Transcript of
Financial Results Conference
for Q3 Fiscal 2020,
held on February 9, 2021

Asahi Kasei Corporation

Participants

Yutaka Shibata
CFO
Yozo Sato
General Manager, Corporate Accounting & Control
Takuya Takahashi
Senior General Manager, Planning & Coordination, Basic Materials SBU
Yukifumi Kuwaba
Senior General Manager, Planning & Coordination, Performance Products SBU
Hiroaki Sugiyama
Senior General Manager, Planning & Coordination, Specialty Solutions SBU
Akira Fukuda
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
General Manager, 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 2020. This is Futoshi Hamamoto from Investor Relations. We will begin with a presentation from Yutaka Shibata, CFO, and then take questions.

Other participants from Asahi Kasei are: Yozo Sato, Corporate Accounting & Control; Takuya Takahashi, Basic Materials Strategic Business Unit, or SBU; Yukifumi Kuwaba, Performance Products SBU; Hiroaki Sugiyama, Specialty Solutions SBU; Akira Fukuda, Separator Administration, Specialty Solutions SBU; 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. Shibata now.

Shibata: Good afternoon. This is Yutaka Shibata, CFO. Thank you for joining us for our Q3 FY 2020 earnings briefing.

P. 2 Overview of Q3 results

Let us begin with slide 2, which shows an overview of Q3 results. This time I will discuss both quarterly Q3 results and the 9-month cumulative results, as the two look quite different.

For the October to December quarter alone, consolidated net sales came to ¥547.3 billion. Operating income came to ¥52.7 billion. Both figures were up from the same period previous year. Quarterly operating income for Material returned to a year-ago level, thanks to recovery in H2 in automotive-related markets and petrochemical market prices.

Homes and Health Care were up year-on-year, thanks to firm performance continuing from H1 in real estate for Homes and Critical Care for Health Care.

Now, for the cumulative 3 quarters, from April to December, the group posted net sales of ¥1,536.7 billion and operating income of ¥129.5 billion. Both figures are down from the same period previous year due to the impact of COVID-19 in H1.

The decline comes from Material. Fortunately, the situation bottomed in Q1 and performance has been steadily improving since Q2 on the back of recovery in automotive-related markets. Meanwhile, Homes and Health Care operating income increased from the same period a year ago, despite the negative impact of COVID-19.

P. 8 Statements of income, Apr.–Dec. 2020 vs. 2019

Let us now go to slide 8, which shows profit and loss for the cumulative 3 quarters from April to December.

Net sales came to ¥1,536.7 billion, down ¥51.9 billion from the same period previous year. Gross profit came to ¥500.7 billion, for a gross profit margin of 32.6%, almost unchanged from a year ago. SG&A came to ¥371.2 billion, an increase by ¥2.1 billion from a year ago. Due to COVID-19, some expenses such as that for travel came down. On the other hand, there was an increase in amortization of goodwill and intangible assets associated with the acquisition of Veloxis Pharmaceuticals Inc. Labor expenses increased for operations that were strong during the period.

Operating income came to ¥129.5 billion, down ¥10.7 billion from the same period previous year, bringing down operating income margin by 0.4 percentage points to 8.4%.

The net of non-operating items was a net income of ¥2.8 billion, down ¥2.7 billion from the same period previous year. Foreign exchange loss improved, but equity in earnings or losses of affiliates came down by ¥5.4 billion. A major factor here was PTT Asahi Chemical, which produces MMA and acrylonitrile, or AN, in Thailand.

The net of extraordinary items was a net loss of ¥14.1 billion, which is a decline by ¥14.6 billion from the same period previous year. Gain on sale of property, plant, and equipment came down, and we recognized ¥11.6 billion in loss on fire at plant facilities, related to the fire at a semiconductor plant last October.

Pretax income came to ¥118.2 billion, down ¥28 billion from the same period previous year. Income taxes amounted to ¥36.5 billion, less ¥4.6 billion from a year ago.

Net income attributable to owners of the parent came to ¥80 billion, down ¥23.8 billion year-on-year.

P. 9 Balance sheets

Please turn to slide 9. The balance sheets, as of the end of December 2020. Compared to the end of March 2020, total assets increased by ¥49 billion. Intangible assets decreased with a progress in goodwill amortization. Cash and deposits increased. Investment securities valuation increased against the backdrop of rising stock prices in the Japanese market.

Liabilities, on the right side, increased by ¥18.3 billion, mainly coming from an increase in interest-bearing debt of ¥14.9 billion.

Net assets were up ¥30.6 billion, between dividend payments of about ¥45.8 billion, and net profit for the term of ¥80 billion, as well as net gain on investment securities revaluation on rising stock prices.

D/E ratio was 0.52 on a gross basis, and 0.34 on a net basis.

P. 10 Cash flows

Please turn to slide 10. Consolidated Cash flows. Cash flows from operating activities were net cash inflow of ¥175.4 billion. Main inflows were income before income taxes totaling ¥118.2 billion, and depreciation and amortization totaling ¥80.2 billion. Year-on-year, operating cash flows increased despite a decrease in income before income taxes, owing to improved efficiency in operating capital such as a reduction in inventories.

Cash flows from investing activities were net cash outflow of ¥104.7 billion reflecting investment in plant and equipment, and payments for the transfer of business of Adient plc.

Free cash flows were net inflow of ¥70.7 billion.

Cash and cash equivalents at the end of the period totaled ¥247.1 billion.

P. 11 Sales and operating income increase/decrease by segment, Apr.–Dec. 2020 vs. 2019

Please turn to slide 11. Sales and operating income increase and decrease by segment, for the 9-month period. In Material, sales volume differential had a negative impact during the 9-month period, affected by a decrease in demand during H1 in the automotive-related market and the apparel market. The impact of lower prices of petrochemical products was negative in terms of sales price differential but was positive in terms of fuel and raw material cost difference in "others". The net effect of changes in terms of trade was negative.

As mentioned earlier, automotive-related and petrochemical markets improved in Q3, and so the operating income for Material for Q3 alone recovered to the level comparable to the previous year.

P. 3 FY 2020 full-year forecast (1)

Going back to slide 3. Full-year forecast. We are forecasting net sales of ¥2,091 billion and operating income of ¥160 billion. We are seeing a good progress in each of the segments. Compared to the guidance announced in November, operating income forecast is revised upward by ¥20 billion. By segment, the largest upward revision is for Material by ¥14 billion. Homes is revised upward by ¥2.5 billion and Health Care by ¥5.5 billion.

Operating income is projected to decrease from Q3 to Q4. There are two main reasons. One is a seasonal factor; Q4 being a low-demand quarter for many businesses. The other is the concentration of various leading investments made in different businesses in preparation for the next fiscal year and beyond. So it is not that we expect a softer tone of the businesses for Q4.

Let me elaborate on the situation in the Material segment. In Basic Materials, operating income forecast is revised upward by ¥3.4 billion as we expect improved terms of trade for AN. Performance Products is revised upward by ¥4.1 billion, as we expect recovery in automotive and other markets. Specialty Solutions is revised upward by ¥5.9 billion in light of the sale of inventory of certain semiconductor products from the plant affected by the fire, as well as firm performance expected for the separator business.

P. 4 FY 2020 full-year forecast (2)

Please turn to slide 4. Net income is forecasted at ¥71 billion, which is ¥16 billion lower than the November forecast. There are two main reasons for this downward revision. One is an increase in extraordinary loss, as an impact of the fire at the semiconductor plant. The other is an increase in income tax expense.

In relation to Veloxis acquired in FY 2019, we decided in Q3 to implement reorganization within the Asahi Kasei Group. Veloxis was listed in Denmark, but is actually operating out of the US. And since the acquisition, we have been working to realize the intra-group reorganization and optimization, and along with that process, there will be taxation on gain on the intra-group asset transfer, the amount of which is currently estimated at around ¥25 billion. But we expect to save a comparable amount in corporate income tax in FY 2021.

Year-end dividend is forecasted to be ¥17 per share, for a total annual dividend of ¥34 per share, based on the operating forecasts. No change to our basic policy to pursue stable dividends and continuously increased dividends, and to determine the year-end dividend based on the full-year results.

That concludes my presentation. Thank you for your attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Yamada: Yamada from Mizuho Securities. First on Material. I understand that among Performance Products, automotive-related business is recovering. Does the upward revision reflect that contribution only for Q3, or does it also reflect expectation for continued strength in Q4?

And on separators, you mentioned that you expect firm performance. How much growth do you expect? Can you provide us with a number, perhaps?

Further, on the fire and associated extraordinary loss, can you explain how you are accounting for fixed costs related to non-operating assets? Are such costs transferred to non-operating expenses or to extraordinary loss?

Kuwaba: Kuwaba from Performance Products. Between Q3 and Q4, we expect automotive-related demand to remain firm. However, consumables will be down significantly in Q4 compared with Q3, partly because Q4 demand is seasonally slow, and also because some fixed costs have been pushed back from Q3 into Q4. For engineering plastics and synthetic rubber for automotive applications, demand remains firm, and we therefore expect Q4 to be up. For fibers including Sage-related operations, some fixed costs have been pushed back from Q3 into Q4, and we expect Q4 to be down from Q3.

Mr. Yamada: That means you are expecting quite a lot of fixed costs in Q4, then?

Kuwaba: Yes, that is correct.

Fukuda: Fukuda from Separator Administration. Regarding LIB separator shipments, H1 shipments were up 30% year-on-year. Q3 was up 50% plus, and for Q4, we expect an increase slightly below 50%, so that H2 total would be up by around 50% year-on-year.

Sato: Sato from Corporate Accounting & Control. Regarding the fire-related loss, yes, production-related fixed costs during the non-operating period have been transferred to extraordinary loss. The amount is not large. It is about 10% of the ¥11.6 billion loss booked in Q3.

Mr. Yamada: Does that mean, when production resumes later, we will not have to worry about a large amount of fixed costs being recognized just then and pushing down operating income?

Sato: That is correct.

Mr. Yamada: Thank you. My next question is related to Veloxis and the tax expenses. Is it correct to understand that there will be taxation on gain from capital reallocation this year, but next year, there will be a tax shield that reduces income taxes for a similar amount? And, is the $94 million sales of the Veloxis drug for the first 3 quarters in line with the business plan, or actually higher?

Sato: First, regarding tax expenses, in Q3 we decided on an intragroup reorganization. The process involves asset transfer resulting in taxable gains, and we plan to book such tax expenses in Q4. But, also as part of the reorganization process, when we liquidate companies that are no longer needed, associated losses will be deductible. That will happen in FY 2021. These are two separate steps, whose tax impacts will cancel each other out in the end.

Mr. Yamada: Just to make sure, liquidation will happen in the next financial year, so associated losses are only deductible then, whereas asset transfer happens this year, so taxation on gain also happens this year.

Sato: Yes, that is correct.

Kibe: Kibe from Asahi Kasei Pharma. Regarding your question about Veloxis operations, yes, they are in line with the business plan, even with COVID-19. Sales figures are also in line.

Mr. Yamada: The cumulative 9-month sales in US of $94 million and Q3 sales of $34 million look higher than the 30% growth that you were forecasting, don't they?

Kibe: Our view is that the business is continuing steady growth.

Mr. Yamada: Thank you very much.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. My first question is on Critical Care. Can you tell us why Q3 operating income was only ¥12 billion, compared with ¥15 billion in Q2? And what should we expect for Q4, including the outlook for ventilators, please?

Shibata: Shibata speaking. Quarterly figures for Critical Care are affected by fluctuations in ventilator shipments. We received a $350-million bulk order from the US government. Approximately half of that was booked as sales in H1, and the remainder is booked in Q3 and Q4. Most of H1 figure was actually in Q2, and shipments have been coming down since, so Q3 and Q4 are both down quarter-on-quarter.

Mr. Watabe: Other than ventilators, is the rest not much different from the previous year?

Shibata: That is generally correct, although the impact of COVID-19 varies by product.

Mr. Watabe: Other than that $350-million order from the US government, isn't there any more? Perhaps outside of the US?

Shibata: We did get some unexpected orders from other countries, too, but with vaccines being rolled out and initial demand for ventilator systems already being met, we only expect shipments of accessories and disposables for the time being.

Mr. Watabe: Thank you. My next question is about Homes, where real estate operations are considerably boosting operating income. What is your outlook for FY 2021? I know it might be a little early, but is there anything you can tell us now? And how is the current home order environment? It appears to have improved in January, but is that only because January is a rather quiet month?

Sakai: Sakai from Asahi Kasei Homes. Regarding real estate, there has been a rather large number of condominium units delivered this year. In other words, FY 2021 will probably not be at the same level. Regarding the environment for home orders, orders received in January were up year-on-year, thanks to a successful online campaign, and continued contribution from larger homes. However, after a second state of emergency was declared in parts of Japan, visitor count at our model home parks were down 40% year-on-year in January. We are therefore closely monitoring the situation.

Mr. Watabe: Thank you very much.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. First on Specialty Solutions. Q3 operating income was up ¥2.7 billion from Q2. Did that come from firm performance in separators? On the other hand, your Q4 forecast is down ¥4 billion from Q3. Is that because of the fire at the semiconductor facility, or perhaps seasonality? Can you help us understand the quarter-on-quarter changes for this business category from Q2 through Q4, please?

Sugiyama: Sugiyama from Specialty Solutions. The increase in sales and operating income from Q2 to Q3 was mainly driven by the recovery in automotive-related business, but also supported by firm performance in separators and electronic materials. Now regarding Q4, the quarter is typically a slow one for many products in general, and the forecast duly reflects that. Separators will be down, as revised prices apply now that we are in a new calendar year. For electronic devices, we also expect Q4 to be slightly down from Q3. The impact of the fire on Q3 results was smaller than anticipated, but there will be some impact in Q4, too. Market conditions will also have an impact.

Mr. Miyamoto: Can you provide more detail on LIB separator shipments? You said Q3 shipments were up 50% plus from the same period previous year, which is very strong. Was there any difference between wet-process and dry-process separators, or between applications?

Fukuda: Fukuda from separator. For wet-process separators, shipments increased year-on-year thanks to added capacity, for both consumer electronics and automotive applications. Regarding dry-process separators, demand had slowed down significantly back in 2019 after fire incidents involving energy storage systems, or ESS, but there has been a recovery since, and shipments therefore increased.

Mr. Miyamoto: Did you say shipments are up across applications?

Sugiyama: Yes.

Mr. Miyamoto: Thank you. Now on Veloxis. I read the recent interview of Asahi Kasei Pharma's president in an industry journal. It appears that the Veloxis drug is gaining share in the kidney-transplant market. How has net sales during the first 3 quarters increased year-on-year?

Kibe: Kibe from Asahi Kasei Pharma. I am afraid I cannot provide detailed numbers, but there continues to be steady growth.

Mr. Miyamoto: Can you tell us about the share among new kidney transplants? Back in 2019, when you announced the acquisition, you said that the share was 20%. How much is it now?

Kibe: The share is approximately 30% now.

Mr. Miyamoto: And what plans do you have going forward? Do you intend to extend its application to other organ transplants, or expand into other geographical regions?

Kibe: We are currently in the process of evaluating potential additional indications.

Mr. Miyamoto: Thank you very much.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is about separators. Earlier you said that dry-process separator demand for ESS is recovering. Do you also see an increase in dry-process separator use for automotive applications? And what about lead-acid battery separators? Are they also benefitting from the recovery in automotive-related demand? Are shipments recovering, perhaps from Q3?

Fukuda: Fukuda from separator. First on the use of dry-process separators in automotive applications. EVs with a target range of 400 to 500 km per charge, which would be replacements for gasoline engine cars, require lithium-ion batteries with very high energy density, typically with NMC cathodes with high nickel content. For such batteries, coated wet-process separators are becoming the de facto standard, and we address this market with our wet-process separators.

On the other hand, for dry-process separators, there is an emerging demand for use in batteries with medium-to-low energy density that typically use LFP cathodes. This is in addition to the use in high power output batteries for hybrid vehicles. For such batteries, dry-process separators are generally preferred.

As for the lead-acid battery separator, sales volume in Q3 was very strong, partly due to the recovery of automotive-related markets from Q2 to Q3, and also because Q3 is usually the peak season for automotive markets due to strong replacement demand particularly in the Northern Hemisphere ahead of winter.

Mr. Umebayashi: I see. So, what you are saying regarding the dry-process separator is that there are now different types of electric vehicles, and an increase in models with shorter cruising range is driving the shift from wet-process to dry-process separator. Would that be a fair summary?

Fukuda: Yes, I think you can say that.

Mr. Umebayashi: I see, thank you. My next question is on Homes, on Q4 profit forecast. I understand orders for order-built homes are expected to be sluggish, but still, given the usual seasonality, this projection seems too low. So, is it that you are expecting fewer deliveries of unit homes? And also, about the real estate, which was growing very strongly during the first 9 months, but appears to significantly lose that steam in Q4? Can you comment on that?

Sakai: Sakai from Homes. One factor for lower sales and profit projection for Q4 is, as you have correctly pointed out, deliveries of condominium units in real estate. Deliveries of condominium units were concentrated in the first 9 months, and are expected to drop in Q4. Given the nature of this business, the operating results of the condominiums business tends to fluctuate and are not evenly distributed. So, when there are many units to be delivered, sales and profit increase, and vice versa.

Mr. Umebayashi: I see. One additional question. With the price of steel going up, should we not worry about cost increase in Homes?

Sakai: Steel price was coming down at one point but is now going up rapidly. So, depending on how things turn out, there might be an impact.

Mr. Watanabe: Watanabe from Mitsubishi UFJ Morgan Stanley Securities. I have a question on semiconductors. I understand the extraordinary loss for this fiscal year. What about the impact in the next fiscal year? What items are included in this year’s extraordinary loss, and when do you expect the operations to be restored?

Sato: This is Sato from Corporate Accounting & Control, to respond your question on the extraordinary loss. Basically, we are working to charge everything this fiscal year. So, there are some additional loss expected for Q4, but there shouldn’t be any for next fiscal year. That’s the current assumption.

Mr. Watanabe: And what is the amount you expect to book for Q4?

Sato: The extraordinary loss for 9 months on the consolidated basis totaled approximately ¥14 billion. The full-year consolidated forecast is ¥20 billion. You can assume that the majority of the difference would the additional loss related to the fire.

Mr. Watanabe: Could you also tell us what kind of items were not accounted for in Q3?

Sato: We’re still not certain whether they would actually be included in Q4, but what we anticipate in Q4 would be such items as provision for dismantling and removal which require cost estimates from the contractors. That’s one factor not included in Q3.

Mr. Watanabe: I see. My next question is on Homes. Order forecast for H2 remains unchanged from the November forecast. For Q4, you expect a year-on-year decline, while you said orders in January were actually higher year-on-year thanks to successful online events during that month. Do you think the recovery was just for January, or do you think it could be sustained through February and beyond?

Sakai: Sakai from Homes. As was mentioned earlier, online events held in January were very successful. Also, the order level in January of last year was low due to the effect of the consumption tax hike, and thus the year-on-year increase. We’re hoping for this momentum to continue in February onward, but as explained earlier, due to the state of emergency declaration, the number of visitors to model houses dropped significantly in January. We’re closely monitoring the trend and assessing the impact.

Mr. Watanabe: So, you’re saying that it’s not that online events are replacing physical model houses in stimulating the traffic, but rather, currently online events prove effectively but you still need visitors to physical venues, correct?

Sakai: Yes, that’s correct. It so happened that in January, we had lots of visitors to the online events, which served to boost orders. Should this continue, we should see a sustained recovery. But given that the rate of orders placed by visitors to model homes is relatively high in our case, we are keeping a close eye on the trends in that channel.

Mr. Watanabe: I see. That's all from me.

Mr. Okazaki: Okazaki from Nomura Securities. My first question is on Basic Materials. Changes in operating income from Q2 to Q3 as well as from Q3 to Q4. Can you also comment on supply and demand of AN and the market price spread for Q3 and Q4 respectively?

Takahashi: Takahashi from Basic Materials. As you can see on slide 35, operating income for Q2 and Q3 were ¥1.8 billion and ¥4.1 billion respectively, and projected to be ¥5.2 billion in Q4, representing a gradual increase. Sales volume dropped in Q2 then more or less recovered in Q3, and is surpassing the previous year's level in Q4. Market prices of petrochemicals are rising, resulting in the improved price spread. So overall, operating conditions are gradually improving.

As for AN, in Q3 demand was firm driven primarily by ABS, while supply was becoming tighter partly due to maintenance turnaround campaigns in the industry and because there was no inflow into the Asian markets from the US and Europe where the supply and demand was tight. In November, we were forecasting the price spread of $300 to $400 per ton. In Q3, the spread widened gradually but stayed within the forecasted range at $378, with propylene $932, and AN $1,309. Currently the AN price is nearing $1,700. For Q4, there are some uncertainties with Chinese New Year's and others, but we are projecting AN price to be between $1,650 and $1,700, and propylene $950, for a spread of $700 to $750.

Mr. Okazaki: Are you expecting AN supply and demand balance to remain firm in the next fiscal year?

Takahashi: Yes. In terms of competitive landscape, there are no new plants coming online for a while, until the end of this calendar year at the earliest. ABS production is not likely to decline for now, so the demand should stay firm. In terms of supply, some plants will come back online after maintenance turnaround but we expect the tight balance to continue though H1 of FY 2021.

Mr. Okazaki: I see, thank you. My next question is on Specialty Solutions. Changes in operating income from Q2 to Q3. Did I hear you correctly that contribution of profit increase of separator was not that large? Can you also comment on the competitive landscape of separator? Has it changed from 3 months ago, especially in relation to electric vehicles?

Sugiyama: Sugiyama from Specialty Solutions. Both sales and profit increased from Q2 to Q3, and increased profit of separator was one big factor. Major factor was, as mentioned earlier, a recovery in automotive-related product offerings, which include lead-acid battery separator. LIB separator also grew.

Fukuda: Fukuda for separator. From Q2 to Q3, our dry-process LIB separator felt some impact of ESS customers shifting to new models using separator supplied by our competitors. But wet-process separator grew in volume for both consumer electronics and automotive applications. Lead-acid battery separator also grew in volume driven by seasonal replacement demand. Overall, separator recorded higher sales and profit. There were no major changes in the competitive landscape from Q2 to Q3,

Mr. Okazaki: I see. Thank you. That's all from me.

Mr. Sano: Sano from JPMorgan Securities Japan. I have a question on Specialty Solutions, the impact of the fire. What was the impact on operating income in Q3, and what about projection for Q4?

Kawata: Kawata from Asahi Kasei Microdevices. Impact on operating income during Q3 was minor, partly because we were able to sell inventory of work in progress goods and finished goods at the plant to satisfy the demand that was recovering at the time. That helped us keep the impact to a minimal level in Q3. Whereas for Q4, with the depletion of inventory, we are going to feel the direct impact of the suspended production. I hope that answers your question.

Mr. Sano: Yes, thank you. Another question on separator. I'm curious about a joint venture to be set up between your subsidiary Polypore International and SEMCORP Group. Since Asahi Kasei also has dry-process separator business, I'm wondering whether or not there's a risk of cannibalization with the cost competitive dry-process separator to be supplied by this joint venture at least for a short term. Or is it that since you have 49 % equity, profit made there would benefit you anyway, so it makes no difference? Or could it be that there's no risk of cannibalization because the quality level is different between those made by Asahi Kasei and those to come out of the joint venture?

Fukuda: Fukuda for separator. The intent of setting up the joint venture is to quickly enter the Chinese ESS market which is projected to grow rapidly over the next 2 to 3 years, to further expand the business. This is a very cost-competitive business, and the joint venture is targeting dry-process separator for medium-to-low density batteries.

Mr. Sano: Thank you. A follow-up question. Yes, it may start with the Chinese ESS market, but I assume that the joint venture partner is aspiring to ultimately become a top global dry-process separator manufacturer. Do you believe that this joint venture could be limited to strictly supplying only to the Chinese ESS market?

Fukuda: Fukuda for separator. The joint venture will be established after all relevant filings are made and accepted for the approval by the authorities. All this work has yet to be completed. So, we hope we'll have an opportunity to share the details with you once the joint venture is set up.

Mr. Sano: I see, thank you.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. Allow me to ask another question. Operating income for the Health Care business category improved rather significantly in Q3. I see that Veloxis' sales of Envarsus XR grew only slightly from Q2 to Q3. Can you elaborate on quarter-on-quarter and year-on-year changes of Q3 operating income?

Hamamoto: Hamamoto from Investor Relations. Health Care overall posted higher sales and profit from Q2 to Q3. Both pharmaceuticals and medical devices recorded increased sales and profit. In medical devices, increased sales and profit were mainly attributable to increased sales volume of Planova virus removal filters, partly owing to the impact of COVID-19. Another factor was a reduction in SG&A expenses. Year-on-year increase was also basically attributable to a growth in sales volume of Planova, and reduced SG&A expenses, added with an improvement in fixed cost per unit of Planova owing to improved capacity utilization rate following a production increase. Overall, medical devices posted a steady increase in sales and profit.

Kibe: Kibe from Asahi Kasei Pharma. From Q2 to Q3, profit for pharmaceuticals increased owing to higher sales as well as fixed cost reduction. Year-on-year, profit increased owing to higher sales, particularly driven by a big increase in sales of Teribone, osteoporosis drug. Kevzara, agent for rheumatoid arthritis, also grew in sales. Reduction in fixed costs due to COVID-19 also contributed to higher profit in pharmaceuticals.

Mr. Watabe: I see, thank you.

Hamamoto: Our time is up, so we will end Asahi Kasei's earnings call here. Thank you for your participation.