

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

### **Material Sector Briefing, held on December 21, 2023**

Asahi Kasei Corporation

#### **Participants**

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#### **• Medium-Term Management Plan (MTP) Targets**

Q: Although the operating income target for FY 2024, the final year of MTP, has been lowered from the original 270 billion yen to 200 billion yen, the hurdle is still high from the current situation. What are the additional earnings improvement measures that are mentioned on page 4 of the presentation material?

Also, which of the GG10 businesses (10 Growth Gears that will drive future growth) will contribute the most to earnings? What is the roadmap toward the goal, including the perspective of efficiency?

A: As for earnings improvement measures, we have initiated a project to improve productivity through structural reforms, including business innovation, in FY 2023, with a target to reduce SG&A expenses by 20 billion yen. While promoting growth strategies, we will strive to reduce costs in the short term and achieve the profit targets.

In the Material sector, one of the businesses expected to contribute significantly to profits around FY 2030 is separators, and we aim to make a decision on investment in North America during FY 2023. In the Health Care sector, amortization and other costs associated with M&A have affected earnings in recent years, but we expect CDMO and other acquired businesses to contribute to earnings from FY 2025 onward.

Regarding ROIC, we need to increase profitability, growth, and stability in the Material sector, where the size of assets is large. We are considering structural transformation of businesses with total sales of 100 billion yen or more during the MTP period, and we will also implement structural transformation of petrochemical chain-related businesses from a medium-

term perspective. At the same time, we will invest in high-growth, high-profit businesses, as explained today, to replace the content of our assets and improve ROIC. We will also expand solution-based businesses that do not require a large amount of assets by taking advantage of our technology.

- Business strategy in the Material sector

Q: You have traditionally been strong in niche businesses and good at incubating businesses. Why do you think you are the best owner of the digital solutions, separator, and hydrogen-related businesses that you explained today, and why do you operate them on your own rather than through P-PaaS (Product-based Platform as a Service) or TBC (Technology value Business Creation)? The LIB and hydrogen markets are still nascent and require huge investment. Would you consider becoming a minority owner through an IPO or other means? Is there a possibility of switching to a minority stake in the separator business as well, depending on the situation?

A: We have many unique technologies, and we believe that our mission is to use them to continue creating new businesses while maintaining both growth and stability.

As we have said regarding separators, we are considering the use of external funds. However, from the perspectives of technology, profitability, and development of solution-based business, we would like to proceed with a majority stake until around 2030, as projected in the plan currently under consideration.

Hydrogen is a business that has a long value chain and will require time. While it is conceivable that we could promote co-creation of the business with other companies, we would like to proceed as the principal owner so that our business and management would not be affected by the ratio of capital. However, we will consider how to partner with any company without making any assumptions.

- Business Portfolio Transformation

Q: On page 7 of the presentation material, you mentioned that the total sales of the businesses targeted for structural transformation aiming to gain effect during the MTP period (FY 2022–2024) is 100 billion yen or more. What is the total amount of the projects that have already been executed? Is it correct to say that the projects under consideration are also profitable to a certain degree, so the future sale of these businesses will not result in a major profit improvement?

Also, what is the time frame for the decision-making process regarding the structural transformation of the petrochemical chain-related businesses?

A: Regarding structural transformation during the MTP period, we cannot give you the sales figures of the projects that have already been executed, but as you are aware, the impact on profit will not be so large.

We hope to show the direction of the structural transformation of the petrochemical chain-related businesses by the end of FY 2024, the final year of MTP. However, the naphtha cracker in the Mizushima area is operated jointly with Mitsubishi Chemical Corporation, and the time frame is expected to be a little longer because coordination among the parties involved is necessary.

Q: Although you have many niche-leading, highly profitable businesses, since there are so many businesses, it is difficult for outsiders to understand. About structural reforms, we can sense the progress of business portfolio transformation when we see examples of businesses being sold not because of deteriorating performance, but from the perspective of the best owner while the performance is good. For example, Ceolus is a good product and highly profitable, but it is a bit of an enclave from your core technologies and has little synergy. Could such a business be considered for sale? I would like to hear your thoughts from the perspective of business portfolio transformation.

A: Ceolus is a product born out of our long history of cellulose technology, and has achieved high profitability thanks to our unique and advanced technology. It is a business that is best operated by us, and we intend to continue it in the future.

On the other hand, the best owner approach is as you have pointed out. In fact, photomask pellicles, which are used for semiconductor manufacture, were generating near-record profits, but we decided to divest the business to Mitsui Chemicals, Inc. based on the judgment that they were the best owner. It is important for us to determine at an early stage whether a technology or business is one in which we should invest our resources, regardless of the profitability, and to allocate the funds obtained from the sale to businesses that we really should promote.

- Separator Business

Q: Regarding expansion of the separator business in North America, what are your thoughts on the amount of investment and location? Also, with regard to vertical and horizontal collaboration, what kind of partners do you have in mind? Please also include your view on the impact of a change of administration in the U.S.

A: We are not at a stage where we can give an answer to the amount of investment yet, but it will be sizable in order for us to gain certain market share in North America. We have not yet made a final decision on the location. With regard to vertical and horizontal collaboration, as the North American market is becoming huge, although the time frame may differ, we will deepen vertical collaboration with battery manufacturers, automakers, etc., and also consider horizontal collaboration in building supply chains with manufacturers of separators and other materials.

A change of administration in the U.S. may have an impact on EV-related policies, but considering the fact that the federal government, state governments, and industry have already begun to move in unison toward EVs amid the global trend for carbon neutrality, and the broader industry trends related to the digitalization of vehicles, we believe that the general environment related to our North American strategy will not change, although the time frame might shift a little. We will continue to monitor the U.S.-China relationship closely, and we will consider our strategy flexibly as needed while collecting information.

Q: As for the future profitability of the separator business, can we expect ROIC of 10% or more, which the entire group is aiming for around FY 2030?

A: That is our assumption.

Q: Chinese separator manufacturers are catching up considerably in terms of technology. You said that you expect your investment in North America to make a large profit contribution around FY 2030, but I suspect it will not be easy. What is your view of the prospects for the success of your expansion in North America?

A: As you pointed out, Chinese manufacturers are improving their technology, but after analyzing information from various sources, we believe that we have good prospects of success in North America due to our cost competitiveness based on our advanced production technology. In addition, while the performance requirements for separators are changing, we have achieved high quality in terms of the durability and safety required for EV applications, and we also have coating technology that contributes to the efficiency of the production process of our customer battery manufacturers, which has earned us a high reputation. We will further enhance our value provision other than cost competitiveness and strengthen our relationships with customers. Although there are risks that cannot be foreseen in terms of competition, market growth, etc., we will take measures such as fundraising and vertical collaboration.

- Digital Solutions Business

Q: We estimate that the electronic materials business accounts for about 5-6% of total sales in the Material sector. How large do you expect it to become in the future? I would also like to ask about the scale of profit contribution. I guess that the product with the largest sales currently is glass fabric. While you do not manufacture yarn (glass fiber), the raw material for glass fabric, if yarn makers produce fabric themselves, what differentiates your products?

A: For the Digital Solutions business that combines electronic materials and electronic components, we are targeting 300 billion yen in sales and 15-20% ROIC around FY 2030, and will expand

its earnings to become a pillar of the Material sector.

As you pointed out, we purchase yarn from external suppliers, but one of our differentiators is that our products contribute to our customers' productivity improvement by responding to their needs in terms of weaving methods and surface modification. We are promoting DX and working to improve process technology. In addition, we believe that our strength lies in the fact that we do not manufacture yarns, which allows us to handle yarns from a variety of manufacturers and provide glass fabric that meets customer needs.

Q: Regarding Pimel, can we expect it to be used in cutting-edge semiconductor packages and grow in the future?

A: Not only Pimel, but also other electronic materials introduced today are already being used in cutting-edge semiconductor packages, and business opportunities are expanding. Semiconductor packages are becoming more diverse and multi-layered, and the quality and performance requirements for materials are becoming much higher. In addition to our cutting-edge technological development capabilities that make maximum use of materials informatics, etc., we are able to meet the demands of market leaders in terms of development speed and supply capacity, and we intend to further expand our sales in the future.

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.