Transcript of Financial Results Conference for Q2 Fiscal 2020, held on November 6, 2020

Asahi Kasei Corporation

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Presentation

Hamamoto: Good afternoon, ladies and gentlemen. Thank you for joining us in the earnings briefing conference call of Asahi Kasei Corporation. I am Futoshi Hamamoto from Investor Relations, serving as the MC. Today, we will first have a presentation on the financial results for the first 6 months of the fiscal year ending March 2021 by CFO Yutaka Shibata, and then we will take your questions.

Attending this conference call aside from CFO Shibata are: Yozo Sato, from Corporate Accounting & Control; Takuya Takahashi, from Basic Materials Strategic Business Unit, or SBU; Yukifumi Kuwaba, from Performance Products SBU; Hiroaki Sugiyama, from Specialty Solutions SBU; Akira Fukuda, also from Specialty Solutions SBU, Separator Administration; Kensuke Sakai, from Asahi Kasei Homes Corp.; and Masato Kashiwagi, from Asahi Kasei Pharma Corp.

Without further ado, earnings presentation by CFO Shibata.

Shibata: This is Shibata. Thank you for joining us. First, I would like to comment on the fire at Asahi Kasei Microdevice’s semiconductor manufacturing plant in Nobeoka City, Miyazaki Prefecture. We deeply apologize for the great concern and inconvenience caused to the people in the community, the government entities, business partners, and many other stakeholders regarding the fire that broke out on October 20th. We are currently doing our utmost on a group-wide basis to respond to the situation and to fulfill our responsibility for supply with the support of all parties, while cooperating with authorities in their investigation to identify the cause of the fire. The impact on the business performance is included in the full-year business forecast that we are announcing today to the extent that can be presumed at this present time.

P. 3 Overview of H1 results (1)

Please turn to page 3. Overview of H1 results.

Net sales were ¥989.4 billion and operating income was ¥76.8 billion, both exceeding the

August forecast of ¥979 billion and ¥66 billion, respectively. This was because operating income exceeded the forecast in Material and Homes.

The main contributing factors were that in Material, demand for various products recovered with an improved market environment, especially in automotive markets, added with continued firm sales of electronic materials. And in Homes, contrary to the assumption of delays in construction in order-built homes due to measures to prevent the spread of COVID-19 infection, actual deliveries proceeded more smoothly than expected.

P. 4 Overview of H1 results (2)

Please turn to page 4. Overview of H1 results in comparison to the same period of the previous year.

Operating income increased in Health Care, driven by firm performance of the Critical Care business category. But due to the impact of COVID-19 pandemic, particularly on Material, both net sales and operating income decreased year-on-year on a consolidated basis. By segment, year-on-year change in operating income was as follows.

In Material, there was an increase in shipments of lithium-ion battery, LIB, separators and electronic materials, but against the backdrop of COVID-19, lower market prices for petrochemical products and sluggish demand in automotive and apparel markets resulted in a decrease in operating income.

In Homes, while order-built homes and remodeling operations were affected by COVID-19, performance of real estate operation was firm. Operating income for the segment was about the same as in the previous year.

In Health Care, in addition to the impact of COVID-19, there was an effect of amortization of goodwill and others resulting from the consolidation of Veloxis Pharmaceuticals Inc. acquired in FY 2019. There also was an impact of reduced reimbursement prices for pharmaceuticals and medical devices in Japan in Health Care business category. But increased demand for ventilators in the Critical Care business category helped to achieve higher operating income.

P. 10 Statements of income

Pease turn to page 10. Statements of income.

Net sales were ¥989.4 billion, down ¥79.3 billion year-on-year. Gross profit was ¥322.7 billion, and the gross profit ratio was almost the same as in the previous year. SG&A expenses totaled ¥245.9 billion, an increase of ¥1.6 billion year-on-year. SG&A expenses increased despite a decrease in travel and other expenses due to the impact of COVID-19. This was because of an increase in amortization of goodwill with the acquisition of Veloxis, as well as higher labor costs and other expenses in some operations whose business expanded during this period. Operating income was ¥76.8 billion, down ¥24.9 billion year-on-year.

Non-operating income was ¥700 million, a deterioration of ¥2.9 billion year-on-year. The main reason was the worsening of net equity in earnings of affiliates, resulting from poor performance of PTT Asahi Chemical Company Limited in Thailand, due to the worsening market conditions of acrylonitrile, AN, and MMA.

Net of extraordinary items was a loss of ¥6 billion, a deterioration of ¥11.6 billion year-on-year. This was partly due to a decline in gain on investment securities, as the amount of reduction in strategic shareholdings was smaller this year than in the last year. Another factor was the recording of expenses related to business structure improvement at an overseas subsidiary this year.

Income before income taxes was ¥71.4 billion, down ¥39.4 billion. Net income attributable to owners of the parent was ¥46.8 billion, a decrease of ¥31.1 billion year-on-year.

P. 11 Balance sheets

Page 11, balance sheets.

Total assets were almost the same as at the end of March. Notes and accounts receivable–trade decreased following a decline in net sales. Intangible fixed assets decreased with a progress in amortization of goodwill. But due to an increase in the market value of investment securities, the total assets remained almost unchanged from the end of March.

Liabilities, shown on the right-hand side, decreased by ¥20.6 billion. Interest-bearing debt increased by ¥3.8 billion.

Net assets increased by ¥21.1 billion, between a decrease due to dividend payments and an increase coming from the recording of net income attributable to owners of the parent.

D/E ratio was 0.51, little changed from the end of March.

P. 12 Cash flows

Next, moving on to page 12, where you can see consolidated cash flow statement.

Cash flow from operating activities was a net inflow of ¥104.6 billion, reflecting a year-on-year increase in cash inflow due to the decline in working capital, including accounts receivable.

Cashflow from investing activities was a net outflow of ¥85.9 billion. Capital investments in LIB separators among others have been carried out proactively. There was also cash outflow associated with the acquisition of the automotive fabric business of Adient plc by Sage Automotive Interiors, Inc. in H1. As a result, free cash flow was a net inflow of ¥18.7 billion.

On the other hand, cashflow from financing activities was a net outflow of ¥18.5 billion, and cash and cash equivalents at the end of the period was ¥205.8 billion.

P. 14 Sales and operating income increase/decrease by segment

Page 14 shows sales and operating income increase and decrease by segment.

On Material, there was a big negative impact in terms of sales volume due to the decline in demand in automotive and apparel markets. A significant negative impact was attributed to sales prices, as the market prices of petrochemical products deteriorated, while this benefited the operating income under “others” in the form of lower raw materials and fuel prices.

P. 5 Overview of FY 2020 full-year forecast (1)

Now, if you can go back to page 5, I will discuss the forecasts using the next 3 slides.

In August, our forecast for the operating income was given as a range, or ¥120 billion to ¥130 billion for the full year. Now that H1 is over, we have decided to give guidance for the full year for all line items from sales to the net income. As we move into winter, we need to be mindful of possible spread of COVID-19 in the northern hemisphere, but on the back of an improved market environment especially in the automotive market since around Q2, we foresee the trend of a gradual recovery to continue into H2. It is based on this assumption that we have come forward with this forecast.

First, on the trend from H1 to H2. Here you can see the forecast by segment. In Material, the market environment is expected to recover especially in automotive markets. Increased shipments and improved terms of trade for AN are expected in H2. Net sales and operating income are expected to increase from H1 to H2.

As I said at the outset, we have incorporated the impact, to the extent possible for now, from the fire that broke out in the semiconductor factory in October. But investigation into the cause of the fire has not been completed in the site by the local authority, and we have not had any access to the site yet. Therefore, I would like you to be aware that its impact on the financial result is subject to change going forward.

In Homes, due to the impact of consolidation of Austin of the US, which we acquired the other day, and scheduled deliveries of multiple large order-built homes, we expect increase in sales, but sales and various other activities are expected to be resumed, which is likely to result in increased fixed costs. Moreover, in H1, condominium business was quite strong, but it is expected to have run its course in H2. Hence our forecast for a decline in the operating income.

In Health Care, sales of Kevzara an agent for rheumatoid arthritis continued to be brisk from H1 to H2, while autoinjector formulation of Teribone osteoporosis drug is expected to grow in sales, and so is Veloxis. In Critical Care, however, ventilators, which performed very well in H1, will probably see its sales taper off in H2. The total segment anticipates an increase in SG&A expenses. The whole Health Care segment expenses have seasonality, tending to be skewed to H2 especially for R&D expenses. Thus we expect a dip in sales and the operating income from H1 to H2.

P. 6 Overview of FY 2020 full-year forecast (2)

Now, please take a look at page 6. You can see the FY 2020 full-year forecast as compared to the year before, which represents a decrease in net sales and operating income for the entire group. Let me explain by segment.

First, on Material, the impact of COVID-19 pandemic is being felt across the whole segment, resulting in sluggish demand in automotive and apparel markets, lower market prices for petrochemical feedstocks, and deteriorated terms of trade for AN, thus a decrease in the operating income is forecasted.

With regard to Homes, an increase in the operating income in real estate is forecasted with steady performance of rental management and firm deliveries of condominiums centered in H1. But COVID-19 pandemic is affecting the order-built homes and remodeling operations in terms of sales activities. Therefore, a drop in the operating income is forecasted for the segment as a whole.

As for Health Care, there were revisions of NHI drug prices and reimbursement prices for pharmaceuticals and medical devices in Japan, and amortization of goodwill, etc. was posted due to consolidation of Veloxis. On the other hand, shipments increased for virus removal filters, as biopharmaceuticals and plasma derivatives are on a higher demand in the midst of COVID-19 pandemic. Moreover, in H1, in particular, traveling and other SG&A expenses decreased because of the restriction on activities. This has led to our forecast of an increase in the operating income for Health Care business category. Operating income increase is forecasted in Critical Care as well, with greater shipments of ventilators, even though there are other parts of the category negatively affected by COVID-19.

P. 7 Overview of FY 2020 full-year forecast (3)

Last but not least, please take a look at page 7.

Given the situation that I described so far, total consolidated operating income is forecasted at ¥140 billion. Ordinary income is forecasted at ¥142 billion, and net income ¥87 billion. As I said, the market environment is gradually improving, but the business management environment remains challenging with unpredictable outlook for COVID-19 pandemic. We are committed to the efforts to grasp and improve the performance by persistently curtailing fixed costs and controlling inventories, anticipating environmental changes ahead of the time, and making swift and appropriate management decisions accordingly.

As for shareholder returns, based on the forecast that I just explained, the interim dividend is ¥17 per share, year-end dividend forecasted at ¥17 per share, and the total annual dividend ¥34 per share. The basic policy for stable dividends and continuously increased dividends remains unchanged. There is no change in our policy of the year-end dividend being determined based on the annual results.

That's all. Thank you for your attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have two questions. My first question is on Material, in particular Performance Products and Specialty Solutions. Regarding Performance Products, compared to strong sales recovery, the growth in profit seems smaller. Can you comment on that, and what about H2 projection? And regarding Specialty Solutions, can you comment on why the operating income decreased from Q1 to Q2, and also projections for H2?

Now regarding the fire incident, I understand that investigation is currently underway and that you are not granted access into the facilities, but can you give us a bit more detail, including impact on your customers, what products are produced there, and how much of your production is affected, things of that nature?

Kuwaba: Kuwaba from Performance Products. Regarding changes from Q1 to Q2, with the recovery in the number of automobiles produced, and gradual recovery in demand for apparel applications for fiber products, sales increased, whereas for operating income, recovery was slightly slower due to the time lag in reflecting price changes between material prices and product selling prices. For example, for synthetic rubber, material cost increased from Q1 to Q2, while the selling price remained unchanged.

As for H2, sales are expected to remain firm, should the current market condition continue, but operating income is not projected to grow as much as sales, due to inventory adjustments and maintenance turnaround scheduled in some businesses.

Sugiyama: Sugiyama from Specialty Solutions. Regarding your first question on the fire incident, currently, as Shibata mentioned earlier, we are trying to assess the situation so we cannot to give you the details, but we will be making all efforts to fulfill our supply responsibility. As we try to check the inventory, while asking customers to consider switching to substitutes or accepting products to be produced elsewhere on consignment basis.

As for the products from that plant, they account for 30 to 40% of the sales of the electronic devices business. Main products include analog-to-digital converters and digital-to-analog converters for audio system application, IC products for sensors, and crystal oscillator ICs. What will be the impact on our profit? It's still not clear right now, but we are projecting that the impact on operating income in H2 to be in billions of yen.

So, for Specialty Solutions, from H1 to H2, we expect gradual recovery for lead-acid battery separators and coating materials for automotive applications, and the shipment volume of LIB separators to increase. These are the positives. However, we should keep in mind that the sales of electronic material products tends to be higher in H1, and therefore decline in H2. In addition, there will be an impact from the fire, and that is why we are projecting a significant decline in profit.

Mr. Watabe: I see, thank you. My next question is on Critical Care. What was the impact of ventilators during Q1 and Q2, and how much shipments are you expecting for H2? I'd appreciate it if you can share with us some figures as well.

Shibata: This is Shibata. I would like to take that question. The amount of orders placed by the US government for ventilators was $350 million. In terms of shipment, we believe roughly half of that was made in H1, and the remaining half is scheduled to be shipped in H2 of the year. During H1, there were orders from elsewhere as well. So roughly speaking, of the year-on-year increase in sales, most came from ventilators as well as contribution from Cardiac Science, which we acquired last year. For H2, basically we believe the ventilator sales will primarily be to the US government. That is the current assumption.

Mr. Watabe: I see thank you.

Mr. Yamada: Yamada from Mizuho Securities. I also have questions on Material. Could you elaborate on the projected difference between H1 and H2? Among Performance Products, I believe Q3 would be a peak season for consumables, while for the Specialty Solutions business, yes, I think that the fire at the plant will have an impact of ¥2 to 3 billion on profit for crystal oscillator modules and others, but still other electronic materials products continue to perform well, and ion-exchange membranes and others are also performing strongly. So why should the operating income decrease this much? Are you not factoring in what I just mentioned, or are there any risks in those products as well?

In addition, with regard to the fire at plant of Asahi Kasei Microdevices, since the D/A converters for audio applications are analog/digital mixed-signal LSIs, and need noise cancellation, the design is extremely complex and I doubt there is a substitute. So, in that respect I'm wondering whether or not there'll be compensation you'll have to pay to your customers, do we not have to worry about such a risk? And what about the reaction from people living in the community? Anything that might get in the way of resuming plant operations?

Kuwaba: Kuwaba from Performance Products. Regarding the change from H1 to H2, by business, we expect fiber products to see higher sales and higher profit. We are expecting recovery in automotive and apparel demand. As for former performance polymers business, we expect increase in sales and profit. For consumables, we expect fix cost in relation to promotional activities to concentrate and increase during H2, and we are projecting disposable containers to continue to feel the impact of

COVID-19 and remain sluggish. So, we are expecting sales to be flat and operating income to decline.

Mr. Yamada: I see thank you.

Sugiyama: Sugiyama from Specialty Solutions. We're expecting profit to decline from ¥15.2 billion to ¥10.3 billion, a decline of ¥4.9 billion from H1 to H2, most of which is related to electronic devices, as mentioned earlier. We expect electronic materials to be strong, but the usual pattern is for the shipments to be smaller in H2. In light of these factors we are expecting a decline in profit. Regarding LIB separators, we expect steady growth in shipments, but partly due to product mix factor, we do not expect big growth in profit.

Shibata: This is Shibata speaking. Let me comment on the fire. I think there were two questions. First regarding local community, local residents. Investigation is still underway. But we are not aware of any movement that might get in the way of resuming the plant operation.

As for products, yes, as you have correctly indicated, there are some products for which there are no substitutes. But the process of semiconductor production concerned here is a rather complex one, and Nobeoka plant is involved in just part of that process for some products. So based on the inventory survey, we will work out detailed plans of which part of the process could be contracted out, which products have substitutes, or which portion should require increasing outsourcing. So, that would be considered on a product-by-product basis to fulfil our supply responsibility.

Mr. Yamada: I see. A point of clarification. You are projecting the profit for Specialty Solutions to decline by ¥4.9 billion from H1 to H2. would it be fair to say that the impact of fire would account for a little over half of that? And am I correct to assume that there would be no compensation to be paid to your customers?

Shibata: First regarding the impact of the fire, we are projecting the amount to be billions of yen. Since we would not be able to use facilities for the time being, we are incorporating a decline in terms of lost opportunities in our projection for H2. Regarding compensation to our customers, it really depends on the contract. So we will have to look at the matter on a case-by-case basis.

Mr. Yamada: I see, thank you. My second question. In Homes, true, real estate operation was firm, and the profit level was higher than I had assumed. Still, with such a big decline in orders for order-built homes, I'm afraid that would pressure the results for H2 and the next fiscal year. But for next year, you are expecting firm business for operations other than order-built homes, for instance real estate, and you are expecting certain level of deliveries of multi-dwelling homes, as shown on pages 33 and 34, and therefore you are not concerned? Can you talk about the current status of orders and projection for order-built homes?

Sakai: Sakai from Asahi Kasei Homes. As you have correctly described, for this fiscal year, the order situation during H1 should have an impact on H2 on order-built homes. That is our assumption for the projection. As for next year, the orders for order-built homes received during H2 of this year and H1 of next year would translate into deliveries to be made for the year. So it really depends on what happens from here on. And therefore we have not come up with any specific numerical forecast. We will be looking at the order situation and put together plans for next fiscal year.

As for the current demand level, Q1 posted a large negative growth from the previous year, but starting in Q2 we see some signs of recovery. For H2, we are assuming that the situation that we saw in Q2 would continue. And based on that assumption, we are putting together the plan for next year.

Mr. Yamada: I see. When I compare pages 34 and 32, for multi-dwelling homes you are expecting certain level of orders during fiscal 2020, and so for next year, while there might be a decline in order backlog temporarily, we shouldn't be worried about a big drop in overall results, correct?

Sakai: As you have correctly described, drop in orders for multi-dwelling homes is limited, and we expect it to pick up going forward. What happens next year would depend on what happens from here on.

Mr. Yamada: I see thank you.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. I have two questions. First is on Health Care business category. Looking at page 36, the sales of main pharmaceutical products, I see that Envarsus XR is growing strongly year-on-year. Compared to the disclosed information by Veloxis last year, it appears sales grew 50% or so during H1. Would that be correct? Also, it's been 10 months since the acquisition of Veloxis, so can you give us an update on the progress of PMI? If possible, can you also talk about the market share of Envarsus XR in terms of new patients or prescriptions?

Shibata: Shibata will answer your question on Veloxis. You are correct in that there was a big year-on-year growth. I don't have exact figures in front of me, but the growth was significant. And we expect that momentum to continue. But there was an impact of COVID-19. The kidney transplantations had been withheld temporarily, but now it's recovering.

Because its side effect is limited, number of patients and the number of prescriptions is increasing as planned, both for replacement, patients switching to Envarsus XR, and newly prescribed patients, so-called *de novo* patients. For the seconds half onward, again albeit some impact of COVID-19, we expect expansion to continue as planned for both replacement and *de novo* patients.

As for PMI, including integration with some of Asahi Kasei organizations, things are moving smoothly toward building optimal organizational framework. While we can't make business trips, we are communicating closely with Veloxis people online, and I'm told that in fact communication is very active and in fact more frequent because of online meetings. So no issues with PMI, no issues in terms of retention either.

Mr. Miyamoto: I see. Thank you. It may be too early to ask this question, but last year you said the business is planned to achieve a positive operating income after goodwill amortization in FY 2023. Do you see any signs of that materializing sooner?

Shibata: No, we expect that to be in line with the plan for now.

Mr. Miyamoto: I see. Thank you. My second question is about LIB separators. Could you give us the usual index of monthly average shipment for H1 as well as the estimated growth rate for the full year. Furthermore, if you share with us strengths and weaknesses of the performance for each of the applications, i.e. energy storage system, or ESS, automotive, and consumer electronics, that would be appreciated.

Fukuda: Fukuda from separator business. As for year-on-year comparisons, in H1, production capacity increase for wet-process separators for LIB made a contribution. Dry-process separators have recovered from the impact of ESS fires, with numbers showing a positive growth. We reported 303 in H1 and 301 in H2 of fiscal 2019 in terms of shipment index, which has reached 390 in H1 of this fiscal year, representing a slightly less than 30% year-on-year growth both in Q1 and Q2.

To give you our take on the trend from H1 to H2, the downturn due to a seasonality factor in consumer electronics is being compensated for by increased sales of automotive applications, so we can maintain the high level of shipments comparable to that of H1.

Mr. Miyamoto: If possible, could you share with us the full-year growth rates on a year-on-year basis?

Fukuda: We expect the growth rate to be slightly less than 30%.

Mr. Miyamoto: Slightly less than 30% on an annual basis strikes me as a significantly strong growth compared to the competition and other battery material manufacturers. Are you gaining the market share? Or was there not much change in prices? Could you elaborate on that?

Fukuda: In terms of market share, as a Chinese competitor is growing significantly in shipments, we do not feel as if we are gaining a market share. On the other hand, in terms of prices, it is true that competition is becoming intensified, and so we are trying to set the price by striking the right balance between the price and cost reduction.

Mr. Miyamoto: I see. Thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. First, I want to ask about the pharmaceuticals and medical devices. In light of the goodwill amortization for Veloxis, and NHI drug price revisions, the profit margin seems to be quite solid. Is it partly because of the strength of virus removal filters in medical devices and less-than-expected spending on the sales activities in H1? And in H2, you are forecasting a slight decline in profit. Is it because you expect the activity expenses to increase, or sales of virus removal filters to slow down from H1? Could you explain more about the factors behind the figures?

Shibata: Shibata speaking. I will answer the questions. Basically, your understanding is correct. As for the difference between H1 and H2, virus removal filters in particular do not usually see their shipments evened out stably throughout the year, but see fluctuations from quarter to quarter depending on the orders received from our customers. From that perspective, we can say we had more shipments in H1 this year. Especially, due to the COVID-19 pandemic, some customers may have tried to secure enough volumes. So, I would like you to look at this business from a full-year perspective, as there was no major change in terms of the demand or competition between H1 and H2.

I will answer your question on pharmaceuticals as well. We are hoping to further expand the strengths of Kevzara and autoinjector formulation of Teribone. Having said that, however, we expect enhanced activities by MRs and other personnel in H2, which will be reflected in the increased expenses, including those left unspent in H1. There is also a seasonality factor where R&D spending tends to be skewed toward H2.

Mr. Umebayashi: Thank you. Additional clarification. For pharmaceuticals, in H1, is it fair to say that if you exclude the impact of Veloxis, the profit of the conventional business would have been more measured?

Kashiwagi: Kashiwagi from Asahi Kasei Pharma. In H1, as you said, COVID-19 has prevented us from engaging in sales promotion activities, and in Q2, they were just beginning to be resumed. However, while sales were short of the year before, a certain level of profit was secured. The drop in sales were partially offset by the impact of less spending on activities. In that sense, we did not see profit suffer the full extent of the damage that would have been expected from the decrease in sales.

Mr. Umebayashi: My second question is about Critical Care. Could you explain once again the changes in sales of ventilators from Q1 to Q2 and H1 to H2? I am also interested to know the quarter-on-quarter and H1-to-H2 changes in sales of LifeVest wearable defibrillators and other defibrillators in addition to ventilators.

Shibata: Shibata speaking. I will answer the question. First on ventilators, what has been incorporated in the full-year forecast is the contract worth $350 million with the US government, as well as sales to some other countries.

Basically, as far as ventilators are concerned, in Q1, from March to April, when COVID-19 spread very quickly, we received orders from governments and hospitals around the world, all in Q1 and Q2, and there have not been major movements in orders since then. And deliveries to fulfill those orders have spread out across Q1, Q2, and Q3. And our production capacity was a limiting factor, therefore there was a time delay in shipments.

However, obviously, when ventilators were sold, not just the equipment itself, but disposable attachments used with the equipment could also be sold. Therefore, from Q3 onward, we may see sales of those disposable attachments pick up as patients actually use the ventilators. We did assume a certain level of such demand in the forecast.

Now, for LifeVest and other defibrillators. The situation was varied somewhat from product to product, but generally speaking, in Q1, partly because access to hospitals was restricted, our activities were also restricted. But in terms of sales, there were some carried over from the previous fiscal year and backlogs to fulfill. Therefore, we had certain sales posted in Q1. In Q2, since summer is a low demand season, there were fewer orders. That was how things were from Q1 to Q2.

Having said that, however, even if we receive orders, it is not necessarily the case that the products are shipped out immediately, and therefore sales are not always linked to demand in Q1 and Q2. So, it would be easier for you to look at the results not by quarter-by-quarter, but on half-a-year or an annual basis. As I said, what we assumed in the full-year forecast for the products other than ventilators is mostly the same level as the previous year, in light of the impact from COVID-19 pandemic.

Mr. Umebayashi: I see. However, if you compare the profit forecast for H2 of fiscal 2020 to the same period of the year before, it does not seem to be growing that much. Am I correct to interpret that sales of ventilators will remain strong till Q3, but not strong enough in Q4 to be incorporated in the forecast. Other products such as LifeVest and other defibrillators may grow year-on-year, but are expected to land at those levels in the forecast, given the increased expenses in H2?

Shibata: It is hard for me to disclose such detailed numbers. But in principle, as I may have said last time, profit margin for ventilators is not higher than other products, but the demand jumped abruptly without us spending that much in SG&A. In that sense, we were able to do a pretty efficient job in H1. That approach should be valid for LifeVest and other defibrillators. Under the COVID-19 pandemic, we need to be more creative to capture new demand. So, we expect some increase in SG&A expenses in H2. Therefore, because sales of ventilators will fall from H1, relatively speaking, we will be worse off in terms of profitability.

Mr. Umebayashi: I see. Thank you.

Mr. Okazaki: Okazaki from Nomura Securities. I have two questions. First, I would like to know factors behind the changes in profit of Basic Materials from Q1 to Q2 and H1 to H2, as well as the market price spread of AN in Q2, its assumption for H2, and the capacity utilization ratio. If you can also share the prospect for supply from your competitors, that would also be appreciated.

Takahashi: Takahashi from Basic Materials. As you can see on page 41, the operating income for Basic Materials was minus ¥1.7 billion in Q1, ¥1.8 billion in Q2, and ¥5.9 billion in H2, showing a gradual improvement quarter by quarter.

In Q1, generally speaking, shipments have declined from the previous year, terms of trade deteriorated, and there was inventory valuation loss by the gross average method, thus a fall in the profit in Q1. Since then, ABS resin and other major applications for AN started to pick up in demand and are expected to gradually recover in H2 with increased shipments. The market price of propylene has been staying at slightly higher levels, but we anticipate the spread to improve quarter by quarter.

The spread was really low in Q2 at $119 per ton, with the market price of AN at $958 per ton and propylene $839 per ton. This was because a new plant came onstream at a competitor, and AN produced in Europe has become available in the Asian market, pushing down the price of AN, while the price of propylene remained at higher levels.

As for the prospect of H2, with demand being strong, the market price of AN has reached about $1,200 per ton most recently, but we assume the price to be from $1,200 to $1,250 per ton throughout the quarter. The price of propylene has now reached slightly less than $900 per ton. So, the spread is expected to remain tight till the end of this year, but from the beginning of next year, the price of propylene will probably dip slightly. Our current forecast for the entire period of H2 will be \$800 to \$850 per ton, leaving the spread at around \$350 to \$450 per ton. The capacity utilization ratio for our company is about 80% currently. In H2, we will be adjusting the operation by closely watching the demand.

Now, on the competition, a new plant of a Chinese manufacturer became operational at the end of June. Other players have been experiencing issues in their plant operations including disruptions or maintenance turnarounds, and are expected to take actions such as a cut in the production volume while monitoring the demand. Therefore, we do not believe that increased supply will result in a considerable deterioration of the market.

Mr. Okazaki: Thank you. My second question is about LIB separators. Could you show us changes from H1 to H2 and year-on-year changes for the full year for EV and the applications other than EV?

Fukuda: Fukuda from separator business. For the full year, we expect to see a rise in both sales and profit, and this is mainly attributed to the increase in shipments, as was explained. The batteries for automotive use are on a high demand especially in European market, which is why we are seeing such an increase in shipments.

Mr. Okazaki: In H1, shipments went up by 30% year-on-year. But how did that split between EVs and other applications, and how do you see it in your assumptions for H2?

Fukuda: There was no particular difference in the growth rates among different applications. Almost all applications went up by 20 to 30%, and the total growth rate reached slightly less than 30%.

Mr. Okazaki: I see. As you said earlier, the price pressure is increasing and becoming slightly more challenging, as there is more competition than previously, but you are managing to cope with that through cost reductions. Is my understanding correct?

Fukuda: Your understanding is correct. Competition is especially intense in automotive applications, with price pressure quite severe. And we will need to continue our efforts internally to reduce cost.

Mr. Okazaki: Thank you.

Hamamoto: Thank you very much. That concludes today's conference call. Thank you very much for your attendance.