

Transcript of briefing on  
“Cs+ for Tomorrow 2021”  
Medium-term management initiative  
Progress and Outlook  
held on May 25, 2020

Asahi Kasei Corporation

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## **Participants**

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## **Presentation**

Hamamoto: Ladies and gentlemen, thank you very much for joining us for the conference call by Asahi Kasei Corp. despite your busy schedule today. I am Futoshi Hamamoto of Investor Relations, and will moderate the session. Also present with us today are Hideki Kobori, President, and Yutaka Shibata, CFO. Now let us begin the presentation.

Kobori: Kobori speaking. Today I will discuss the progress and outlook of our medium-term management initiative “Cs+ for Tomorrow 2021”. Due to the outbreak of COVID-19, it is difficult to foresee the future, but let me explain about our initiatives for growth, how we plan to execute the medium-term management initiative in this fluid business environment.

### **P. 2 Overview**

Page 2. Let me first explain the overview of today’s presentation. There are five items.

First, faced with a global economic crisis, the management climate is challenging and very difficult to navigate in, but we will maintain the basic concepts of “Cs+ for Tomorrow 2021”, while proactively seeking opportunities to innovate with changes to society, thus realizing sustainable growth through voluntarily taking actions upon major changes.

Secondly, while forecasting performance is difficult, our 3-sector business portfolio is successful, allowing us to maintain a sound financial foundation in FY 2020 and 2021 with an outlook for stable growth and profit from Homes and Health Care.

Thirdly, with greater financial discipline and further business portfolio transformation we will strengthen the constitution for cash generation, thus maintaining or raising the level of shareholder returns even under the challenging environment.

Fourth, in the 5 priority fields for provision of value identified in the medium-term management initiative, we will proactively address market changes caused by COVID-19 through Asahi Kasei’s strengths of “diversity” and “capability to change”, raising corporate value.

Last and fifth point, we will continue to reinforce the management platform for sustainable growth through various “Cs”, the basis of our business management. Especially, we will place our emphasis on Communication to build an environment for employees and Challenge to heighten operations in the “new normal” for greater productivity, so that we can further enhance corporate value. That was the overview of the presentation.

### **P. 3 Stance for execution based on changing environment**

Next, moving on to page 3. Let me now discuss our stance for execution of our medium-term management initiative in the context of the changing environment. In the medium-term management initiative, we said that, by using our 5 “Cs” and “diversity” and “capability to change”, we would seek growth in the 5 priority fields for provision of value so we can contribute to sustainable society. While firmly maintaining these philosophies, we want to recognize expected environmental changes as opportunities to innovate, and proactively move ahead toward our goals.

To that end, initiatives primarily based on three major perspectives will be pursued. The first is thorough financial discipline. We will scrutinize investment efficiency more than ever to only focus on investments carefully selected.

The second is our efforts to strengthen constitution. We will work to maximize returns on

previous investments, while accelerating portfolio transformation through structural changes in less profitable businesses.

Third is innovation toward future changes in the environment. Through placing more focus on those that will help us contribute to sustainability and anticipating new needs and structural changes caused by COVID-19, we hope to realize mid- to long-term growth in the end. That was the stance for execution based on the changing environment.

#### P. 4 Outline

Next, page 4. From this page, I will go into the details of the presentation. First, I will discuss progress on financial objectives, followed by progress on growth strategies and how we are building a platform for sustainable growth.

#### P. 6 Net sales and operating income

First on the progress on financial objectives. Please look at page 6. In FY 2019, due to a slowdown in the growth of the Chinese market, slowdown in the automotive market, falling prices of petrochemical products, as well as impacts from COVID-19 in Q4 in the Material segment, net sales totaled ¥2,151.6 billion and the operating income ¥177.3 billion, both showing declines from FY 2018. Since it is difficult at this moment to come forward with a reasonable forecast for FY 2020 primarily because of the impact from COVID-19, we will disclose quantitative forecasts when it becomes possible to do so.

Similarly, the plan for FY 2021, the final year of the medium-term management initiative, will be revisited when we have a good handle on the impact. It will be challenging to achieve the FY 2021 targets, but we would like to take every possible measure that we can.

#### P. 7 Reference: EBITDA by sector

Moving on to page 7. Let me explain about EBITDA by sector. As we consider possible impacts from COVID-19, I would like to look at the earnings by sector comparing “pre-2008 global financial crisis” and the present.

The pie chart on the left shows the actual result in FY 2007, whereas on the right is the current one. The EBITDA in FY 2007 was about ¥200 billion, which rose to about ¥320 billion in FY 2019, demonstrating a strong profit growth. By sector, compared to FY 2007, Homes and Health Care achieved a significant growth both in profit margin and the amount of profit, with each contributing one fourth of the total. Even during the recession, Homes and Health Care have been able to generate steady profits, thus serving to support the overall portfolio of the Group. Compared to how we were around 2008 global financial crisis, we have been able to transform ourselves to a more profitable structure resilient to the economic fluctuations.

On the right, you can see EBITDA margin by sector. Homes and Health Care have seen a considerable improvement in EBITDA margin. On the other hand, Material went from 14% to 15% during the same period. We believe it is our challenge to figure out how to improve this percentage further.

#### P. 8 Financial performance by sector

Next, page 8. Here you can see sales and profits by sector for three years between FY 2017 and 2019. Homes, indicated in the middle, has been steadily growing in terms of net sales, operating income and EBITDA. Operating margin and EBITDA margin have been stably staying at 10% and slightly more than 11% respectively.

Moreover, Health Care similarly has been increasing for three years in terms of net sales, operating income and EBITDA, while its operating margin and EBITDA margin having been posting around 13% and more than 20% respectively. In the near term and looking ahead toward FY 2021, our targets do present challenges, but we want to continue our efforts to aim for the plans and targets of FY 2021.

On the other hand, Material, shown at the top, had been performing well in FY 2017 and 2018 in operating income and EBITDA. However, in FY 2019, as I said, we were affected by prolonged US-China trade frictions, slowdown in the Chinese economy and in the automotive market, and the outbreak of COVID-19, resulting in a significant drop in profits. The operating margin fell

below 10%.

In this sector, we have realized that the targets for FY 2021 are becoming increasingly difficult to achieve, and that it is extremely important to review the strategies including possible changes in the portfolio in the sector.

#### P. 9 Financial health

Page 9, where we have described our financial health. This is a graphical representation of how Asahi Kasei remained stable both in the net worth ratio and D/E ratio. The left chart shows the net worth ratio from FY 2006 all the way to last fiscal year, FY 2019, which demonstrated a stable performance at around 50%, including the period of global financial crisis.

On the right, you can see the chart for D/E ratio. Due to factors such as major M&As, the ratio went up and down to a certain extent, but even when we took out a large amount of borrowings, we managed to maintain the ratio at around 0.5.

We expect both ratios to stay at the similar levels, and will work to take growth strategies to enhance the corporate value, while maintaining the financial health.

#### P. 10 Shareholder returns policy

Page 10 is about shareholder returns policy. Our basic policy is that, in order to decide the shareholder returns, what we will focus on is not the short-term profit fluctuations but mid-to-long-term free cashflow outlook. As we have done previously, we will realize shareholder returns basically by dividends, aiming to maintain or increase dividends per share. In addition, from the perspective of not being driven by changes in the net profit each year, but of providing returns for the capital invested previously, we will take into account the metrics of dividend on equity, or DOE, going forward.

We also will look at share buybacks as appropriate, considering the suitable level of equity. Though a challenging environment is expected, we are planning to maintain or increase levels of shareholder returns based on mid-to-long-term free cashflow outlook.

#### P. 11 Dividends

Page 11 shows the actual track record of the dividend. The right axis indicates annual dividends per share, while the left axis, dividends on equity over the years. Since the global financial crisis, we have either maintained or increased dividends per share, and it is our basic policy to continue to maintain or raise the level of dividends going forward.

#### P. 13 Actions in priority fields for provision of value

Next, let me move on to discuss progress on growth strategy on page 13. I will describe the strategy in terms of actions in 5 priority fields for provision of value.

We have executed initiatives to accelerate growth in 5 priority fields for provision of value, identified in the medium-term management initiative, or Environment & Energy, Mobility, Life Material, Home & Living, and Health Care in FY 2019.

Due to time constraint I will skip the explanation of each segment, but as one of the major topics, in Health Care segment we acquired a US pharmaceutical company, Veloxis, and that established a platform to expand business in North America. Please refer to each segment later when you have time.

#### P. 14 Long-term investments for sustainable growth

This slide shows long-term investment for sustainable growth. In FY 2019, over ¥400 billion of investments, including CAPEX and financials of M&A, etc. were decided. In the previous three-year medium-term management initiative of FY 2016–2018, the annual average investments were slightly over ¥200 billion, so we decided almost doubled investments.

As for the breakdown, CAPEX investments were about ¥200 billion, and this increased slightly over the previous period. On the other hand, financials including M&A grew to over ¥200 billion, and in total, investments over ¥400 billion were decided.

As for the long-term investments for FY 2020 and 2021, based on the operating climate, we will focus resources on selected investments that will contribute to sustainability, raise productivity, realize innovation, and also in the businesses where demand growth is highly likely through emerging

needs.

#### P. 15 Review of operating climate in priority fields for provision of value

I would like to comment on the review of operating climate in priority fields for provision of value. Let me describe how we will promote the 5 priority fields for provision of value considering the impacts of COVID-19.

Chart on the left shows the mapping of expected COVID-19's impacts and changes in respective business, with short-term effects on demand on the horizontal axis and magnitude of long-term structural market changes on the vertical axis.

Regarding the short-term effects on demand, demands in Mobility and apparel fibers in Life Material will decline or will be obscure. As for Home & Living and Environment & Energy, we need to observe the effects carefully. On the other hand, in Health Care segment and electronic materials, consumables, and healthcare materials in Life Material, demand will be relatively stable and growth opportunity might be emerging.

Regarding the long-term structural market changes, due to rising or changing needs related to life in critical care and hygiene materials, we expect that new opportunities for value provision will be created. And product and service needs will be arising from new lifestyles. New trends in the auto industry, CASE, 5G in next generation telecommunication, and smart house, etc. will be accelerated, and new needs for new life and work style in the new normal will be emerging.

#### P. 16 Perspective on growth strategy in priority fields for provision of value

Let me explain the perspective on our growth strategy based on the view of the business climate. Please turn to page 16. This slide shows perspective on growth strategy in priority fields for provision of value.

As for Health Care, which is shown on the right on the axis of short-term effects on demand, we will accelerate its growth by concentrating management resources. We will strive to grow it as the third business pillar by further cultivating critical care business and through advancement in North America.

As for electronic materials, consumables, and healthcare materials in Life Material, while carefully observing short-term effects, we will grow them providing innovative materials and solutions for new needs arising from advance of 5G, awareness for hygiene, and changing lifestyles.

As for Environment & Energy and Home & Living, while reducing the impact through productivity improvements, we will maintain and advance growth strategy shown in the medium-term management initiative.

On the other hand, as for Mobility and fibers-related Life Material, where challenging business environments are expected in the short-term, we regard these structural changes as opportunities in the medium and long term to seek medium-term profit growth, and we will continuously accelerate transformation of portfolio to high value-added products and reinforce marketing to key customers.

#### P. 17 Approach of business portfolio transformation

Let me turn to page 17. I will explain approach of business portfolio transformation, a key in the growth strategy that I described.

We review the business portfolio position, considering business profile including priority fields for provision of value, contribution to sustainability, and competitive advantage in the market, in addition to the growth, profitability, amount of profit, and productivity. We review the updated business portfolio position twice a year. Based on the results of the review, head office and business sides work together to select key themes for business portfolio transformation for execution.

In FY 2019, as mentioned at the beginning, due to prolonged US-China trade friction, the slowdown of Chinese economy, and demand decline in automobile market, we observed the change of trend from the previous moderate global economic growth. Bearing that in mind, we have been reviewing business portfolio transformation. As a result, we decided the discontinuation of businesses of ABS resin, acrylic sheet, and others, and started execution.

But despite these, looking back the last few months, due to COVID-19, the business climate turned even more challenging. Therefore, management will ensure to accelerate the transformation,

having a more severe view for the portfolio transformation.

#### **P. 19 Strengthening platform for sustainable growth**

Let me explain the specific contents of building platform for sustainable growth. In addition to four “Cs” presented in the previous medium-term management initiative, of Compliance, Communication, Challenge, and Connect, in this medium-term initiative of “Cs+ for Tomorrow 2021”, Care was added, and we will promote strengthening the platform through these five various “Cs”.

Newly added Care indicates the stance of Asahi Kasei to make business contribution against global shared challenges including COVID-19 and sustainability, with key words of “Care for People, Care for Earth”.

Five “Cs” are all important, but in the new normal, we would like to particularly focus on Communication and Challenge. As for Communication, we will develop working environment to enable the employees to work effectively in various work styles. As for Challenge, by accelerating the promotion of digital transformation further, we would like to improve productivity.

#### **P. 20 Care: Efforts against COVID-19**

On page 20, as a part of newly added Care, major contributions of Asahi Kasei concerning COVID-19 are described. Today people in the world are working day and night to beat novel coronavirus. Asahi Kasei will do whatever we can globally and proactively to overcome this challenge.

Ventilators of ZOLL and therapeutic apheresis of Asahi Kasei Medical are making effective contributions for infected patients, and we will continue to proactively cooperate in the future research and development of pharmaceuticals. In Material, we have materials for masks and disinfectant wipers that contribute to prevent infections, and we are increasing their production.

We will continue to pursue the Group mission of Asahi Kasei Group to “contribute to life and living for people around the world”.

#### **P. 21 Care: Measures for sustainability**

For another part of Care, measures for sustainability, please turn to page 21. For this year, we have been taking measures for sustainability with key words of “Care for People, Care for Earth”. We have taken specific measures in the field of environmental, social, and governance.

In environmental aspect, we have been contributing to reduce GHG and plastic waste. Working with the third party, we select environmentally friendly businesses and measure their environmental contribution quantitatively. We would like to carry out disclosure in line with the recommendations of TCFD which shows the impacts and opportunities of climate change in this fiscal year.

In social aspect, we are particularly enhancing management initiative to improve health. The key to achieve targeted sustainability of Asahi Kasei is human resources. Amid the changing environment of COVID-19, through enhanced management initiative to improve health for more fulfilling work and improved productivity, we will deliver results.

In governance, monitoring the overall aspects of sustainability, we established the system to promote sustainability. Enhancing the effectiveness of board of directors, we will implement the high-quality business management.

#### **P. 22 Challenge: Heightening operations by digital transformation**

One of the focused “Cs” in the new normal is Challenge. As for upgrading operations by digital transformation, we have been already promoting it, but not only for efficiency and upgrading of manufacturing technology through AI, we will promote their use also for business strategy formulation and new business creations.

For example, IP information is used for business strategy formulation of Sage, which Asahi Kasei acquired in 2018, in search for new fields to develop. IP landscaping is highly effective in search of new business fields and business strategy formulation, and it is currently being utilized in various projects.

We will establish open innovation site for digital engineers as a part of initiatives to enhance digital transformation promotion structure. We will increase digital professionals’ headcounts to 150 by the end of FY 2021 to accelerate digital transformation.

## P. 23 Communication: Building foundation for employees to thrive

This is another focused “C”, Communication for building foundation for employees to thrive. It is essential that employees feel that they want to work together as a team, regardless the workstyle. By changing the mindset from the sense of obligation, “I have to work”, to “we want to work together as a team”, we would like to develop human resources and organization of high-performers even in the uncertain business environment.

To that end, with the belief of human resources first, we will develop environment to enable employees to perform in the new normal, and develop appropriate institutions and systems. We will also strive to raise management ability to enhance engagement.

## P. 24 Closing

Finally I would like to comment on three points. First, we view the current broad social transformations as opportunities, and are proactively executing change.

Secondly, we are reviewing what should be preserved and what should be changed, and advancing business portfolio transformation to continue to provide value to society.

Thirdly, by boldly taking Challenges, actively making Connections, and changing the concept of Communication, we are leveraging our strength of “diversity” and “capability to change” to achieve sustainability, namely, contributing to a sustainable society, and sustainable increase in corporate value. With this I conclude my presentation. Thank you for your attention.

## **Question and Answer Session**

Hamamoto: Now, we would like to take questions.

Mr. Yamada: Yamada from Mizuho Securities. Toward the end of the presentation, you described how your business management and communication will change due to COVID-19. I’m interested to learn more about your response to COVID-19.

I am asking this question because, in the case of a business model where you mass-produce commodity products to sell in large volumes, operations are easier to be run as routines and therefore less affected by the possible disruptions of communications as seen under the outbreak of COVID-19. However, as Mr. President said, since the growth of your company has been driven by diversity, I am concerned that disruptions of communications could have a significantly negative impact on your business.

Given that, will your basic approach remain unchanged to maintain diversity through measures including reviews on the business portfolio, while implementing investments in information systems and organizational changes? Or have you come to the point of realizing that your business is so diverse that it would be difficult to have a good control over it, and therefore you need to reconsider strategies including diversity? Could you elaborate on your response to COVID-19? That is my first question.

Kobori: In February and March, when we realized that we will be affected by the outbreak of COVID-19, we have started to provide the environment and tools to allow our employees to work from home. Since April, we have been operating with 90% of employees working from home, particularly those based in Tokyo headquarters and in Osaka. As you said, currently we feel routine operations can be run mostly sufficiently using online tools.

In this context, what we are beginning to learn is that IT tools are extremely useful and convenient in collaborations between different geographic locations or different departments, helping to accelerate such activities, as we can communicate instantaneously through online video conference tools. We found it quite effective to be able to share documents on a face-to-face basis albeit online as we engage in our activities. In that sense, members who are willing to work more proactively are actually broadening their activities.

That said, restrictions on our activities such as inability to visit customers has been obviously still looming large, which we hope will be gradually lifted some time down the road. But as far as communications across functions and businesses are concerned, things are going in a very positive

direction.

On the other hand, when it comes to developing new businesses and operations, we are still facing constraints. In routine operations, increased communication is making our work more efficient. But for new businesses, since it is difficult for people to gather and have discussions or to try taking many different actions, what we need to do is to select what is most effective to do and concentrate ourselves on it in our activities to produce actual results. Such focused efforts, preplanning and more cautious targeting will be required. Under such constraints, as we work on new positive initiatives, it will be extremely important to get a broader range of people involved, having communications to carefully select initiatives to pursue and focus on producing results.

Mr. Yamada: So you do not think you will need to narrow down the range of businesses you cover, if the current situation becomes what we call new normal, do you?

Kobori: We have not been able to foresee that much or an overall picture yet. We had been promoting diversity by having cross-functional collaborations from the period of the previous medium-term management initiative, as seen between members of fibers and healthcare businesses. And now an atmosphere is developing of employees feeling more comfortable to produce results as they learn the usefulness of tools such as online video conferences.

Mr. Yamada: Thank you. A second related question. I understand that you said in reference to the impacts from COVID-19 by sector, they are positive for Health Care, probably neutral for Homes if customer traffic to model homes recovers, and negative for Material. Is my understanding correct? And regarding the future of Material, I believe even if the outbreak subsides to some extent, the business will not get back to where it was pre-COVID-19. Given that, how are you going to plan for investments and quantitative targets?

Furthermore, it is my understanding that, as Material is the segment which is most capital intensive, if investments in Material are not conducted, and M&As are not pursued, you will be able to achieve sufficient cashflow to fund shareholder returns. Assuming that, you said you will now introduce DOE-based approach. Am I correct?

Based on what you answered in relation to COVID-19, I would like you to share your thoughts on quantitative targets and shareholder returns.

Kobori: Thank you for your question. If you look at the three sectors, what you said is more or less correct. However, in each sector, the breakdown of the businesses is different, and so we will need to further examine them. But if you look at each sector as a whole, your description is correct.

Especially for Material, it is important to focus more on transformations of the business portfolio. Previously, we tended to build the portfolio based on the past performance records. However, going forward, as the market is likely to change significantly due to COVID-19, and we will move to the status of new normal, we will need to not just look back on the past results, but take this opportunity to discuss how the market is going to change post COVID-19 and transform the portfolio in response to that outlook.

Conventionally, our approach tended to spend cash earned by Homes sector to make capital investments in Material. But it will now be very important for Material to increase the businesses that can earn cash by themselves. In that sense, we will need to think hard about the investment efficiency, competitive advantages, and positioning in the industry, so we can focus more on businesses that will prove to be only one or number one in the industry. It will also be important to drastically skew our management resources into those businesses.

More specifically, under the current spread of infection, as disinfection and sterilization functions are in strong demand, we have a lot to contribute in the Material sector, including materials for disinfection and sterilization, and more recently, disinfectant modules using UVC-LED, for which we are getting increasing inquiries especially from the US, as well as CO<sub>2</sub> sensor modules that check the level of CO<sub>2</sub> inside a vehicle or a room to prompt ventilation. By further concentrating our investments and personnel into such businesses we hope to provide value unique to our company and accelerate our efforts to change the portfolio into the one consisting of businesses that can realize higher profitability.



Moreover, existing businesses will become under more rigorous scrutiny in terms of continuity in the future from the perspectives of profitability and the size of the profit. On the question of whether to seek M&As, we believe M&As are one of the effective options to grow. Therefore, we will weigh increasing capital investments and changing the portfolio through M&As by examining the quality of the businesses and watching how the market will play out under so-called new normal environment post COVID-19, so we can use M&As as appropriate, as an effective means of strategies.

Mr. Yamada: Thank you. One more question, if I may. Previously, your structural reforms in Material tended to withdraw from commodity businesses and concentrate management resources into high value-added businesses. But going forward, even if you focus on high value-added businesses, unless you target more on the areas where you have real strength, such as only one or number one products in the industry, any inefficient businesses may be wiped out due to COVID-19. Do you agree?

Kobori: Of course, what you said is right. Even with high value-added businesses, per capita operating income, among others, is an important metric. Other criteria of importance are growth potential of the market as a whole, or whether the business can continue to grow faster than global GDP for the next 5 or 10 years, and whether we have competitive advantages.

Therefore, instead of looking back on the past results, we should objectively discuss and closely watch our potential in the future, and raise the bar for those numerical targets or criteria more strictly than ever.

Mr. Yamada: Thank you.

Mr. Watabe: Watabe from Morgan Stanley MUFG. My first question is on page 6, financial objectives. I realize that you had not disclosed your forecast for FY 2020, and I would assume it would be difficult for you to come up with the target for FY 2021, given the current situation. However, as we move into the new normal environment, in the new “C”, or Care, you expect to have new demand for ventilators to the order of 10,000 units per month for ZOLL. Do you think this will be achievable, if everything goes in line with the planned capacity? Will it become a savior for your company’s financial performance?

Kobori: It is important how you address those changing times. ZOLL provides ventilators first to the US government, as it received the request from the government. But I believe it is entirely possible for ZOLL to not let this business end as one-time event, but continue with it by supplying products to the rest of the world. We should capture those opportunities in the market to enhance the businesses where we can contribute. And of course we should also consider profitability as well. The ventilators are not as profitable as defibrillators and LifeVest wearable defibrillators, which ZOLL have been offering so far, but we are seeing a prospect of being able to maintain high enough profitability.

As for Homes, latest order condition is severe, as it is hard to take face-to-face communication due to closure of model homes. But we are enhancing orders receiving activities via online material request system. Up to now, we have been known for distinctive features and strength in order receiving activities at model homes. But I think this can be a good opportunity to enhance diverse order receiving activities through online and referrals, in addition to the originally strong activities at model homes, even after the re-opening of the model homes.

After the lifting of the state of emergency declaration, I think gradually the activities will be resumed, and we need to monitor the impacts cautiously, but rather than taking them as negative factors, by taking them positively, we will leverage the strength of our Homes business.

As a whole, Health Care will be above target even in the challenging environment, and Homes will try to achieve target, and in Material, through major portfolio transformation, we will pursue quality rather than scale and transform the business portfolio so that cash-generating business will be more focused. These are the key points in each business segment.

Mr. Watabe: Second question is on page 11. Can we take that you commit the stable dividend payout, by the introduction of DOE? At the time of global financial crisis, you cut dividend, though slightly, though this chart covers 2010 and onward, and this time, given the fact that you revised down the

dividend forecast in 3Q results meeting and share price fell, can we take the introduction of DOE as your intention for the stable dividend payout?

Kobori: Yes, we will aim the stable dividend and aim to increase dividend further with the introduction of DOE. If we try to view dividend from short-term annual profit perspective, in the case of this year with the current economic condition, profit will be down. But we wonder whether it is appropriate to cut dividend based on the payout ratio.

We expect shareholders to have medium- and long-term perspectives, and to that end, we would like to consider dividend against invested capital, and eventually that approach will lead us to sustain and improve the level of dividend.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. Firstly, I would like to ask on portfolio transformation of Material, to shift focus to the cash-generating business. For example, when I looked at the wet-process LIB separator and dry-process LIB separator in FY 2019 compared to FY 2018, shipment increased sharply on one side and decreased on another, showing the clear contrast in volume. How do you view dry-process separator from the perspective of cash generation?

It has been while since you acquired Polypore, but do you enjoy sufficient synergy by having both of wet-process and dry-process separator? I would like to have your comments on these, including the update.

Kobori: On separators, total shipment of LIB separator increased year-on-year in the latest month of April. While tough side is Daramic lead-acid battery separator. Automobile demand itself is certainly weakening, and the condition is tough. It seems that it will take three or four years for the entire market to come back to the level of FY 2019. In our case, Daramic, lead-acid battery separator will continue to face tough condition this year and some more time.

However, despite the tough condition of the entire automobile market, the volume of environmentally friendly vehicles will continue to grow. That supports the year-on-year volume increase of LIB separator in April this year. Therefore, we are increasing manufacturing capacity of LIB separator steadily to achieve the target of 1.55 billion m<sup>2</sup> per year in FY 2021. And we will continue to work on this.

We made investment in the past, allocating management resources. And our effort to continue to improve investment efficiency remains unchanged. We will continue to strive to generate cash in this business and secure our position in the industry. Off course, due to policies in respective countries and consolidations of automobile companies, there would be some moves in the market, but this business would continue to grow, and we reaffirmed that with the latest result. So, we will continue to enhance the business.

Mr. Takeuchi: Can I take that you see the good synergy by having both of the wet and dry-process separator?

Kobori: Yes, you can. In particular, as large battery manufacturers would use both of wet- and dry-process LIB separators, we will be increasingly benefited by the synergy.

Mr. Takeuchi: Understood. Secondly, you said that Health Care segment will be prioritized in resource allocation. I understood the direction of Critical Care and pharmaceuticals, including M&A. But as for medical devices, how are you going to enhance the business platform vis-a-vis the COVID-19? Do you consider expanding the business scale, through M&A as an option? I would like to have your thoughts on medical devices.

Kobori: Put it simply, medical devices are categorized into Critical Care of ZOLL, and dialysis-related products and therapeutic apheresis of Asahi Kasei Medical.

In Critical Care business, due to the new demand of ventilators, demand was boosted compared to the previous year, and the latest sales increased substantially over the corresponding period of the previous year.

Demand and sales of dialysis-related products and therapeutic apheresis, were sustained as

flat year-on-year, supported by the increasingly urgent needs. Despite growing needs, considering domestic financial condition, pricing pressure is rather tough.

From the perspectives of work style reform, remote medicine, home healthcare, data-based medical system, and our sales activity, we need to improve productivity and more localized approach will be required. Faced with COVID-19 this time, we need to think hard how we will be changing. By changing business focus, resource allocation, and work style, we will improve productivity further.

And Asahi Kasei Medical has bioprocess business, which is not exactly medical devices, of filters to be used in the biotherapeutics manufacturing process, and this is a global operation. Toward coronavirus, many drugs will be developed and approved in due course. And our bioprocess business will have more opportunities to contribute. By allocating management resources into this business continuously, we will continue to make social contribution, provide value, and this business will make profit contribution as well.

Mr. Miyamoto: Miyamoto from UBS Securities Japan. Compared to the time of global financial crisis, petrochemical business has become more stable, partly due to the unification of naphtha cracker operations with Mitsubishi Chemical. In Material sector business briefing in November last year, the initiatives to stabilize acrylonitrile business were explained. Would you tell us how you will stabilize basic materials business further?

Kobori: From FY 2014 to 2016, drastic structural improvement in petrochemical business was implemented. And from FY 2016 to 2018, global economy has been on the moderate recovery track, and we posted the strong results. But this time high volatility was revealed at the time of economic shock or slowdown, with substantially reduced profit. We need to re-examine the level of sustainable profit of petrochemical business even at the time of sluggish economy.

Previously we experienced the consolidation of industry through unification of crackers. Various opportunities might be emerging in other regions as well. And we may need to consider collaborative alliance, not only in the field of crackers in a complex, but in other energy uses, and logistic and maintenance personnel mobilization to address labor shortage in order to pursue better cost efficiency in various manners. And five or ten years from now, given we may face shocks like COVID-19 more frequently, we need to re-examine how we can minimize volatility and earn profit.

Acrylonitrile price volatility has been gradually reduced by promoting cost-based formula for sales price. That said, still while we can enjoy the good time, at the low ebb, dip is deep. So, we need to examine the stable base level that we can expect as the minimum line.

It is hard to forecast the global economic development at this moment, but it will take considerable time for the economy to come back. With the assumption of tough petrochemical market, we need to re-examine how this business should be.

Mr. Miyamoto: If you compare two factors of self-help effort and the effort for alliance with competitors, to Connect, on which do you place your focus?

Kobori: We will do both, but in the case of Connect with external parties, it is partly up to the intent of the counterpart. So first we will make self-help effort, and then to accelerate or to find a better option, we may consider alliance with third party.

If we try to start with alliance with external parties, whether we can materialize the plan is highly uncertain. The priority is to try to do and find directions by ourselves, and in the process, we may consider alliance, or Connect with others.

Hamamoto: That concludes today's briefing. Thank you for your attendance.