mortgage interest rates. The H2 forecast incorporates the expectation that demand will gradually improve starting in Q4 as interest rates decrease. Until demand recovers, we will focus on reducing fixed costs and enhancing profit margins.

Material:

General

Q: What are the factors behind the fluctuation in operating income for each business in Material from H1 to H2?

Takahashi, Hashimoto: For Material as a whole, we expect an increase in operating income of approximately ¥10 billion from H1 to H2.

Electronics is expected to see increased operating income as sales of mainstay products remain strong, continuing the trend from H1.

Car Interior anticipates increased operating income due to positive effects of changes in the product mix, driven by strong sales to Europe, and cost reductions.

Energy & Infrastructure expects operating income to remain flat, as the negative impact from changes in the sales mix and increased SG&A expenses in the wet-process LIB separator business is offset by increased sales of plants in the ion-exchange membrane process chlor-alkali business.

Comfort Life is expected to see increased operating income, with steady performance across each business, primarily in consumables.

Performance Chemical expects operating income to remain flat. Whereas H1 was impacted by maintenance turnarounds for nylon and urethane intermediates, H2 will be impacted by maintenance turnarounds for engineering plastics while fixed costs will be skewed toward H2.

Essential Chemical is expected to see increased operating income as the impact of a maintenance turnaround will not recur, although terms of trade are deteriorating due to the decline in petrochemical market prices.

For Others in Material, we anticipate increased operating income due to factors such as the nonrecurrence of the impact of a maintenance turnaround in the energy division.

Car Interior

Q: The operating margin for H1 deteriorated compared to the same period last year. What are the factors behind this? Can we expect an improvement in the operating margin for H2? Also, what is the outlook for performance next fiscal year?

Takahashi: The operating margin for H1 deteriorated year-on-year due to increased fixed costs and the negative effect of foreign exchange due to a stronger yen. For H2, we anticipate an improvement in the operating margin driven by positive effects of changes in the product mix and cost reductions. Looking ahead to next fiscal year, we expect steady profit growth by expanding our value-added offerings in automotive interiors and enhancing profitability through cost reductions and other measures.

Chemical (Performance Chemical, Essential Chemical)

Q: Could you provide an update on the progress of the structural transformation in Chemical?

Horie: Regarding the structural transformation of Chemical, we are continuing discussions, including the three-company collaboration concerning ethylene manufacturing facilities in western Japan. We will steadily proceed so that we can make an announcement as soon as possible.

Q: The challenging business environment persists. How do you plan to restore performance, including through structural transformation?

Horie: While advancing the structural transformation may negatively impact income, we believe it

will improve investment efficiency. Chemical requires ongoing cash outflows for maintenance investments, but given the current external environment, recovering these investments is difficult. By redirecting the cash outflows saved through the structural transformation to investments in growth businesses, we will enhance the overall investment efficiency in Material.

Q: There are moves to reduce ethylene production capacity in South Korea. Could you comment on the impact on your acrylonitrile business?

Horie: Regarding the acrylonitrile business in South Korea, we have established a stable supply system by securing diverse sources of propylene, the raw material. Therefore, we believe the impact of the reduction in ethylene production capacity in South Korea will be limited.

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.
