

## **Main Substance of the Question and Answer Session**

### **DX Strategy Briefing, held on December 7, 2023**

Asahi Kasei Corporation

#### **Participants**

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#### **• Business Transformation through DX**

Q: How will business transformation through DX strategies contribute to future business portfolio transformation?

A: Through the promotion of DX, we are trying to advance a fundamental structural change from conventional businesses, especially in the Material sector. In the ion-exchange membrane business, which I introduced as an example, we are trying to increase added value through data-driven services in addition to conventional product sales. The business model will be applied to hydrogen-related businesses, and other future business possibilities will also be expanded through DX.

#### **• Contribution of DX to business performance**

Q: Are there any quantifiable results of DX that can be demonstrated in terms of efficiency, profitability, etc.?

A: Materials Informatics (MI) has accelerated development speed by 10 to 20 times in some cases, leading to increased business opportunities and the development of innovative materials, etc. We expect that products developed using MI will contribute billions of yen to profits by 2024 to 2025. Smart factories are also expected to contribute billions of yen in productivity and quality improvements.

Q: While DX contributes to cost reductions, it also incurs costs for human resource development and utilization of the cloud, and you expect DX-related investments to total about 30 billion yen over the next three years. Will costs continue to increase after the digital normal period?

A: Regarding human resource development, we expect future costs to be flat or lower now that the framework has been established. On the other hand, the cloud utilization costs are expected to increase. However, utilization of the cloud will reduce costs such as depreciation of on-premise servers. In addition, license fees and other costs are being reviewed internally. We aim to increase the profit contribution of digital marketing, MI, smart factories, etc., while keeping DX-related investments at around 10 billion yen per year.

#### **• Materials Informatics (MI)**

Q: What is the contribution to net sales from the new products of Planova virus removal filter shown on page 12 of the presentation material? Also, please tell us about the profit impact of introducing MI, such as whether the R&D expenses have been increased and whether the increased costs are offset and overall profitability of the business is improving.

A: The product was launched in H2 2022, and although the scale of sales is not yet large, we believe

that it will become a mainstay product that drives sales of Planova in the future. As for costs, there has been no significant increase in R&D expenses, as our existing R&D personnel are acquiring MI skills.

- Smart Factory

Q: What is the current progress of the conversion to smart factories toward your goal?

A: Asahi Kasei has many plants in Japan and overseas, some of which are quite old. We have not set a uniform goal of smartification for all the plants, because there are some areas that can be addressed through digital means alone, and other areas that require physical renovation of buildings, equipment, and so on.

As an example, the recently constructed new plant for Ceolus microcrystalline cellulose in Mizushima Works has an advanced inventory management and logistics systems in addition to automation, and we believe that it has achieved about 80% of the vision of the smart factory we aim for.

In the smart factory maturity assessment on page 16 of the presentation material, each plant aims to reach a score of 3 out of 5 in FY 2024, and is steadily continuing to make improvements.

Q: What level of cost reduction and productivity improvement are you aiming for through smarter operations? Do you have any indicators as a guideline?

A : Petrochemical-related plants in particular have large costs associated with maintenance turnaround, and we are working to reduce these costs, although we cannot give a specific scale. Each plant sets its own productivity targets. For example, one plant has achieved a 20% improvement in productivity, but we have not set an overall benchmark.

- Sales and marketing using DX

Q: On page 19 of the presentation material, it is mentioned that the number of SALs (Sales Accepted Lead) created in the electronic components business has doubled compared to the past due to marketing using digital technology. What exactly does this mean and how did you achieve it?

A: The number of SALs refers to the number of potential customers identified through marketing activities and connected to the sales department with increased willingness to purchase. For example, by analyzing companies that might be interested in our products, we can identify potential customers that were previously excluded from our target customers and provide them with product information according to their interests. This has led to a higher quality of inquiries from the customers, an increase in their willingness to purchase, and ultimately, an increase in the number of SALs.

Regardless of whether the sales process leads to a closing or not, customer reactions and requests are to be reflected in our internal analysis database, which is used to improve subsequent marketing effectiveness.

Q: Marketing and sales using DX is important in the Homes sector, too, with the number of visitors to model homes decreasing after the COVID-19 pandemic. What initiatives are being undertaken?

A: We are enhancing virtual model homes, which allow visitors to freely view the inside on our website. In addition, various new marketing methods are being studied jointly with Asahi Kasei Homes and Digital Value Co-Creation.

- Other

Q: What areas have progressed more than expected, or less so, over the past year?

A: One thing that has progressed better than expected is the promotion of DX utilization through

community activities as described on page 32 of the presentation material. It is very important for all employees to utilize DX on site toward the digital normal period. The use of generative AI and the development of applications in low-code and no-code<sup>1</sup> by employees who are not IT experts are spreading, and this is a major movement that is changing the entire group.

On the other hand, what has lagged somewhat is the on-site initiative DX framework in manufacturing. As with R&D and sales and marketing, the training of digital professional personnel to utilize DX is progressing well, but the development of the framework and environment that enables them to thrive on site is somewhat slower than expected.

<sup>1</sup> A method of developing applications and systems without the use of specialized programming code.

Q: What kind of world do you envision as manufacturing companies promote DX? Do you think there could be intensifying competition, such as rapid turnover in product adoption, or the standardization of technology resulting in the emergence of numerous competitors in Europe and the U.S. through the replication of Japanese technology, which excels in analog craftsmanship?

A: There is such a risk, but to begin with, Japan lags behind Europe and the U.S. in DX, and we feel that it is necessary to have frameworks and mechanisms to promote DX collaboration with competitors as well. Currently, similar initiatives are often being pursued by each company, but by standardizing those areas that can be shared while keeping secret those areas where the company has a competitive edge, lower costs and greater speed can be attained. In addition to maintenance turnaround, predictive maintenance, and smart laboratories, there are many aspects where we can cooperate in human resource development.

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.