Main Substance of the Question and Answer Session

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Asahi Kasei Corporation

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Questions and Answers

Three-sector management:

Q: For each sector, what are the advantages of being part of the Asahi Kasei Group? Also, if each sector were to become a separately listed company, what disadvantages would you expect?

Kawabata: In Homes, we have already reached a scale at which we can compete on equal footing with listed major housing manufacturers. However, listing the business would create new costs. In addition, we can utilize the excellent management platform shared within the group—such as corporate functions including the legal division and intellectual property division—which provides a strong sense of security.

Also, in Housing, there are cases where we request cross-business cooperation, such as strengthening corporate referrals. Because colleagues across the sectors have been cultivated under the group's shared philosophy, communication flows more smoothly than when working with external companies, which is another advantage.

Yamagishi: I feel that one major advantage is the ability to mutually leverage diverse human resources and business expertise. In Material, personnel who transferred from Homes are playing active roles, and expertise from business related to delivered homes such as remodeling is helping to expand solution-oriented businesses such as ion-exchange membrane process chlor-alkali electrolysis. We aim to apply this expertise to other businesses as well, including alkaline water electrolysis for hydrogen production. Going forward, as in the case of the Smart Lab concept for Pimel photosensitive insulator, DX utilizing AI will also progress. We believe that our strength of having accumulated data and technologies from diverse businesses can be further leveraged.

Shinomiya: In Healthcare, the participation of ZOLL Medical Corporation brought in U.S.-style healthcare business practices and M&A approaches, and the group's ecosystem has enabled us to internalize that expertise effectively. In addition, Pharmaceuticals has reached its current state by entering the U.S. market; being part of the Asahi Kasei Group allows us to secure highly capable personnel that would be difficult for a standalone pharmaceutical company with around ¥200 billion in sales, and to leverage the high-level intellectual property division within the corporate functions—both major advantages. While our scale does not match the largest pharma companies, we have built a unique business model precisely because we are within the Asahi Kasei Group, and we take pride in that uniqueness as we advance our business.

Q: Please share examples where being under the Asahi Kasei Group made growth possible in each sector.

Kudo: I will explain using three specific examples. First, one of our intangible assets is the diverse core technologies we have cultivated as a manufacturer throughout our history. For example, in businesses such as Planova virus removal filters, LIB separators, ion-exchange membrane process chlor-alkali electrolysis, and alkaline water electrolysis for clean hydrogen, the membranes and separation technology—one of our core technologies—form the foundation. Deploying core technologies into diverse applications in this way is a synergy unique to us. While we currently organize sectors according to the markets each business addresses, in the future it is conceivable that, to generate even greater synergies, we might define sectors based on core technologies themselves.

Second, M&A expertise is also one of our intangible assets, and we believe that we have accumulated considerable expertise compared with other companies. We have learned from both successes and failures across our three sectors, establishing criteria and risk-management expertise to improve the likelihood of success. For instance, our overseas expansion in Homes leveraged insights from the ZOLL acquisition; likewise, acquiring Calliditas Therapeutics AB benefited from the experience gained with the acquisition of Veloxis Pharmaceuticals, Inc.—without which our Pharmaceuticals growth would not be what it is today. These are examples of growth unique to us.

Third, our business strategies that capitalize on the Asahi Kasei ecosystem are also distinctive. In Homes, for example, we concentrate operations on urban areas and thoroughly refine the brand value of HEBEL HAUS. In Healthcare, we narrow our focus to specific disease areas such as kidney disease and acquire late-stage pipeline compounds and companies that have marketed products, enabling operations with a high probability of success. These strategies reflect our way of succeeding and our culture. Meanwhile, in Material, we are advancing structural transformation to concentrate on businesses that uniquely leverage our strengths.

Q: Please share specific examples of synergies generated through the mutual utilization of diverse management platforms across the three-sector management.

Kudo: In the Management Council, the heads of the three sectors and other executives exchange candid opinions across sector boundaries, leading to stimulating and constructive discussions. The Homes and Healthcare sectors, in particular, pose tough questions to the Material sector and corporate functions—asking, for example, whether corporate functions are delivering valuable services efficiently. From such discussions, we have launched initiatives to strengthen the capabilities of our corporate functions.

In Pharmaceuticals, starting around 2014 we gradually reduced the number of medical representatives while maintaining high customer satisfaction and improving operational efficiency. We implemented these measures ahead of the broader industry trend, thanks in part to astute feedback from other sectors and businesses.

In our three-sector management, it is vital that each sector stands on its own and continually maintains awareness of portfolio transformation. Each sector will transform its business portfolio and pursue independent growth, while I, as President, will calibrate the balance among sectors at the group level to achieve overall growth.

Kawabata: In Housing, orders for multi-dwelling homes have increased through strengthened corporate referrals, underpinned by the broad networks of B2B businesses and human resources of the Asahi Kasei Group.

Q: In utilizing DX across various business processes, are there synergies you can uniquely generate as the Asahi Kasei Group?

Kudo: Going forward, we anticipate further DX particularly in the standardization of manufacturing technologies and in improving efficiency and reducing costs within corporate functions. We are driving forward multiple initiatives with a strong sense of urgency and hope to present concrete progress and issues in the near future.

Q: It seems there are few synergies between Homes and the other sectors based on core technologies. Are there still advantages to running Housing under the Asahi Kasei Group?

Kawabata: I believe there are two major advantages.

First, the constraints of operating Housing under the Asahi Kasei Group have, in fact, helped propel us toward a high value-added model. Because the Asahi Kasei Group has diverse businesses and limited investment capacity, we have deliberately avoided aggressive real-estate investments, such as acquiring land for subdivision sales. As a result, in our order-built homes we strengthened our rebuilding strategy, and later in development we established a unique model focused on rebuilding aging condominiums. If we had pursued a conventional growth strategy reliant on expansionary investments, we might not have built such a strong business model. I consider this is one advantage of operating within the Asahi Kasei Group.

Second, management decision-making benefits from the perspectives of other sectors. When we first discussed entering Overseas Homes, we faced strong opposition at the Management Council and the Board of Directors where executives from other sectors participate. Their rigorous, multifaceted critiques enabled us to exhaustively identify risks and proceed with careful preparation. If we had made decisions solely based on the knowledge and experience of Homes, we might have leaned toward expansion decisions simply because we had available cash. When management acts as one team and executes appropriately, three-sector management creates value. Being multi-business is not in itself positive or negative; what matters is how it is managed.

Pharmaceuticals:

Q: Regarding Tarpeyo IgA nephropathy treatment, is the potential for reaching the initially forecasted peak sales 2–3 years earlier due to pricing of a competing drug being relatively higher?

Shinomiya: The anticipated annual drug cost for the competing disease-modifying drug that was launched is about 2.4 times that of Tarpeyo, which was broadly in line with expectations. We feel that market penetration is progressing faster than we assumed at acquisition, and our view that Tarpeyo will capture around a 10% share of prescriptions for IgA nephropathy therapies in the U.S. remains unchanged.

The earlier-than-expected timing of peak sales reflects effective marketing strategies and the fact that, as the first disease-modifying drug for IgA nephropathy, physicians have rated it more highly than we expected. Inclusion in the international treatment guideline for IgA nephropathy is another positive factor.

Q: You are conducting a clinical trial to evaluate the efficacy and safety of longer treatment period and resumption of treatment with Tarpeyo. By how much could this raise the initially forecasted peak sales, and when do you expect results?

Shinomiya: Our current view is that, depending on the trial results, peak sales could potentially have an upside of around $100 million. As for when results of the clinical trial regarding longer treatment period and resumption of treatment will be available, it would be premature to say. That said, although the current recommended duration is nine months, in practice there are cases where physicians prescribe beyond nine months, so we see potential for longer treatment period and resumption of treatment.

Q: How do you view the impact on sales from patent expirations for Envarsus XR immunosuppressant and Tarpeyo?

Shinomiya: The sales graph on page 23 of the presentation material is only a conceptual illustration, but we expect Envarsus XR sales to gradually decline from fiscal 2028, while overall sales will grow through Tarpeyo and additional new drug launches.

For Tarpeyo, we hold patents on a specialized formulation technology that dissolves in the intestine, with protection through 2043. That said, we assume the possibility of generic entry before then and have built our business plan accordingly.

Q: What is your outlook for Envarsus XR?

Shinomiya: The overall kidney transplant market was originally expected to grow by a few percent, but recently growth has been constrained by donor availability. Even so, Envarsus XR sales are trending stably, and with strengthened commercial efforts we expect approximately 10% annual growth. It is still unclear what generics might launch after the fiscal 2028 patent expiry, but we will continue to monitor the situation closely.

Q: It was stated that you aim to launch new drugs toward fiscal 2030. Are you considering new M&A, or do you have promising assets within the existing pipeline?

Shinomiya: We continuously evaluate both M&A and in-licensing to acquire the next growth drivers. For M&A, we aim to execute at least one transaction during the current MTP period. We will also actively pursue attractive in-licensing opportunities should they arise.

Q: Over roughly the next five years, is it fair to assume there is no material risk of deterioration in Pharmaceuticals?

Kudo: We see limited risk of significant deterioration over the next five years and believe further growth is achievable. Taking into account major patent expirations, competitive dynamics, and potential future impairment risks, we have formed an overall view through around 2035, and we consider the prospects strong for establishing a distinctive business model for sustainable growth in Pharmaceuticals.

Overseas Homes:

Q: In Arizona, when did the Synergos model (a systematized construction business model that integrates the core steps of the construction process) become fully established? And what is the status in other states?

Kawabata: The Synergos model integrates the five main steps in the construction process—plumbing, concrete, framing, HVAC, and electrical—by bringing them together through M&A. In Arizona, we had all five steps in place by fiscal 2021. In Nevada, one step remains; in Florida, three steps remain to complete an equivalent model.

The housing business in North America is highly regional in nature, so we do not aim for nationwide operations. Instead, we focus on areas within North America with particularly strong population inflows and will steadily raise our market share in the states where we operate. We prioritize establishing a certain level of competitiveness in each state over expanding our geographic footprint rapidly.

Q: What risks could impede extension of the Synergos model?

Kawabata: In the North American housing industry, increased demand coupled with fewer low-wage workers is making labor-dependent models less sustainable, thereby raising momentum toward systematized construction. We view this shift as a business opportunity and are promoting systematized construction using the Synergos model. However, if low-wage labor were to become readily available, the environment would be less conducive to the adoption of the Synergos model. In addition, during the current low-demand period, builders' needs for shortening construction schedules are weaker, making it difficult for the Synergos model to demonstrate its strengths. By cultivating new customers in advance of demand recovery and driving cost-reduction efforts, we aim to minimize performance declines during future periods of low demand.

Electronics:

Q: Regarding the growth strategy for Pimel, what is your view on expansion beyond existing customers? And how do you view the competitive environment?

Yamagishi: Pimel is seeing expanding demand for advanced semiconductor packaging and is performing well. That said, competition is intensifying, so alongside deepening with existing customers we believe it is essential to expand adoption to other OSAT. At the leading edge, the semiconductor manufacturing process itself is changing; responding swiftly to such technology trends and remaining continually adopted will be key to our future growth.

Q: For glass fabric, how will you differentiate from emerging competitors in China and Taiwan? Could the procurement of yarn become the limiting factor for growth?

Yamagishi: Competition for current generation glass fabric is intensifying. Our approach is to shift our product portfolio from the current generation to the next generation and the subsequent generation glass fabric (quartz glass fabric) to secure competitiveness. For next generation glass fabric in particular, the market is already beginning to emerge and customer requirements are rising, so we will quickly ramp up production volumes.

Regarding the procurement of yarn, for current generation glass fabric, supply and demand are normalizing. For next generation glass fabric, where demand will increase, we have already secured prospects for yarn supply.

Q: How do you view the competitive environment and growth potential for the subsequent generation glass fabric? What is your advantage relative to your competitor?

Yamagishi: We are steadily building a patent portfolio around subsequent generation glass fabric, which we believe will be an advantage for future growth. It will be important to discern market needs and take a leadership role in shaping the market.

We see the relationship with our competitor as one of mutual rivalry while developing the market in parallel. We have strengths in weaving fabric, while the competitor has strengths in yarn manufacturing, so collaboration that combines these strengths may be possible.

Closing Supplementary Comments:

Kudo: I appreciate the very valuable questions today—not only on our businesses but also on group management.

One last point. The management teams of companies we have acquired—such as ZOLL, Synergos Companies LLC, and Sage Automotive Interiors, Inc.—deeply love their businesses and are highly motivated to continue growing together with us post-acquisition. This mindset drives them to think proactively about how they can contribute not only to profit generation in their own businesses but also to the group as a whole, creating synergies. This is a characteristic unique to our company and an important element of M&A success.

Moreover, the Asahi Kasei Group shares a common culture across the sectors: wherever you go, there are distinctively Asahi Kasei people who share our Group Values of Sincerity, Challenge, and Creativity. The barriers between sectors are low, and everyday communication works well, enabling mobility of talent across the sectors. This culture is characteristic of Asahi Kasei and the foundation of our three-sector management. We will continue to leverage this to pursue sustained enhancement of corporate value.

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.