Transcript of Financial Results Conference for Q3 Fiscal 2021, held on February 9, 2022

Asahi Kasei Corporation

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Participants

Koshiro Kudo
CFO
Yozo Sato
General Manager, Corporate Accounting & Control
Takuya Takahashi
Senior General Manager, Planning & Coordination, Basic Materials SBU
Nobuhiro Yamaguchi
Senior General Manager, Planning & Coordination, Performance Products SBU
Yoshinori Yamamoto
General Manager, Planning Dept., Planning & Coordination, Specialty Solutions SBU
Eiji Ishikawa
Senior General Manager, Separator Administration, Specialty Solutions SBU
Izumi Kawata
Vice President, Corporate Administration & Planning, Asahi Kasei Microdevices Corp.
Kensuke Sakai
General Manager, Accounting & Control Dept., Asahi Kasei Homes Corp.
Ryuji Kibe
Business Strategy & Planning, Asahi Kasei Pharma Corp.
Futoshi Hamamoto
General Manager, Investor Relations

Presentation

Hamamoto: Good afternoon. Thank you very much for joining the conference call on Asahi Kasei Corporation's earnings for Q3 FY 2021. This is Futoshi Hamamoto from Investor Relations. We will begin with a presentation from our CFO, Koshiro Kudo, before taking questions.

Other participants from Asahi Kasei are: Yozo Sato, Corporate Accounting & Control; Takuya Takahashi, Basic Materials Strategic Business Unit, or SBU; Nobuhiro Yamaguchi, Performance Products SBU; Yoshinori Yamamoto, Specialty Solutions SBU; Eiji Ishikawa, Specialty Solutions SBU, for separators; Izumi Kawata, Asahi Kasei Microdevices Corp., Kensuke Sakai, Asahi Kasei Homes Corp.; and Ryuji Kibe, Asahi Kasei Pharma Corp.

I will give the floor to Mr. Kudo now.

Kudo: Good afternoon. This is Koshiro Kudo speaking. Thank you for joining us for the Q3 briefing.

P. 2 Focus of Q3 2021 results and FY 2021 forecast

Let me begin with slide 2, which summarizes the cumulative Q3 results. Net sales, operating income, ordinary income, and net income all came in at the highest ever for the Apr.–Dec. period. For the full year, we are maintaining the previous forecast announced last November.

Sequentially from Q3 to Q4, we expect operating income to decrease. There are the usual seasonal factors such as increased fixed costs and the impact of the Chinese New Year. We have also factored in some impact of supply chain disruption related to COVID-19. That said, demand is firm, as the semiconductor shortage is gradually easing. We therefore expect recovery in the new financial year. We are keeping a close eye on risks related to the semiconductor shortage, high feedstock prices, and supply chain disruption.

With regard to shareholder returns, we are maintaining our forecast of ¥34 per share over the full year.

P. 3 Financial results for Q3 2021 (consolidated)

Moving on to slide 3.

Cumulative Q3 net sales came to ¥1,824.8 billion. Operating income came to ¥174.1 billion. Ordinary income came to ¥184.2 billion, and net income attributable to owners of the parent came to ¥140.7 billion. These figures are significantly higher than the same period a year ago, when we were significantly impacted by the pandemic, and are all the highest ever for an Apr.–Dec. period.

P. 4 Financial results for Q3 2021 (by segment)

Slide 4 shows the breakdown by segment.

In FY 2020, among the three segments, the Material segment was most hard-hit by the pandemic. As a reaction, this time, Material recorded considerable year-on-year increase for both sales and operating income. Recovery in automotive-related markets pushed up engineering plastics shipments. Li-ion battery, or LIB, separator shipments increased thanks to capacity expansion this year. Shipments of electronic materials increased on the back of robust semiconductor market demand. In addition, market prices for petrochemicals rose rapidly.

For Homes, overseas businesses, and in particular, the U.S. business, have been firm. The newly consolidated Australian business is also contributing. As a result, sales and operating income both increased.

For Health Care, ventilator shipments are down, after a special surge in demand for ventilators related to the pandemic last fiscal year. However, strong performance in the mainstay businesses in Critical Care such as defibrillators, and firm performance of pharmaceuticals and medical devices have offset that impact. As a result, sales increased, and income decreased only by a moderate margin.

In the left part of the table, we are showing FY 2019 figures for the cumulative Q3 period. That was before the pandemic when the big issue was U.S.-China decoupling. As you can see, both sales and operating income are higher than the same period 2 years ago for all segments.

P. 5 Statements of income

Slide 5 shows the consolidated statement of income.

I will just touch upon a few salient points. SG&A increased year-on-year, due to newly consolidated companies such as McDonald Jones Homes Pty Ltd, the global rise in logistic costs, and increased R&D expenses.

With regard to non-operating items, equity in earnings of affiliates increased. Performance improved at PTT Asahi Chemical Company Limited in Thailand, which produces acrylonitrile, or AN. Spandex operations in Taiwan also contributed to the significant increase.

With regard to extraordinary items, we are continuing to reduce strategic shareholdings, which has resulted in gain on sales of investment securities. We have also booked business structure improvement expenses related to the semiconductor plant fire.

For income taxes, tax expenses were reduced by approximately ¥8 billion in H1 in relation to the reconfiguration of Veloxis organizations.

P. 6 Balance sheets

Slide 6 shows the consolidated balance sheet.

Total assets at the end of December came to ¥3,240.5 billion, up ¥321 billion plus from the end of March 2021. Goodwill and intangible assets increased in relation to acquisitions. In addition, higher feedstock prices pushed up accounts receivable and inventories.

On the liability side, interest-bearing debt increased. Accounts payable also increased due to higher feedstock prices.

As shown in the bottom left of the table, goodwill increased by ¥58.9 billion during the 9-month period to ¥410.8 billion. This figure is roughly 50% plus of intangible assets, which stood at ¥798.9 billion at the end of December.

Interest-bearing debt increased to ¥799.8 billion, up ¥140.8 billion from the end of March last year, bringing the D/E ratio to 0.5, right at our reference level. This is on a gross basis, however. As cash and deposits at the end of December was ¥245.8 billion, net interest-bearing debt was about ¥550 billion.

P. 7 Cash flows

Slide 7 shows cash flows.

Operating cash flow was quite different from a year ago. Net income increased, but as working capital such as trade receivables and inventory increased, the net cash inflow was smaller.

Cash outflow from investing increased year-on-year in relation to acquisitions.

As a result, the net of free cash flows was an outflow of ¥62.6 billion, in contrast to a net free cash inflow of ¥70.7 billion during the same period last year.

That's it for the operating results for the first nine months.

P. 8 FY 2021 operating performance forecast (consolidated)

Let me move on to the full-year forecast, page 8.

The full-year guidance remains unchanged from that announced in November with net sales of ¥2,453 billion. Operating income of ¥213.1 billion, ordinary income of ¥222 billion, and net income attributable to owners of parent of ¥185.5 billion, all setting new record highs.

Earnings per share ¥133.7, and dividend ¥34 per share, which brings the payout ratio to 25.4%. The average payout ratio for the three-year period under the current mid-term management initiative would be around 40%, given that the ratio was 59.1% in FY 2020.

P. 9 FY 2021 operating performance forecast (by segment)

Next page shows operating performance forecast by segment.

For H2, numbers shown remain unchanged from those announced back in November. Operating income for the first nine months was approx. ¥174.1 billion, which represents a progress of around 82% relative to the full-year guidance. Those are the full-year forecast.

Please note that these forecast numbers are not the product of precise and exact calculations of every element, and so, while we are not disclosing the forecast for the Jan.–Mar. quarter, if you do the math, you may find that some numbers don't necessarily add up.

P. 10 Change in operating income composition compared to FY 2018

Next, now although I might be getting ahead of ourselves a little, since we are getting close to the end of the current three-year mid-term management initiative, I would like to review the progress made so far, using the next two pages.

We are forecasting operating income for FY 2021 to be ¥213.1 billion, which would be the highest ever. The previous high was recorded in FY 2018 at ¥209.6 billion, with operating income for Basic Materials at ¥53.1 billion, and the total of high growth areas, namely Specialty Solutions business category and Health Care segment, at ¥74.8 billion, accounting for 25% and 36% respectively.

For FY 2021, we are forecasting operating income for Basic Materials to be ¥39.9 billion and the sum of Specialty Solutions and Health Care to be ¥99.2 billion, accounting for 19% and 46% respectively, which is down around 6 points for Basic Materials and up about 10 points for Specialty Solutions and Health Care, indicating a change in the composition.

On the right are the changes in operating income before amortization of goodwill for Specialty Solutions and Health Care. Between FY 2018 and FY 2021, CAGR was about 10%.

Operating income for Basic Materials centering on AN declined from ¥53.1 billion to ¥39.9 billion. However, in terms of AN market price and price spread, FY 2021 level was actually slightly higher than in FY 2018. As we are applying the price formula reflecting feedstock prices, we are successfully suppressing the impact of rampant fluctuations in the market price and price spread. So what you see here reflects our continued efforts in controlling the volatility in earnings.

P. 11 Review of business trends for 3 years under mid-term management initiative "Cs+ for Tomorrow 2021"

Next page, you can see the developments in each segment over the last three years.

Health Care is overperforming the forecast envisioned in the current mid-term management initiative. High growth rate is expected, centered on Critical Care, and ongoing growth is expected as the growth driver for the overall Asahi Kasei Group.

Specialty Solutions is increasing earnings, centering on separators and electronic materials, even under unpredictable operating environment due to COVID-19. Given firm demand, ongoing growth is expected driven by flexible strategic and tactical approaches.

Performance Products has been affected by weakening business sentiment for the last year or two, as it has large exposure to the automotive applications. Now that automotive production is recovering, the strength of engineering plastics business will be leveraged. We also expect Sage Automotive Interiors, Inc. to achieve a rapid recovery from the impact of decline in auto production due to semiconductor shortages. We are hopeful that we might see a V-shaped recovery next fiscal year.

Basic Materials expects improvement through the stabilization of earnings, centered on price formula adoption for AN. The challenge is to stabilize the earnings structure by controlling the volatility. We are taking actions toward that end.

Regarding Homes, we are modifying the business model of order-built homes and strengthening the overseas businesses to drive growth, to secure stable earnings.

P. 16 Overseas sales

The rest are appendix. I would like to draw your attention to page 16, where you can see the changes in overseas sales. For this fiscal year between April and December, overseas sales accounted for 48.2%, up from 41.8% in the previous fiscal year. reflecting the growth of overseas portion in each business, with the Americas account for around 16%.

So, we are enhancing governance including risk management on a group-wide basis as we expand our overseas businesses.

That concludes my presentation. Thank you for your kind attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Yamada: Yamada from Mizuho Securities. My first question is about Basic Materials. As you mentioned in your presentation, while the AN market price fluctuated quite significantly, your earnings are getting stable. Can you tell us about the AN-propylene spread in Q2 and Q3, and the outlook for Q4?

And I understand that about 90% of your contracts now adopt formula-based pricing that incorporates feedstock prices. What is your confidence level regarding stability of your earnings, going forward? Can we expect an operating income of ¥30 or 40 or 50 billion for every normal year, meaning, within ¥5 billion or 10 billion plus or minus your current level? Can you provide more detail about Q3 and the progress in earnings volatility reduction?

Takahashi: Takahashi from Basic Materials speaking. First, on the AN-propylene spread. Q2 average prices were $2,267 per ton of AN, against $1,005 per ton of propylene, for a spread of $1,262 per ton. The Q3 averages were $2,290 per ton of AN, $1,019 per ton of propylene, for a spread of $1,271 per ton.

For Q4, new capacity is coming online elsewhere, and the AN price had been rather too high. We therefore expect the price to come down. AN is currently traded at around $2,100 plus, and we expect further decline toward March, for a Q4 average of around $2,000 per ton. On the other hand, propylene is currently traded at around $1,050 per ton, not much changed. The spread, therefore, would average at around $950 per ton. As such, the AN-propylene spread is tightening.

Another factor is ammonia. Ammonia is also an input to AN. The ammonia price in FY 2020 was only around $300 per ton, but rose to around $600 in H1 of FY 2021. It rose further in H2 to about $1,000. So, yes, this is also squeezing margins for AN. Having said so, as you rightly pointed out, we are increasingly adopting formula-based pricing, and the formula reflects, to some extent, the price of ammonia, too. Thus we are not fully exposed to the rapid rise in ammonia prices.

With regard to FY 2022, it is still difficult to say at this point in time. AN prices were particularly high in the U.S. and in South Korea during H1. That is moderating now, and we would expect lower levels in FY 2022, but we are still working on it.

Mr. Yamada: What about other products? Can I take it that the earnings structure is stabilized for other products as well, and that overall volatility is much reduced than before?

Takahashi: Yes, that is true, but there are some products for which formula-based pricing is not adopted. For that part, we are still exposed to market fluctuations. But as AN accounts for a major part of our sales, overall earnings volatility is much smaller than before.

Mr. Yamada: Ammonia prices have now gone into four digits in U.S. dollar terms, and I had feared that your AN margin in Q3 could be seriously pressured. As it turns out, Q3 income looks quite good. Is it correct to understand that this is because the price formula incorporates ammonia prices as well?

Takahashi: Yes, that is correct. But it doesn't mean we are completely immune from cost fluctuations. Indeed, there has been some impact.

Mr. Yamada: Thank you very much. My next question is about Health Care. I understand that Teribone osteoporosis drug remained strong. The Health Care subsegment posted ¥9 billion in quarterly operating income in Q3. And then Critical Care also did reasonably well in Q3 although that is seasonally the slowest quarter according to my understanding. Was there anything unusual this time?

Kibe: Kibe from Asahi Kasei Pharma speaking. Let me respond to the pharmaceuticals part of your question, as you rightly mentioned, in Q3, the Health Care subsegment, that is pharmaceuticals and medical devices, booked a quarterly income of ¥9 billion. This is almost unchanged from the same period a year ago.

As you mentioned, Teribone is doing well and shipments increased. Shipments of Kevzara treatment for rheumatoid arthritis is also increasing, with more new patients using the drug. We also started marketing a new drug in Q3, which is Plaquenil immunomodulator that we licensed in. In the U.S., Envarsus XR immunosuppressant is also doing well. All that is about top line.

On the other hand, operating income is almost unchanged. While shipments increased, expenses increased with increased activity, in particular online activity, by medical reps. R&D expenses also increased. As a result, while sales increased, operating income was almost flat for pharmaceuticals.

Mr. Yamada: Your CFO mentioned in his presentation an increase in R&D, which I assumed would be mostly for Health Care, and your SG&A is increasing. Considering that, your Q3 operating income looks pretty good, doesn't it? Is it because, on top of Teribone growth, you had growth in Kevzara and the addition of Plaquenil, and therefore better marginal income?

Kibe: Yes, that is correct.

Hamamoto: Hamamoto speaking. For the medical devices part, sales in Q3 were up year-on-year but operating income was almost unchanged. As in previous quarters, shipment volume increased for each product, particularly for Planova virus removal filters. SG&A and logistic costs also increased, however, so that operating income was almost flat year-on-year.

For Critical Care, both sales and operating income came down year-on-year. The main reason is a reactionary decline in shipments of ventilators after the surge demand last year. Having said so, mainstay products such as conventional defibrillators and LifeVest wearable defibrillators have recovered from the impact of COVID-19 and are growing, and thus helped moderate the top-line decrease.

With regard to Q3 operating income, the year-on-year decline is larger in comparison to net sales due to a number of factors. Just as we explained after Q2, the major factor is that surge demand for ventilators last year. It means associated cost efficiency benefits are also lost. SG&A also increased. There is also some impact of newly consolidating Respicardia, Inc. and Itamar Medical Ltd.

Mr. Yamada: My estimate for the negative impact of the new consolidations on Critical Care is around ¥3 billion. If that is so, the operating income figure looks pretty good on a comparable basis. Or, was the impact actually smaller?

Hamamoto: We cannot discuss the exact figure, but the negative impact was actually not that much.

Mr. Yamada: Thank you very much.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I am looking at slide 21, which describes operating income sequentially from Q3 to Q4. Can you provide more detail on Performance Products and Specialty Solutions? How confident are you about achieving the full-year forecast?

Yamaguchi: Yamaguchi for Performance Products. The largest factor is automotive-related demand, and we believe it bottomed in Q3 and would gradually recover. Potential risks include disruptions in vehicle production due to the semiconductor shortage and Omicron variant infections. There are other risks that we are watching out for, such as logistics interruptions and raw material availability issues. However, with recovery in automotive-related demand, which was hard-hit particularly in North America, we expect Q4 income to increase.

With regard to non-automotive applications, apparel and textile-related demand for fibers may still be sluggish in Japan, but there is recovery overseas. And the consumables business remains firm.

As to the confidence level regarding the forecast, we cannot be overly optimistic as so much hinges on how exactly the automotive-related demand recovers, but at this moment, we are maintaining the previous forecast.

Yamamoto: Yamamoto for Specialty Solutions. Between Q3 and Q4, for performance materials, due to the calendar factor related to the Chinese New Year, Q3 shipments were relatively higher. With rising feedstock prices, in addition, we expect Q4 results to be down sequentially for both sales and operating income.

Meanwhile, for separators, while Q3 was affected by production adjustments at our users due to the semiconductor shortage, we expect recovery in Q4.

Given the expected sales and operating income decrease for performance materials, operating income for Specialty Solutions as a whole would be down sequentially in Q4.

Mr. Watabe: Thank you. Now on Homes. For the past few months, orders for order-built homes have been slow. Is it all because of COVID-19? What is the outlook going forward? How about overseas growth? Would the U.S. growth continue?

Sakai: Sakai for Homes. Orders for order-built homes were down year-on-year in November and December due to the termination of a tax relief program for home loans. With the latest surge in COVID-19 cases, January orders were down, too.

Going forward, we expect new government measures to have a positive impact. Q4 is a time of the year when there is a higher level of interest in disaster preparedness, so we intend to highlight the disaster resilience of Hebel Haus unit homes and Hebel Maison apartment buildings to realize recovery. We are also reinforcing our digital marketing capability so as to increase touchpoints with potential customers

Overseas operations, such as that in the U.S., are now being affected by lumber price declines. The negative impact has started to kick in. The pricing system reflects changes in lumber prices but there is a slight delay in timing. Going forward, while there may be short-term fluctuations, we are confident that underlying growth will continue.

Mr. Watabe: Thank you.

Kudo: This is Kudo speaking. Let me add two points. One is about Saran Wrap cling film, which is part of Performance Products. Shipments were firm until December, but inventory levels became quite low. We have therefore had to control shipments in this quarter to adjust inventory, and that is why Q4 sales will be significantly down.

Another point relates to pharmaceuticals. We are working on an in-licensing deal and expect to book expenses by the end of March. Those one-time factors are part of the reason we are maintaining the previous forecast for the full year.

Mr. Watabe: Thank you very much.

Mr. Okazaki: Okazaki from Nomura Securities. I have two questions. The first question is on Homes, related to future order trends to a certain extent. What are your thoughts on FY 2022? In your Homes business briefing held recently, it was indicated that real estate business expects a relatively large number of unit sales of condominiums for FY 2022. Does that still hold? Also, in the overseas business, can we expect that the U.S. and Australia to remain strong in FY 2022? Also, regarding overseas business, can you comment on a slight decline in profit from Q2 to Q3?

Sakai: Sakai from Homes. Orders are currently feeling the impact of COVID-19, and the future impact is unclear. However, we are working out and taking measures to respond to the situation, including the launch of various online programs and systems, in order to attract and increase the potential customers. So, we are confident that over time we will be on a recovery track.

Regarding the overseas business, both U.S. and Australia are affected by cost increases including higher labor unit costs and material prices. I suspect that there will be some ups and downs, but our basic stance remains unchanged in proceeding according to the strategy for and beyond FY 2022, and expanding business in both U.S. and Australia. So, the overall picture remains unchanged, but I suspect some ups and downs from time to time along the way.

Mr. Okazaki: I see. A follow-up question for clarification. Your overseas profit decreased a little from Q2 to Q3. Is it correct to understand that it was because of some special factors in Q2, and so, the fundamentals of the profitability have not changed much? Also, in the real estate business, can we expect profit in FY 2022 to be about the same as FY 2021?

Sakai: Regarding the overseas business, what happened is that Q2 results were a little too good. In the real estate business, there is a wave in the inventory level of condominium units, so while we expect a growth trend over the next three years, operating results may decline or rise slightly on a single-year basis.

Mr. Okazaki: I see. My second question is on LIB separator. Previously, you were projecting that the sales volume for this fiscal year would increase by about 10% year-on-year. For H2 alone, I think the year-on-year increase will probably be about 4%. How are things looking right now? Also, can you share with us your feel on the supply and demand situation and market trends for automotive applications and consumer electronics applications respectively?

Ishikawa: Ishikawa from separator. First, regarding the sales volume of LIB separator, demand fell due to the impact of semiconductor shortages from the beginning of autumn, and, in Q3, sales volume fell slightly quarter-on-quarter. But we expect recovery in Q4.

At the Q2 earnings briefing, we were projecting that H2 would grow by about 10% year-on-year. But given a decline in Q3, we now expect H2 to be flat or slightly higher year-on-year. On a full-year basis, we expect a year-on-year increase in the range of a single digit percent.

You also asked about the demand for automotive applications versus consumer electronics applications. Consumer electronics applications trended strongly in H2 of last fiscal year and remained strong into H1 of this fiscal year, but then from around summer, we have seen a slowdown in smartphones in China. And that situation is not that different through Q3 and Q4.

As for automotive applications, overall, we project future demand to be very strong. But for this H2, we are affected by production adjustments on the part of automakers due to temporary semiconductor shortages.

Mr. Okazaki: I see. So is it fair to say that competitive landscape has not changed much, and that given the very high quality of your products, we need not worry about competition from the Chinese suppliers?

Ishikawa: It is true that the Chinese manufacturers are increasing supplies to some extent, but Asahi Kasei is recognized for its high quality by the customers, and that situation has not changed.

Mr. Okazaki: I see, thank you.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. On pages 10 and 11, you are showing information relative to the mid-term perspective. I understand that the details of the next mid-term management initiative will be explained in April, but Mr. Kudo, may I ask you to share with us your thoughts on where you want to lead Asahi Kasei as the new president? Are you going to further reform the structure of Basic Materials? Are you going to grow Specialty Solutions and Health Care segment? In particular, your thoughts on business portfolio transformation. How do you intend to make use of your personal experience in polyester fiber restructuring in the fibers business? What are your thoughts for the next 3 years or next 100 years?

Kudo: Regarding growth areas, as I have said, we would like to firmly expand the Health Care segment and the electronic materials, where we have strengths, including semiconductor materials.

In Homes, the domestic market is not expected to grow significantly. So, we embarked on the overseas business. Now I am aware of some concerns voiced about that approach. But we did not embark on the overseas business, just for the sake of going abroad. The strategy is to advance only to such markets where we can build a new business model, or a housing model unique to Asahi Kasei. The strategy is to go to new markets regardless of whether it is domestic or overseas. The next mid-term management initiative currently being developed envisions Homes to steadily increase profit.

Regarding Material, a big question is what to do with businesses other than those in growth areas. I've been stressing that we need to further enhance our capability to create new businesses in Material. Our R&D capability compares well to that of other companies, so what we need is to increase speed through various means on a tactical level.

And to that end, we would like to promote an asset-light structure and make bold investments in growth areas, making the best use of limited resources. Regarding Material, as we pursue the asset-light structure, there could be alliances, withdrawals, joint ventures, or IPOs, depending on the situation. We should be open to all possibilities and execute them with speed.

Regarding petrochemicals, the message from Mitsubishi Chemical Holdings Corp. is attracting attention. And we find no major differences in the way we see the general direction and the macroscopic aspect. We would be open to different possibilities. I will be explaining the specifics when we announce the next mid-term management initiative in April.

Mr. Miyamoto: I see, so can we expect portfolio transformation to accelerate further?

Kudo: Yes, you can say that.

Mr. Miyamoto: I see, thank you. I look forward to future developments. My next question is on Veloxis in pharmaceuticals. Page 28 states that the sales in the U.S. were $39 million in Q3. It was $33 million in Q2, so I think it has increased by nearly 20% quarter-on-quarter. I understand that during H1, COVID-19 caused a temporary decrease in the number of new kidney transplants, and restrictions on hospital visits by medical reps. And there were reports that some patients on immunosuppressants died. Has the situation improved more recently? Can you comment on background of the growth of Envarsus XR from Q2 to Q3, as well as the outlook for Q4?

Hamamoto: Hamamoto from Investor Relations. It is gradually recovering from some slowdown last year due to the influence of COVID-19. As you can see, year-on-year, Q3 increased by about 15% on a dollar basis. We believe that this trend will continue in Q4 and we'll see steady growth year-on-year.

There were reports that some patients on immunosuppressant died due to COVID-19 infection. And the effect is still lingering to a certain extent, but basically the advantageous characteristics of Envarsus XR over other drugs have not changed. And it is prescribed to more than 35% of new kidney transplant recipients, growing faster than initially expected. The market share is also expanding steadily. So, we expect that it will continue to grow steadily.

Mr. Miyamoto: I see. Thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. I have a question on the terms of trade for Performance Products. I understand that the sales volume for automotive applications is still a little weak due to the impact of production reduction. In the meantime, raw material prices are rising. How successful were you in passing on those higher material prices to selling prices in Q3? How about Q4?

Yamaguchi: Yamaguchi from Performance Products. Our basic stance is to pass on the increased raw material prices to our product prices. In particular, for engineering plastics and others we have been taking actions to secure price margins, including focusing more on product grades with higher added value. Given the supply and demand is getting tighter, I expect that we can secure sufficient margins.

Now we anticipate that price negotiations could be more difficult with the customers from the industries that are weakening somewhat, such as the textile industry, particularly in Japan. But basically, our plan is to raise our product prices to reflect higher raw material prices.

Kudo: This is Kudo speaking. I would like to add some comments. I believe that the price revisions of engineering plastics to reflect higher raw material prices is proceeding rather smoothly, with the understanding of our customers, although there are occasional time lags.

There are various things happening on the part of our overseas competitors in engineering plastics, causing some concerns regarding supply. Asahi Kasei with relatively stable supply is gaining growing trust and confidence from our customers. I think that is also one of the factors that make price revisions better accepted by our customers.

The engineering plastics industry has recently seen cases of supply disruptions due to the difficulty in procuring raw materials. So, having proper supply chain management and maintaining close communication with our customers will make it easier to implement price revisions. And in fact it has been going smoothly so far.

Mr. Umebayashi: I see, thank you. How about Lamous artificial suede for car seats and consumables such as Saran Wrap cling film? Isn't it more difficult to raise prices of these products?

Yamaguchi: Yamaguchi from Performance Products. Yes, raising prices for consumables could be rather challenging, and we need to proceed carefully and cautiously. But for BtoB products such as Lamous, we plan to pass on higher material costs to our selling prices, similar to engineering plastics.

Mr. Umebayashi: I see, thank you.

Mr. Watanabe: Watanabe from Mitsubishi UFJ Morgan Stanley Securities. Looking at page 21, is it correct to assume that there is no downside risk to the outlook for Homes? In the order-built homes business, you adopted the new Accounting Standard for Revenue Recognition, starting FY 2021. What is the impact so far? Also, can you give us the nuance of the overseas business, whether you are expecting a provision for a loss on construction contracts due to increased costs.

Sakai: Sakai from Homes. What you see here are the factors that are expected to affect operating income from Q3 to Q4. So, we are not anticipating downside risks to the full-year forecast. Regarding the impact of the application of new Accounting Standard for Revenue Recognition, the situation up to Q3 actually indicates an upside potential. As for overseas business, there are some risk factors such as cost increases and lumber price fluctuations, but they are being factored in to some extent, so there actually could be an upside.

Mr. Watanabe: I see. Thank you.

Hamamoto: Thank you. With that, we conclude today's earnings call. Thank you for your participation.