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Asahi Kasei Corporation

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Presentation

Hamamoto: Good afternoon, ladies and gentlemen. Thank you for joining us in the earnings briefing conference call of Asahi Kasei Corporation. I am Futoshi Hamamoto from Investor Relations, serving as the MC.

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

Without further ado, earnings presentation by CFO Shibata.

Shibata: Good afternoon, I am Shibata from Asahi Kasei. As always, I will explain using financial results presentation deck.

P. 3 Focus of FY 2019 results

Please turn to slide 3. First, as is noted in red, please be advised that the audit of FY 2019 results by Independent Auditors is not yet completed, and that any revision shall be promptly disclosed if necessary, after receipt of the audit report. Your understanding is appreciated.

First, the operating results for FY 2019. Net sales were ¥2,151.6 billion, about the same as in the previous year. By segment, Material posted lower sales, while Homes and Health Care recorded higher sales. While the acquisitions of Sage Automotive Interiors, Erickson Framing, Cardiac Science and others, served to increase sales through the new consolidation, sales for the Material segment decreased due to the slowing down of the growth of the Chinese market, the US-China trade friction, deterioration of the global economic environment, slowing down of the automobile market, and some impact of COVID-19 felt in February and March.

Operating income was ¥177.3 billion, a decrease of ¥32.3 billion, year-on-year. Compared with the revised full-year forecast released in February, it was ¥1.2 billion lower. The total was almost as forecasted in February, but segment-wise, it was ¥1.6 billion lower for Material, ¥300 million lower for Homes, and ¥1 billion higher for Health Care.

Results by segment, starting with Homes. Homes posted an increase of ¥4.5 billion, year-on-year. Towards the end of the fiscal year, unit homes operation felt the impact of COVID-19 in terms of a delay in the procurement of housing fixtures, and some of the deliveries were shifted to FY 2020. Still, segment profit increased coming from firm performance of real estate.

In Health Care, profit increased by ¥1.7 billion, year-on-year. Profit expanded steadily, centering on Critical Care. Despite some impact of COVID-19 felt in February and March, segment profit increased

Next is Material. Profit for Material decreased by ¥37.2 billion. This decline was a result of the slowdown in the Chinese market, slowing down of the automobile market, falling petrochemical market prices, and the impact of COVID-19 felt from Q4. Some additional comments on the subsegments of the Material Segment. Please turn to slide 22 for details. I will just hit main points of increase and decrease.

Basic Materials had some negative factors, resulting in significant decline in profit. There was a maintenance shutdown of naphtha cracker in May last year, and a maintenance turnaround of derivatives plants. Furthermore, there was a stoppage of naphtha cracker due to a facility malfunction in January. In addition, there was a large inventory valuation loss by the gross average method due to decreased feedstock prices such as naphtha. Moreover, the terms of trade for each product deteriorated rapidly. In addition, South Korean Tongsuh Petrochemical, which produces acrylonitrile, AN, was affected by the weakening of the won, impacting the currency conversion. As a result of the above, profits of Basic Materials fell significantly.

In Performance Products, one positive factor was the consolidation of Sage, which was recorded on a full-year basis in FY 2019, and contributed positively to operating income even after amortization of goodwill. The negative factor was a decline in profit for synthetic rubber for tires due to lower operating rate, decreased shipments and deteriorated terms of trade. In addition, decreased shipments of fiber products, decreased shipments of engineering plastics, and increased fixed costs in each business, resulted in the decrease in the overall subsegment profit.

In Specialty Solutions, the overall trend was similar to the previous year. This subsegment weathered this business environment better than others. As a positive factor, Hipore wet-process LIB, lithium ion battery, separator for eco-friendly vehicles, or electric vehicles in general, presented steady expansion. Negative factors included the impact of fires of ESS, energy storage system, in Korea on Celgard dry-process LIB separator, and the stronger yen.

Net Income was ¥103.9 billion, down ¥43.6 billion, year-on-year. As will be explained later, the decline in net income was larger than the decline in operating income as a result of recording of impairment of noncurrent assets and business structure improvement expenses.

The annual dividend is unchanged from the February guidance, and is planned to be ¥34 per share with year-end dividend of ¥16.

P. 8 Summary of financial result

Next, let me go over the FY 2019 operating results first. Please turn to slide 8, which shows major financial results. The figures I explained at the beginning are shown here, so I will skip the explanation of this slide, and instead, I would like to hit the key points of income statements, balance sheets, and cash flows starting on slide 9.

P. 9 Statements of income

First, slide 9, statements of income. Net sales were ¥2,151.6 billion, a year-on-year decrease of ¥18.8 billion. Gross profit was ¥675 billion, and gross profit margin was almost the same as in the previous year, but due to an increase in SG&A expenses operating income decreased, year-on-year.

SG&A expenses increased by ¥18.8 billion, year-on-year. The main reason was the increase in outsourcing costs related to IT investment. With the strong promotion of the use of IT, the relevant outsourcing costs increased. Another factor was the increase in goodwill amortization and labor costs associated with the acquisitions of Sage, Cardiac Science, and others.

Operating income was ¥177.3 billion, down ¥32.3 billion, year-on-year. Non-operating income and loss was positive ¥6.7 billion, which was ¥3.6 billion worse than in the previous year. This was mainly due to the deterioration in equity in earnings of affiliated companies, mainly coming from the deterioration in the operating results of PTT Asahi Chemical, PTTAC, in Thailand.

Net extraordinary income and loss was minus ¥28.1 billion, ¥18.5 billion worse than in the previous year. As extraordinary income, we recorded a larger gain on sale of investment securities than in the previous year, with the promotion of the sale of strategic share holdings. The main reason for extraordinary loss was the recording of an impairment loss on the manufacturing facility of Asahi Kasei Synthetic Rubber Singapore, amounting to approximately ¥17.4 billion.

Income before taxes was ¥155.9 billion, down ¥54.5 billion, year-on-year. Income tax was ¥50.2 billion, and net income was ¥103.9 billion.

P. 10 Balance sheets

Please take a look at page 10. The highlight of the balance sheet is that total assets increased by ¥222.8 billion. This is primarily because the acquisition of Veloxis Pharmaceuticals resulted in an increase of more than ¥160 billion in noncurrent assets. The transaction was closed in March, but in FY 2019, Veloxis was consolidated only on the balance sheet as of the end of March, and would be consolidated on P&L in FY 2020. In addition, continued aggressive capital investment also pushed up the noncurrent assets, while the inventories also increased in accordance with the expansion of the business.

Over to the right, the biggest reason for the increase in liabilities is a ¥279.4-billion rise in interest-bearing debts. Net assets decreased by ¥19.3 billion.

All the way to the bottom, the D/E ratio went up by 0.21 percentage points to 0.52. On the other hand, cash and deposits totaled ¥208 billion as shown in the table above. So, if you deduct this amount from the numerator, you can get the net D/E ratio of 0.36.

P. 11 Cash flows

Please see page 11, which shows the consolidated cash flow statement. The net cash inflow from operating activities was ¥124.5 billion, down slightly less than ¥90 billion, year-on-year, mainly due to the decline in income before income taxes and a slight increase in working capital as a result of an decrease in accounts payable.

Cashflow from financial activities ended with net cash outflow of ¥318.2 billion, primarily driven by the cash spending on the acquisition of Veloxis among others and capital investments.

These resulted in a negative free cashflow of ¥193.7 billion. By funding the cash outflow through borrowings and other financing measures, the total balance of cash and cash equivalents stood at ¥204.8 billion as of the end of FY 2019.

P. 12 Sales and operating income increase by segment

Next, let me turn to page 12, sales and operating income by segment. On the far right you can see the difference from the forecast announced in February, which is what I discussed at the outset. In terms of the operating income, Material and Homes fell slightly short of the forecast, while Health Care beat the forecast.

P. 13 Sales and operating income increase/decrease by segment

Page 13, sales and operating income increase and decrease by segment was already explained at the beginning, and so I would like to skip this page. And that concludes the overview of the financial results.

P. 4 FY 2020 forecast (i)

Now, please go back to page 4. I would like to end my presentation by discussing the forecast for FY 2020. At this earnings report, we have left the forecast undecided, and let me give you the background and thoughts behind that.

First of all, I want to share with you our perspective on the management of the business under the impact of novel coronavirus. Although some information on the current status, future outlook, and various other situations is becoming available, we are engaged in diverse areas of businesses, and different businesses and geographic regions are being affected differently at different timings. In that sense, we believe it will be extremely difficult for us to foresee the future under a single unified scenario, as we expect both positive and negative factors in each of the businesses.

Therefore, since we have diverse businesses, we should try to enhance what we believe will prove to be positive factors flexibly and on a timely basis. From this perspective, we would like to make it our policy for the time being to make business decisions as appropriate, while closely monitoring changes as they evolve in the global economy and the operating environment of the Asahi Kasei Group.

In particular, until visibility of the market climate improves, focus will be placed on appropriate cash management to ensure liquidity through curtailment of capex, retaining cash on hand, and leveraging dynamic means of fundraising.

Furthermore, what is most important is to place highest priority on safety of customers, suppliers, and employees; to work to minimize impact on operations of customers and suppliers, as well as on our own, while contributing to prevention and treatment of infection through our businesses.

Thus, the current opaque environment precludes rational forecast of FY 2020 performance, and therefore we have left the consolidated forecast undecided for now. Presumed impacts on each business are being described as far as possible on the following pages. We will promptly disclose quantitative forecast when it becomes possible.

P. 5 FY 2020 forecast (ii)

Page 5 and the following few slides describes what we believe will be the impacts on and forecast for each of the business segments albeit on a highly qualitative basis.

First on Material segment. We are witnessing impacts of generally depressed economic activity in automotive, electronics, and apparel markets, and petrochemical market prices are sharply falling or fluctuating due to low crude oil prices. Therefore, we believe results are likely to fall short of what we achieved in FY 2019.

In particular, the commodity business has a very long supply chain. Most recently, customers who produce various final products are struggling to adjust their production. We will need to keep a close eye on when and at what stage and how the impact will manifest itself.

Despite such severe operating climate, there are businesses which are benefiting from increased demand or expect demand to pick up after the outbreak of novel coronavirus subsides. Those include electronic materials and devices for 5G and tablet PCs, and LIB separators for electric-drive vehicles, and we would like to be fully prepared to meet those demands. Thus, it is our policy in Material segment to minimize the impact of novel coronavirus through those efforts.

Next on Homes. Under the emergency declaration, closures of model homes and stay-home restrictions are having an impact especially on customer traffic and receipt of new orders in the order-built homes business, and, going forward, the impact could also extend to peripheral businesses such as the real estate and remodeling.

In that sense, we will closely monitor how the increase in the number of cases infected with novel coronavirus will be curbed, and how the behavior and social life will be changing in new life styles, so that we can take most appropriate measures to respond, and yet the results are likely to fall short of FY 2019.

The operating environment is challenging in this segment as well, but our policy is to minimize the impact of novel coronavirus by leveraging IT for digital marketing, productivity improvement, and cost reduction.

P. 6 FY 2020 forecast (iii)

Please turn to page 6, on Health Care. Health Care segment could be affected by stay-home restrictions, and by the pandemic, depending on the situations at the frontlines of medical institutions in each of the countries. In Japan, since February and March, we have seen some impacts due to the restrictions on patient visits to hospitals and clinics.

However, demand actually increased during the pandemic for some devices, such as ventilators, defibrillators, blood purification products, and virus removal filters for plasma derivatives.

Therefore, while being affected by negative factors, it is our policy in this segment that, where there is increased medical needs, we will work to fulfill supply obligations through stable production and capacity increases, contributing to efforts to end the crisis and support post-crisis care.

Last but not least, we have described our policy for shareholder returns. Currently, it is extremely difficult to forecast impact of novel coronavirus, but basic policy for stable dividends and continuously increased dividends remains unchanged. It is our policy to make appropriate judgment based on results at the end of the fiscal year.

That is all from me. Thank you for your attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have two questions. The first question is on the impact of COVID-19. You have described a qualitative aspect of the impact, but can you give us the size of the economic impact on the FY 2019 results, centering on the Material Segment? Could you also talk about the current situation, changes in operating status and sales?

Takahashi: Takahashi from Basic Materials. Regarding FY 2019, Basic Materials saw downstream demand for derivatives decline considerably beginning in March, and sales began to decline in March. Despite the impact of the decline in market prices, and despite all these factors, we believe there were no significant financial impact felt in FY 2019.

Kuwaba: Kuwaba from Performance Products. First on the impact of COVID-19 on Q4, last fiscal year. Impact was felt in China after the Chinese New Year holidays, and in Europe and the US after mid-March. In particular, impact of a decrease in the number of automobile production was felt in Q4, particularly in March. The current situation is that, as you know, most European and US automakers are still trying to figure out the right time for production recovery and the level of operation. Japan is also affected, so shipments in Q1 are expected to decrease year-on-year.

Sugiyama: Sugiyama from Specialty Solutions. We believe the impact on Specialty Solutions was relatively minor. Qualitatively, products for automotive applications, coating material, dry-process LIB separator, and lead-acid battery separator were slightly affected, but the amount was not that large. In the meantime, demand for mobile devices, information and communication devices, PCs and tablets increased, so overall, we believe that there was almost no impact in fiscal 2019.

Mr. Watabe: So, do I understand correctly that Basic Materials was affected mainly in terms of falling market prices, while Performance Products suffered in terms of shipments, and that continues to date?

Kuwaba: Yes, that would be correct.

Mr. Watabe: My second question is on Critical Care, ZOLL. ZOLL has announced a major increase in ventilator production and is among the companies that the US government has announced to have signed a contract to respond to COVID-19, and I think the value of the contract has also been disclosed. But there is a considerable gap between the announced volume and ZOLL's capacity. Can you comment on that? Furthermore, is there enough demand for monthly production of 10,000 units? Can you also tell us about the unit price, as I hear many different estimates?

Shibata: This is Shibata speaking. First, regarding the first question on quantity. This is procurement by the US government, and the delivery has already started. In any case, ZOLL is currently taking measures such as procurement of parts and components, so as to increase the production capacity from 400 units per month to 10,000 units, a 25-fold increase, to respond to demand. Achieving the capacity expansion is what ZOLL is currently focusing on.

Hamamoto: This is Hamamoto from Investor Relations. Regarding the unit price, I think that you can check the number of units and the value of the contract from the disclosed information. So, if you do the math, you can get the approximate unit price. Please note, though, that this unit price includes accessories.

Mr. Watabe: Do you expect the demand to exceed 18,900 units, which is the disclosed figure?

Shibata: It will depend on the situation of COVID-19, and in fact there are not enough ventilators not only in the US, but around the world. In that sense, there are various variables, including the production structure of ZOLL, the situation of infection in the US and elsewhere in the world. And given that various manufacturers are increasing production now, I think it will all depend on the global balance at the time. So, currently we are giving priority to meeting the current demands from the US government, rather than trying to formulate a medium- to long-term plan.

Mr. Watabe: Is it fair to assume that the workforce to respond to production increase will be adjusted as part of variable cost, once the current pandemic subsides and demand decreases?

Shibata: Currently, the arrangement for workforce to deal with increased production is made mainly by internal reassignment as the situation does not allow hiring people easily right now. Since this is an assembly business, we can make it work as long as we can procure parts and materials. So, the total headcount for production has not increased significantly.

Mr. Watabe: I see. Thank you.

Mr. Yamada: Yamada from Mizuho Securities. My first question is on Homes. The value of new orders for order-build homes in April was down 60% compared to the previous year. Considering that the time lag from order to delivery is about one year, can we presume that there won't be significant impact on the full-year sales for the order-built homes in FY 2020?

Also, I think remodeling and others are in a difficult situation right now. But should the corona impact subside to some extent in the latter half of FY 2020, can you secure sufficient capacity for construction without problem?

In addition, I expect the price of steel to drop significantly going forward. Hebel Haus unit homes use 10 tons or more of steel per building. I think lower cost of various materials would be positive for Homes. How does it look like? Please tell us about the current situation and future outlook of Homes to the extent possible.

Sakai: Sakai from Homes. First, I would like to talk about the relationship between the current status of orders as of April and the full-year profit and loss. True, we have a certain level of order backlog. But it's not necessarily the case that orders received first are delivered first, so some orders from this April through H1 will be delivered in H2. Therefore, it's not that there will be no impact in FY 2020.

Regarding remodeling, order situation is rather tough right now. But when the orders recover in the future, we will have the same construction capacity retained as before. But we do expect that the full-year profit and loss will be affected.

Regarding the question about the price of steel, of course, we are using various materials, including steel and autoclaved aerated concrete panels. The cost of logistics has also risen significantly recently, so if we are to focus only on steel, it may work positively in FY 2020. However, we believe that the cost will be decided as a whole, although it is hard to predict what will happen to other materials or logistics costs due to the effect of COVID-19.

Mr. Yamada: I see. I just want to check the penalty condition. Would there be a penalty if the construction is not completed and the delivery cannot be made as per the contract? And what do you mean by digital marketing? Those are follow-up questions.

Sakai: Whether there will be penalties for delays in deliveries, of course, depend on reasons. A penalty will be imposed if the delay was due to our factors, but basically depending on the circumstances, there may or may not be a penalty.

Mr. Yamada: Should we assume that with COVID-19, there wouldn't be many penalty cases?

Sakai: Yes, for instance, some units scheduled for March delivery had been delayed due to the shortage of some materials, but in principle no penalty would be imposed on those.

Mr. Yamada: I see. And what does digital marketing mean?

Sakai: Digital marketing, as was explained earlier, involves using the web or IT, to interface with and attract customers via video monitors or the internet in lieu of conventional methods of face-to-face interaction at showrooms and others.

Mr. Yamada: I see, thank you. One last question for clarification. I think almost all of goodwill increments are in relation to Veloxis. Veloxis has a small amount of property, plant and equipment as tangible noncurrent assets and intangible noncurrent assets of about ¥150 billion. Do I understand correctly that this full amount is included in goodwill because PPA has yet to be fixed?

Sato: This is Sato speaking. Yes, that will be correct.

Mr. Yamada: Thank you. When will it be fixed?

Sato: We are thinking of by the time we close the books for Q1.

Mr. Yamada: I see. It is to be fixed at the time of Q1 settlement, so there will be no provisional amortization of goodwill, correct?

Sato: Yes, we are working along that line.

Mr. Yamada: I see. Thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is on the quantity of LIB separator, changes in sales volume on half-year basis using the usual index. How did FY 2019 do year-on-year? And, if possible, can you also comment on the tone of the market for wet-process LIB separator and dry-process LIB separator respectively?

Fukuda: Fukuda for separators. The sales volume of LIB separator as a whole in H2 of FY 2019 decreased year-on-year. As previously reported, the index was 311 in H2 of FY 2018 and 303 in H1 of FY 2019. In H2 of FY 2019, it was 301. YoY in H2, the volume of wet-process separator increased by a little less than 20% thanks to the capacity expansion, but as mentioned earlier, volume of dry-process separator was reduced by almost half due to the effects of ESS fires, and that rendered a bigger impact.

Mr. Umebayashi: I see, thank you. A related question. Slide 21 shows major investments. Among LIB separator facilities listed as "Under construction" are capacity increase in dry-process separator, and for wet-process separator, in addition to ongoing construction, a capacity increase is listed. Do you plan to continue with these projects? Especially, given that the dry-process separator has seen significant drop in sales for some time, I wonder what the plans are. There could a postponement or, in the worst case, even a risk of impairment, I'm afraid. Can you comment on this matter?

Fukuda: First, regarding capital investment, for wet-process separator facilities, construction work and the launch of newly completed lines are proceeding steadily as planned. On the other hand, for the dry-process separator, we started commercial operation as planned in FY 2018 and gradually increased capacity, but due to the influence of ESS fires, demand has not ramped up as we had originally expected. In light of this delay, we are adjusting the startup and operation of the facilities in accordance with demand. But we are not in a situation requiring discussion on impairment.

Mr. Umebayashi I see. My second question is on inventory. As of the end of March, the inventory for the entire company increased rather significantly year-on-year, although it was lower compared to the end of December. Can you explain the reason for the year-on-year increase? Was it partly in relation to delays in deliveries in Homes perhaps?

And at the same time, I think there were many products whose market prices had fallen, but I don't see a big decline in the inventory value compared to the end of December. What factors accounted for that? Are there any products that require larger reduction in production than the actual demand decline because of the current higher inventory level?

Sato: Sato from Corporate Accounting & Control. An increase of ¥50.5 billion in inventories includes about ¥34 billion in Homes business. One of the reasons is, as was explained at the outset, that the deliveries of unit homes have been slightly delayed and carried over to FY 2020 due to the impact of novel coronavirus. And in the real estate business, condominiums under construction increased. These led to the increase in inventories in the Homes segment, which was a major factor.

Moreover, there was some increases in inventories in Material segment. But it is our understanding that there are no particular items where there are excessive inventories.

Mr. Umebayashi: I see. Then, it is not the case that in some products, inventories have increased so much so that a significant reduction in production would be necessary, is it?

Sato: Though I am not informed of all the products, my understanding is that there are no such products with particularly large inventories.

Mr. Umebayashi: Thank you.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. My first question is about Basic Materials. On page 34, in the table of quarterly operating income by segment, Basic Materials decreased by ¥5.7 billion from Q3 to Q4. Could you share with us the reasons for this, together with the market prices and spread of AN?

Takahashi: Takahashi from Basic Materials. One of the reasons for the ¥5.7 billion decline from Q3 to Q4 of FY 2019 was, as we said last time, is the stoppage of a naphtha cracker due to malfunction of the facility in January, which had an impact of over ¥1 billion. In addition, terms of trade for AN deteriorated and the overall shipments decreased. All these factors together resulted in a drop of ¥5.7 billion.

To answer your second question on the spread of AN, in the Q4, its market price was $1,386 per ton, and the price of propylene was $790 per ton, which gives you a spread of $596 per ton. This represents a decline from the spread of $675 per ton in Q3, which we mentioned last time.

Mr. Takeuchi: Could you tell us the status of operation in Q4, changes, if any, at present, and your take on future supply demand balance for now, though it must be difficult to foresee the demand?

Takahashi: Takahashi from Basic Materials again. In H1 of FY 2019, the capacity utilization rate was strong at 85–90%. But in H2, the demand started to decline, pushing down the rate to about 80% in Q4. Most recently, in April, weak acrylic fiber business in China and lockdown in place in India has led to general uncertainty for demand, and we have gone one step further in reducing the production volume. Going forward, with such uncertainty for demand, we will be closely watching the supply demand trend to figure out the level of operations and overall supply volume.

Mr. Takeuchi: Is your production site in Thailand currently in operation?

Takahashi: I must tell you this. Last week, PTTAC, our joint venture in Thailand, suspended its operation due to some disruptions. Details on the restart of the operation are under investigation. Under such an uncertain prospect for demand, we will be watching the trend of the demand and decide the level of operation of PTTAC in the context of our total production capacity.

Mr. Takeuchi: I see. My second question is about synthetic rubber. Could you explain more about the background behind the impairment loss recognized at a subsidiary in Singapore, how much drop in the volume for S-SBR, solution-polymerized styrene-butadiene rubber, you saw in FY 2019, and whether it is possible for you to change the positioning and investment plans in the future. I am interested to know the status of synthetic rubber, especially S-SBR.

Kuwaba: Kuwaba from Performance Products SBU. Synthetic rubber for tires dropped by around 5% in terms of volume from FY 2018 to 2019. In addition, more intense competition associated with declining demand affected prices, eroding margins, especially in general-purpose grade. Thus, we were put in a very challenging position in terms of profitability particularly for those for tires. That is the overall trend.

Mr. Takeuchi: Could you elaborate more on the competitive landscape in the high-end area, which you focus on, including whether there will not be any significant changes in the strategic positioning of S-SBR going forward?

Kuwaba: We expect the high-end market to remain challenging for some time, as the number of new vehicles produced is falling, but the demand itself for high-performance, fuel-efficient tires to continue to grow. Given that, as needs of customers are becoming increasingly diversified, we are in the process of capturing such needs and further developing the S-SBR technologies that we have. This will probably take one year or so, but our current strategy is to aim for a recovery through such efforts.

Mr. Takeuchi: Could you comment on the year-on-year changes of S-SBR alone in the volume in FY 2019?

Kuwaba: The total growth rate of synthetic rubber for tires, as I said, slowed down from FY 2018 to 2019, to about 5%. In that sense, in FY 2017, 2018, and 2019, we have been experiencing a severe situation in terms of volume.

Mr. Takeuchi: I see. Thank you.

Mr. Miyamoto: Miyamoto from UBS Securities Japan. My first question is about separators. In the slides, it was mentioned that you would focus on applications for electric-drive vehicles. I would assume the current situation must not allow you to be optimistic, but do you think you can get back on a growth trajectory in H2?

Furthermore, ESS business was tough last year, but listening to the earnings calls by downstream manufactures, I felt there was some progress made in enhancing safety measures. If you can give us some updates on your forecast for this fiscal year, that would be appreciated.

Fukuda: Fukuda for separators. With regard to LIB separators, we believe supply chains in China and South Korea have recovered to the pre-COVID-19 level. Especially, demand is strong for what is considered to be such end uses as mobile devices and information and communication equipment.

On the other hand, in the automotive use, we have been affected by suspension of operations in factories in the US by multiple auto manufacturers more recently. In addition, we want to continue to keep an eye on any possible specific impacts by launching plans of new EV models in Europe this year, sales trends after their launches, and any delays in development plans.

As you said, domestic demand for ESS in Korea has not picked up yet, but demand from regions other than Korea has been coming back steadily. The volume seems to have been recovering gradually from Q3 to Q4.

Mr. Miyamoto: I know you have not disclosed your plan for FY 2020, but am I correct to understand that you will be back on a slight recovery path from the drop you saw last fiscal year?

Fukuda: Yes, you are correct.

Mr. Miyamoto: From a mid-term perspective, some suggest that crude oil price drops and economic recessions caused by the outbreak of COVID-19 could delay the rate of increase in the penetration of EVs in Europe. Could you give us your take on this?

Fukuda: As you said, some say the crude oil price drops or the stagnation of the automobile industry itself might affect the demand for EVs. However, the impact seems to be milder than that on ICE (internal combustion engine), or gasoline vehicles. In fact, in some cases, this has become an opportunity to accelerate the shift toward EVs. We are not sure what the overall picture would be like, but we want to closely monitor the situation.

Mr. Miyamoto: I see. My second question is about the ventilators of ZOLL. In terms of price, the business does not seem to be bad at all. But in terms of profitability, since this is sort of like an emergency increase in production, procurement costs could go up to some extent. I wonder if that could eat into the business profitability of ZOLL. So could you discuss profitability again?

Shibata: Shibata speaking. The ventilators of ZOLL are originated from a small niche company that it acquired. Due to the outbreak of COVID-19, it is trying to increase the production by 25 times all of a sudden. Of course, we need to ensure profitability as a viable business, but for now, in the frontline, we are back to the basics of medicine to meet the requirement from the US government, and to fulfill the social and supply responsibility. Thus, we are not in a position to discuss plans for profitability. My understanding is that this will not be a significant drag on the overall profitability of ZOLL.

Mr. Miyamoto: I see. You also said that demand for defibrillators is increasing as well. Could you give us more details on defibrillators as to how large the contribution in sales can be? Is it, for instance, to the order of several billions of yen?

Shibata: As you said, needs for defibrillators is increasing from emergency medical services such as ICU and ER. As you know, the defibrillators ZOLL offers are for hospitals, and so, it is possible that demand from hospitals will increase together with that for AEDs.

However, this product requires upfront capital investments, and therefore, there is a question on the financial positions of the hospitals. Under the current circumstances where the clinical sites are struggling to keep up with responses to COVID-19 patients, it is extremely hard to predict how needs will arise and then lead to procurement of equipment by hospitals as part of their business management. But, since ZOLL acquired Cardiac Science, we are hoping that the product will contribute to realizing more growth than in FY 2018, or 2019.

Mr. Miyamoto: I see. Thank you.

Mr. Okazaki: Okazaki from Nomura Securities. On page 33 and 34, Specialty Solutions shows significant increases in sales and profit in Q4 in FY 2019, year-on-year. Could you give us factors behind this more-than-expected upside, including the increased demand for telecommunication and trends of separators, mentioned earlier?

Sugiyama: Thank you for your question. Sugiyama from Specialty Solutions. If you compare the result to the year before, as you saw on page 17, Specialty Solutions has suffered a ¥2.6-billion drop in the operating income, but there was a negative impact of ¥3.6 billion from the appreciation of the yen. Therefore, if you exclude that impact, it has been performing well.

One of the major factors for the strong performance was the considerable growth in wet-process LIB separators, while there was a big negative impact from fires in ESS on dry-process LIB separators. In addition, as you said, electronic materials and other products showed steady growth, helping us manage to achieve the figures we achieved.

On page 33, if you look at the result by quarter, in any typical year, Specialty Solutions tends to perform well in Q2 and Q3, and deteriorate in Q4 partly due to the Chinese New Year. In FY 2019, in Q1, the sluggish performance in Q4 of FY 2018 was carried over, leading to an extremely slow start. But adjustments were made during Q1, and in Q2 we saw a sharp increase. But after that surge which went too far, the business went into a correction phase, resulting in a slight drop. However, in Q4, the performance turned out to be better than expected. Where exactly was it better? In Q4, as you said, wet-process separators did do well, but electronic materials were supported by strong performance of 5G, portable devices, mobile PCs, and tablets. All these factors together resulted in the relative strength vis-a-vis the previous year with Q4 not experiencing that much quarter-on-quarter drop.

Hamamoto: We have used up our time. This concludes today's conference call. Thank you for your attendance.