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Asahi Kasei Corporation

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Presentation

Hamamoto: Ladies and gentlemen, welcome to the conference call on Asahi Kasei Corporation. Thank you very much for your attendance today. I am Futoshi Hamamoto of Investor Relations.

Let me introduce the members of our company present today. In addition to Koshiro Kudo, CFO, here with us today are: Yozo Sato, Corporate Accounting & Control; Takuya Takahashi, Basic Materials Strategic Business Unit, or SBU; Nobuhiro Yamaguchi, Performance Products SBU; Hiroaki Sugiyama, Specialty Solutions SBU; Eiji Ishikawa, Specialty Solutions SBU; Izumi Kawata, Asahi Kasei Microdevices Corp., Kensuke Sakai, Asahi Kasei Homes Corp.; and Ryuji Kibe, Asahi Kasei Pharma Corp.

Now I'd like to invite Koshiro Kudo to start his presentation on the financial results.

Kudo: Thank you. I am Koshiro Kudo. I will walk you through the financial results of FY 2020.

P. 4 Summary of financial results

Please turn to page 4.

We achieved net sales of ¥2,106.1 billion, operating income of ¥171.8 billion, ordinary income of ¥178.0 billion, and net income attributable to owners of the parent of ¥79.8 billion. The year-on-year decline in Material and Homes was mostly cancelled out by the rise in Health Care, allowing the entire group to be almost even with the previous year in both net sales and the operating income. We suffered a large year-on-year decrease in net income attributable to the owners of the parent chiefly as a result of a temporary income tax expense related to reconfiguration of the organizations of Veloxis Pharmaceuticals Inc. However, as the tax expense posted was approx. ¥24 billion, if we were to add the ¥24 billion to the ¥79.8 billion in net income attributable to the owners of the parent, we would have achieved the level comparable to that in FY 2019.

We also maintained annual dividends at ¥34 per share in accordance with our policy of stable and continually increased dividends. Compared to the forecast made in February 2021, we were ahead at every level of the profits.

P. 5 Impact of COVID-19

Let us move on to page 5. I will give you the summary of the impacts of COVID-19.

First of all, Material was hit by the decline in demand for automotive-related and petrochemical products mainly in Q1, but saw a recovery in demand and improvement in market prices from Q2. There was also increased demand for lithium-ion battery, or LIB, separators and electronic materials resulting from stay-at-home demand. On the other hand, as for apparel-related markets, severe conditions for fibers continued. There were some signs of recovery seen more recently, but this is mainly in overseas markets. Our understanding is that the domestic situation has remained quite challenging.

In Homes, mainly due to the emergency declarations issued, the number of visitors to model homes declined, resulting in the severe environment for orders sustained throughout the year. However, by reinforcing measures to attract customer traffic through means other than model homes, such as online events, we have seen signs of recovery in orders more recently.

In Health Care, a large increase in the demand for ventilators was seen in Critical Care. In addition, there was increased demand for virus removal filters related to development and manufacture of COVID-19 drugs and vaccines. However, Health Care was no exception when it comes to sales activities, as sales calls to hospitals were curtailed by COVID-19 restrictions.

P. 6 Sales and operating income by segment

Please turn to page 6. Next, let me explain about net sales and operating income by segment.

In Material, we were significantly affected by COVID-19 mainly in Q1, but saw a recovery from Q2 for automotive markets and petrochemical market prices. However, the improvement fell short of making up for the decline in Q1, resulting in the Material segment posting decreases in both sales and operating income year-on-year.

In Homes, despite the real estate business showing firm performance, sales and operating income decreased year-on-year because of a decline in orders associated with the impact of the 2019 consumption tax hike, as well as due to COVID-19, in order-built homes and remodeling.

In Health Care, on the other hand, sales and operating income increased year-on-year with a large increase in demand for ventilators and firm performance in pharmaceuticals and medical devices, though sales activities were inhibited by COVID-19.

The operating income in FY 2019 was ¥92.4 billion for Material, ¥72.7 billion for Homes and ¥43.5 billion for Health Care, whereas in FY 2020, all three segments recorded between ¥60 billion and ¥70 billion, respectively.

P. 7 Statements of income

Please move to page 7, which shows statement of income on a consolidated basis.

Net sales totaled ¥2,106.1 billion, down ¥45.6 billion year-on-year. However, this includes sales recorded by newly consolidated companies, such as Veloxis, and therefore, if we were to exclude them, we would have fallen by ¥79.4 billion, or 3.7% year-on-year.

As for SG&A expenses, we saw a decrease of about ¥17 billion centered on travel expenses due to COVID-19. However, amortization of intangible assets related to Veloxis acquisition and labor expenses especially for Critical Care went up. As a result, the total SG&A expenses increased by ¥11.1 billion from a year before.

Net extraordinary income and loss was negative ¥28.1 billion in FY 2019, and negative ¥27.1 billion in FY 2020, posting almost the same values in both years. I will elaborate more on this later in my presentation.

For income taxes, an income tax expense of about ¥24 billion was incurred in FY 2020 on the intra-group asset transfer for the reconfiguration of Veloxis organizations.

P. 8 Balance sheets

Page 8 shows consolidated balance sheets.

Total assets increased ¥96.7 billion from the end of March 2020. Goodwill and other intangible assets decreased due to amortization, but PP&E increased, and investments and other assets increased due to higher market value of investment securities, and total assets increased.

Liabilities decreased by ¥14.4 billion, due to interest-bearing debt decrease of ¥44.9 billion. As of the end of H1, we had the forecast of interest-bearing debt for the end of FY 2020, but the results were ¥659 billion, which were lower than the forecast.

As a result, D/E ratio was 0.45, and we almost sustained the guidance level of 0.5.

P. 9 Cash flows

Page 9 shows consolidated cash flows.

As for operating cash flow, efficiency of working capital, including inventories improved, and cash inflow increased year-on-year.

As for investing cash flow, in FY 2020, with the absence of ¥141.5 billion payment for Veloxis acquisition in FY 2019, cash outflow decreased.

As for financing cash flow, in addition to the dividend payment, repayment of borrowings resulted in the cash outflow.

After paying dividend, free cash flow turned to positive ¥50.1 billion, showing the improvement year-on-year. So far, I covered the results of FY 2020.

P. 11 Consolidated operating performance forecast

Please turn to page 11. I will explain the forecast for FY 2021.

As for the forecast for FY 2021, net sales are ¥2,375 billion, operating income is ¥190 billion, ordinary income is ¥196 billion, and net income is ¥155 billion.

Compared to FY 2020, sales are up 12.8%, operating income is up 10.6%, but net income is up substantially by ¥75.2 billion, or 94.3% in the plan. Temporary tax expenses of approx. ¥24 billion related to reconfiguration of Veloxis organization were paid in FY 2020, and in FY 2021, tax expense reduction almost equivalent to the previous year’s tax expenses is expected, and that generates substantial gap.

As for sales and operating income forecast, expecting significant recovery of performance in Material, we plan to achieve increase both in sales and profit. As a result, dividend in FY 2021 forecast is expected to be ¥34 per share, and we will continue to pursue stable and continually increased dividend, keeping the conventional policy unchanged, while making decision in consideration of full-year results.

Payout ratio is 30.4% in the forecast for FY 2021, and in terms of the average of the previous three years of FY 2019, 2020, and 2021 of the current mid-term management plan, payout ratio is over 40%.

P. 12 Sales and operating income forecast by segment

Page 12 shows sales and operating income forecast by segment.

As for Material, as mentioned before, large increase in sales and income is forecasted with recovery of automotive market and petrochemical market prices.

As for Homes, increased sales and income forecasted with consolidation of McDonald Jones Homes Pty Ltd and firm performance in each business.

As for Health Care, decrease in sales and income is forecasted with leveling of spike in demand for ventilators in Critical Care, despite firm performance in each business.

Thus, I covered forecast for FY 2021, and now I would like to pick up some items to explain from appendix.

P. 15 Extraordinary income and loss

Please turn to page 15 for extraordinary income and loss, mentioned before.

In FY 2019, impairment losses were ¥21.9 billion, which includes impairment loss of approx. ¥17 billion for synthetic rubber factory in Singapore. In FY 2020, impairment losses remained at ¥1.9 billion without any major loss.

Loss on semiconductor plant fire of Asahi Kasei Microdevices is shown below. In FY 2020, it was ¥22.3 billion. Loss on product compensation ¥2.1 billion is shown below in FY 2020, but it is not related to semiconductor plant fire of this time.

As a result, net extraordinary loss in FY 2019 was ¥28.1 billion and in FY 2020, loss was ¥27.1 billion, with improvement of ¥0.9 billion, almost unchanged from FY 2019.

P. 16 Overseas sales by business category

Please turn to page 16. Page 16 shows overseas sales by business category.

As for Homes, with some overseas business expansion, as of today majority of sales are domestic ones. Including Homes, overseas sales ratio increased from 40% in FY 2019 to 42.8% in FY 2020, up 2.8 percentage point. In particular, the Americas' overseas sales ratio increased from 13.6% in FY 2019 to 15.9% in FY 2020, and in China it increased from 8.8% to 9.4%. For many Japanese companies, China serves as the major overseas sales region, but in the case of Asahi Kasei, through acquisition of the healthcare businesses in Americas, and acquisition of Sage Automotive Interiors, overseas sales ratio in the Americas stays high.

P. 22 Operating income forecast by business category

Finally let me comment on page 22. This slide shows operating income forecast by business category, covering three years.

As for Basic Materials and Performance Products, in Q1 FY 2020, operating income fell sharply, but the recovery is expected in FY 2021. Operating income in FY 2021 will exceed the level of FY 2019. As for Specialty Solutions, income increased from FY 2019 to FY 2020, and the strong momentum would be sustained in FY 2021.

As for the Homes business category, operating income in FY 2019 was remarkably high, ¥67.4 billion, and it dropped markedly to ¥59.7 billion. But in FY 2021, with recovery in H2, it would grow to ¥63 billion.

Health Care operating income was ¥17.8 billion in FY 2019, ¥23 billion in FY 2020, and will be ¥24.5 billion in FY 2021, achieving steady growth. As for Critical Care, as mentioned before, in FY 2020, operating income increased drastically to ¥44.6 billion with special demand for ventilators. In FY 2021, with some slowdown, operating income will be ¥30.5 billion, which shows increase of ¥5 billion over FY 2019, indicating steady progress.

This concludes my presentation, thank you.

Question and Answer Session

Hamamoto: Now, we would like to take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have two questions. My first question is in Material. Could you tell me your assumptions for main products of Basic Materials in your forecast for FY 2021? And Performance Products is expected to soar in operating income, more than double from H2 and a significant rise even from Q4 of FY 2020. Could you give me reasons behind this? On the other hand, the operating income of Specialty Solutions is expected to remain almost flat. Is it because of the impact from the fire at the semiconductor plant? Could you give me more details including updates on separators?

Takahashi: Takahashi from Basic Materials will answer your question on Basic Materials. As Kudo explained on page 22, the operating income from Basic Materials was almost zero in H1 of FY 2020 and started to recover in H2 to ¥13.9 billion. In FY 2021, it is expected to post ¥12 billion in H1 and ¥15.5 billion in H2, indicating it is on a recovery track.

When you say main products of Basic Materials, I believe you were referring to acrylonitrile, or AN. Around February 2021, the US was hit by cold waves, which, among others, resulted in a soaring AN market. The impact is still lingering in April–June of 2021, and is expected to begin to subside around June and further settle down from July to September. In H2, a new plant in China is likely to come onstream. Given such factors, the spread is expected to settle down gradually from April–June quarter to July–September quarter, and over to H2.

Yamaguchi: Yamaguchi from Performance Products. As you are aware, in FY 2020, the operating income plunged in Q1 but showed a strong recovery in automotive applications in H2 and a gradual recovery in apparel applications. In FY 2021, we expect the strong recovery in demand for automotive applications and the gradual one in apparel applications to continue.

The operating income reflected recoveries more than those seen in the sales volume. Partly due to the business practice, positive changes in terms of trade tend to lag behind a recovery in the sales volume. In other words, the sales volume starts to change first, followed by changes in terms of trade. In particular, in automotive applications, sales volume was very strong in H2 of FY 2020, but the terms of trade failed to catch up. However, in FY 2021, there will be an improvement in terms of trade, which allows us to forecast a significant increase in the operating income.

Sugiyama: Sugiyama will answer the question on Specialty Solutions. As you said, in FY 2021, we expect a positive growth in sales, but no change in the operating income. That is because, in FY 2021, we will need to account for an impact from the fire in the semiconductor plant, compared to the previous year.

As for the breakdown of the expected increase in sales, automotive-related products, which dipped especially in Q1 of FY 2020, is likely to perform well in FY 2021. We also anticipate an increase in the sales volume of electronic materials in FY 2021. LIB separators are also expected to increase in sales volume, but their prices are going down gradually every year, and we have taken that into account in our forecast. The impact of the fire at the semiconductor plant will be negative in both sales and profit, and including all these impacts, we have come up with the forecast of increased sales and flat operating income.

Mr. Watabe: Thank you. In Critical Care, although it may be difficult to give us specific figures, could you tell us what was the contribution from ventilators in FY 2020? Furthermore, how do you see the recovery of LifeVest wearable defibrillators? Could you share with us the breakdown of the increases and decreases of the operating income of Critical Care?

Hamamoto: Hamamoto of IR will answer the question. Ventilators are expected to return to levels we used to see before the COVID-19 pandemic. In that sense, it will become a relatively low profile part of the entire performance of Critical Care. The mainstay of Critical Care is LifeVest and other defibrillators, and ventilators will return to their conventional low key presence. In terms of the scale of the business, Critical Care rose in sales by ¥49 billion from FY 2019 to 2020. While LifeVest and other defibrillators struggled to grow under the pandemic as strongly as they used to, a majority of the increase was attributed to the growth in ventilators.

While we expect the demand for ventilators to settle down from FY 2020 to 2021, the total sales decline is forecasted to be only ¥26 billion. This means that we have assumed LifeVest and other defibrillators to recover and get back on a growth trajectory to help offset the lost revenue of ventilators.

Mr. Watabe: Am I correct to say that you have already started to see signs of recovery?

Hamamoto: Yes. Orders for LifeVest have been recovering more recently.

Mr. Watabe: Thank you.

Mr. Yamada: Yamada from Mizuho Securities. My first question is about homes. With regard to the forecast for FY 2021, with the newly consolidated McDonald Jones of Australia, how much incremental operating income can we expect? If I remember correctly, you had owned about a 40% stake in McDonald Jones before consolidation, and therefore, I would assume the net equity in earnings of affiliates to go down. Could you clarify the impacts and which items to increase and which items to decrease?

Moreover, how did you take into account the price raise of steel and other materials in your forecast for FY 2021. Order backlog for order-build homes declined by close to 10% from the end of FY 2019 to the end of FY 2020, and yet your forecast for FY 2021 is fairly aggressive. Could you elaborate on the breakdown of your forecast?

Sakai: Sakai from Asahi Kasei Homes. Overseas business is expected to grow in operating income from FY 2020, and the contribution from the business in Australia is included to some extent.

As for the breakdown of the forecast for FY 2021, there was a significant dip in the order backlog due to COVID-19, which should have a serious impact on the number of home units to be delivered. However, given that unit prices are becoming higher and fixed costs will continue to be reduced following the effort in FY 2020, order-built homes expects to see a slight increase in the operating income year-on-year.

Remodeling was severely affected by COVID-19 in FY 2020, but is likely to recover in FY 2021. Thus, we expect to see an increase in both sales and operating income for the Homes business category.

Mr. Yamada: The forecast for sales of the business in Australia is about ¥100 billion, isn't it?

Sakai: At this moment, our forecast for the sales of the business in Australia is ¥75 billion.

Mr. Yamada: But I believe the cost of materials will also rise. To what extent do you take that into account?

Sakai: As you rightly said, the cost of various materials including steel has been going up. And as in FY 2020, the cost of logistics has been rising as well. Though I cannot give you any specific numbers, those factors have been incorporated in the budget as items to push up the costs.

Mr. Yamada: Did you assume that, for instance, the cost of steel materials will rise by ¥20,000 per ton?

Sakai: I would like to decline mentioning specific numbers, but we do assume a significant rate of increase.

Mr. Yamada: Is it fair to say that, while assuming a significant rate of increase in costs, with such a decline in the order backlog, you are still confident enough to generate this much profit?

Sakai: Yes. We will continue our efforts to reduce costs, and plan to increase profit mainly in remodeling and overseas businesses.

Mr. Yamada: My second question. I am now looking at the main pharmaceutical sales on page 31. Sales of Teribone osteoporosis drug has increased in FY 2020 despite an impact from romosozumab. Am I correct to understand that the impact from romosozumab was not so severe in FY 2020 and your new formulation of Teribone auto-injector has helped achieve the year-on-year growth? I am also interested to know how you look at potential impacts of abaloparatide, which is expected to be launched going forward, and the impacts of generic drugs.

Furthermore, could you also explain why the sales volume of Recomodulin recombinant thrombomodulin dipped slightly in FY 2020 from a year before?

Kibe: Kibe from Asahi Kasei Pharma will answer the question. As for Teribone, the self-injection formulation is growing rapidly in sales, and, in that sense, there's room for both Teribone and romosozumab in the market.

Abaloparatide is a new drug, and we do not know when it is going to be launched yet. However, abaloparatide is a drug administered once every day through self-injection, and therefore, the way we look at the drug is that it will pose more direct competition to Forteo than to Teribone. What we need to do is to make sure Teribone will be prescribed to those patients it is supposed to be prescribed to.

As for Recomodulin, sales have been declining recently. It was partly because hospital beds were once in acute shortage due to the influx of COVID-19 patients, leading to a decline in the number of patients with diseases such as DIC, disseminated intravascular coagulation, requiring admissions into large hospitals. Having said that, however, our share in DIC treatment drugs has not dropped. Moving forward, now that Recomodulin has been recommended for DIC associated with sepsis in the sepsis treatment guideline, we expect its sales to turn upward again. In fact, sales in April and in May after the extended holidays of Golden Week, sales of Recomodulin have been showing strength.

Mr. Yamada: As for DIC, patients will die if they don't get injected with a drug, and yet is it your view that the demand for the drug decreased? I find it hard to believe that the incidence of DIC decreased due to COVID-19. Furthermore, if patients with COVID-19 develop thrombi, would they not receive treatments similar to those for DIC?

Kibe: We have not been able to get a handle of what is going on exactly. In the case of patients with life-threatening diseases such as DIC, we suspect the possibility of patients transported to hospitals that are not the large ones they used to be admitted to, but are smaller and have fewer beds. In that sense, we are now exploring reasons why the number of DIC patients is decreasing.

Mr. Yamada: Thank you. That's all the questions I have.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. I want to ask about LIB separators. Could you first give me the index of the sales volume in FY 2020 and your forecast for growth rate in FY 2021? I am also interested to know how your forecast varies by application.

Ishikawa: Ishikawa from separator business will answer the question. Let me give you the volume indices we disclose every six months based on the volume recorded in Q1 of FY 2013 being 100. In H2 of FY 2020, it was 448. As it was 390 in H1, the volume increased by about 40% for the full year from a year before.

Now, how are we looking at FY 2021? In FY 2020, partly due to the great contribution from the increased production capacity, the sales volume significantly increased. From H1 of FY 2021, the new production facility will come online, but it will be ramped up gradually. Our plan is to see about 10% increase in the sales volume for the full year of FY 2021.

In terms of growth by application, both consumer products and automotive applications are expected to grow in line with the rates of growth of their markets. But demand for automotive applications is larger, and so we accounted for more growth for automotive applications.

Mr. Miyamoto: If the volume growth is only 10%, will it not be reflected in the growth of operating income as much? That said, you are expecting the operating income of Specialty Solutions to be flat year-on-year, while electronic devices to drop in FY 2021. In that sense, separators business should be contributing to a positive growth in operating income. If it isn't, what would be the factors for increased operating income in Specialty Solutions?

Ishikawa: As you know, there is pressure from customers to reduce prices for separators, while the volume is expected to grow by 10%. Given that, we have incorporated just a slight increase in the operating income for separators business as a whole.

Sugiyama: Sugiyama from Specialty Solutions. Let me add to what has been said. In separator business, we anticipate an increase in upfront fixed expenses. Main factors that will contribute to a positive growth by more than making up for the decline in electronic devices include former performance materials, or electronic materials, in particular, as well as coating materials for automotive applications, which struggled in FY 2020. With a positive growth in those areas, we made the forecast for Specialty Solutions as shown before.

Mr. Miyamoto: Understood. Next as for the Homes segment, page 28 shows that value of new orders will increase 25% year-on-year in FY 2021 forecast. You had a strong start in April, but can we expect such strong orders growth supported by successful online marketing among others? How do you feel about the orders growth?

As for real estate sales, some say that FY 2020 might have been too good, but for FY 2021, you are aiming for even higher number. Do you see that the real estate business is really strengthening?

Sakai: Sakai of Asahi Kasei Homes speaking. As for orders, latest orders in March and April have been gradually recovering. But, with issuance of declaration of state of emergency, future prospect is still uncertain. And we are enhancing diverse measures to attract customers to increase orders not only by model homes but through various non-model homes activities, and we will try to achieve the target. Condominium business in real estate is rather inconsistent year by year. In FY 2020 and 2021, inventory level is rather high.

Mr. Watanabe: I am Watanabe from Mitsubishi UFJ Morgan Stanley Securities. As for Homes, presentation materials of Asahi Kasei Homes show some figures, and according to this, I think other housing-related operations for FY 2021 includes contribution by McDonald Jones. In FY 2020, profit of other housing-related operations was ¥1.2 billion, and FY 2021 forecast shows ¥4.8 billion of profit. Therefore, I assume ¥3 to 4 billion is attributable to McDonald Jones consolidation. But in FY 2020 McDonald Jones was not consolidated, so, we cannot tell whether McDonald Jones' profit is increasing or decreasing. When I compare the profit of McDonald Jones alone this year over the previous year, is it increasing or decreasing?

Sakai: For FY 2021, profit will increase. As for the disclosed consolidated figure, other housing-related operations includes other North America businesses. Therefore, not all year-on-year difference comes from the impact of McDonald Jones consolidation.

Mr. Watanabe: I see. Another question on Homes. It is about real estate. In FY 2021 forecast, you plan the sales growth, but operating income will be down by about ¥3 billion. In the mix of real estate, I think that condominium profit will decrease. Would you tell us the reason more in detail for the profit decline of real estate in FY 2021?

Sakai: As you said, profit decline is due to condominium business. We have certain number of units to sell in FY 2021, but profitability widely varies depending on the geographical areas and so on. FY 2021 profit is expected to decrease.

Mr. Watanabe: Thank you very much.

Mr. Umebayashi: I am Umebayashi from Daiwa Securities. My first question is also about LIB separator. We were informed at Q3 results meeting that originally sales of wet-type were strong, but in FY 2020, from H2 dry-type sales started to increase. And we also learned that dry-type application includes energy storage system, or ESS, and small EVs. Now I would like to know that in FY 2020, how wet- and dry-type developed.

In FY 2021, you said total sales volume of LIB separator would grow 10% year-on-year. As dry-type has not fully utilized capacity, even if wet-type would face capacity constraint, if you include the potential of dry-type, I think the volume growth could be a bit higher, I would like to have your thoughts on this.

Ishikawa: Ishikawa of separator business speaking. As for the volume in H2 FY 2020, wet-type robust business was sustained, and in dry-type, ESS recovered from the sluggishness in FY 2019. And volume for automotive also increased due to new adoption in some projects.

In FY 2021, sales volume would grow both for wet- and dry-type. Dry-type would grow for automotive, especially for developed countries in the plan. You asked why growth in FY 2021 year-on-year would be just 10% or so. Although we achieved strong growth in FY 2020. It is partly because, in FY 2020, shipment volume was more than expected; and next year in FY 2021 also, capacity for wet-type would be expanded, but immediately after the launch we would face various technical issues and issues of certification by customers, so we would not be able to step up to the full utilization immediately. That is why we do not expect the remarkable growth in FY 2021.

Mr. Umebayashi: Understood. According to the index you showed before, it was 838, combining H1 and H2 of FY 2020. And with 10% increase in FY 2021, it would be 920 and if it is evenly divided for the half year, half year would be about 460. Given H2 in FY 2020 was 448, there will be almost no growth from H2. How do you see this?

Ishikawa: In Q4 in H2, usually due to Chinese New Year, especially volume of wet-type for consumer products sector decrease. But in H2 of FY 2020, as in other industries, customers did not suspend the production lines during the Chinese New Year holidays, and shipment volume was remarkably high. Therefore, we had to restock our inventory and because of this, the volume growth is not remarkable.

Mr. Umebayashi: I see. That is clear. My second question is about AN. Its price volatility is rather notable. Would you give us again its price and margin in FY 2020 and those assumptions for FY 2021, if possible, for H1 and H2?

Takahashi: Thank you for your question. Takahashi of Basic Materials speaking. Let me share with you the market price and spread of AN in Q4 FY 2020. Market price of AN was $1,889 per ton, propylene was $1,040, and the spread was $849.

As for the assumption for this FY 2021, for H1, AN $2,200, propylene $1,100, and spread is $1,100. For H2, as mentioned at the beginning, some falls are expected as $1,700 for AN, $1,100 for propylene, and the spread is $600.

For H1, we assume the average price of AN as $2,200, but the latest price has been rather high, so from Q1 to Q2, we expect the price would be settling down toward the level of H2.

Mr. Umebayashi: As for utilization, do you basically assume full utilization?

Takahashi: As for utilization, since Q4 FY 2020, supply demand has been tightening, and currently, it is more than 90%, effectively fully utilized. Mizushima Works, and Tongsuh Petrochemical Corporation in Korea would have maintenance turnaround, and in PTT Asahi Chemical Company Limited in Thailand, operation was suspended due to blackout at the end of April. Production is reduced due to these reasons, but except these, basically capacity is fully utilized.

Mr. Umebayashi: Thank you. That is all from me.

Mr. Okazaki: I am Okazaki from Nomura Securities. I have two questions. First question is about page 21 and 22 on the Health Care business category. How should we see the change in sales and profit from FY 2020 to 2021? Sales of Envarsus XR of Veloxis in the US seems to have slightly decreased in Q4 FY 2020, and would you tell us about its background and the prospect for FY 2021?

Kibe: Kibe of Asahi Kasei Pharma speaking. Let me answer on Asahi Kasei Pharma. As mentioned before, Teribone and Kevzara agent for rheumatoid arthritis have been firm, and we expect the sales increase. As for operating income, sales growth of Teribone and Kevzara are expected as mentioned, but R&D expenses will be growing, and in total, profit is expected to increase. That is all from me.

Hamamoto: As for medical devices and Veloxis-related question, Hamamoto of IR will respond. As for medical devices from FY 2020 to 2021, sales will increase, and profit will decrease. Concerning sales growth, in addition to the market expansion of conventional biopharmaceuticals as before, partly due to increased demand related to development and manufacture of COVID-19 drugs and vaccines, sales of Planova virus removal filters will continue to grow. On the other hand, even with sales growth, due to upfront expenses for capacity expansion and increase in SG&A cost, profit is expected to decrease.

As for Veloxis, as you mentioned, from Q3 to Q4 growth seems to slow down. I am referring to sales of Envarsus XR in the US. It is affected by the overlap of COVID-19 impact and other temporary issues. Conventionally, in this period, at the beginning of the calendar year, due to US insurance system, purchase of drug tends to be curtailed. And this year, COVID markedly impacted economy and household economy, and the impact of curtailed purchase continued longer and showed deeper impact. Additionally, as you know, in February US suffered heavy snow, and that also affected shipment.

But as for the share in the new patients who took operation for kidney transplant, it has been growing steadily. Latest orders are already recovering, so, the move in Q4 is seen as temporary one, and we expect to achieve the continued strong growth as before in FY 2021.

Mr. Okazaki: Thank you. My second question is also about LIB separators, and I would like to have some confirmations based on the previous comments. In FY 2020, demand for notebook PC and tablet was remarkably strong, and based on your talk before, can we take that it would be slightly slowing down in FY 2021? And would you tell us about the profit of separator alone in FY 2020?

And you repeatedly said that the price competition is severe, but compared to half year ago or one year ago, how is it developing? You expanded capacity, and with this do you have confidence to increase sales in line with the expansion?

Ishikawa: Ishikawa of separator business speaking. As you said, it is true that demand for notebook PC and tablet was strong in FY 2020. And we do not expect the significant demand growth there in FY 2021. In FY 2020, separator business increased sales and profit year-on-year.

As for price, we always face strong customers' request to cut price, and price is revised at the beginning of the calendar year, and in 2021 price was revised as usual. As for confidence for the new CAPEX, as mentioned before, we decide capacity expansion after talking with customers on future demand expectation among others. But as market environment of LIB changes from time to time, we cannot be sure 100%, but basically, toward the launch of operation in FY 2023 for the capacity expansion announced in March, sales volume will grow steadily.

Mr. Okazaki: That is all from me. Thank you.

Hamamoto: With this I would like to close the meeting. Thank you very much for joining us today.