Transcript of Financial Results Conference for Q3 Fiscal 2019, held on February 7, 2020

Asahi Kasei Corporation

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Presentation

MC: Good afternoon. Thank you very much for joining us for the conference call on Asahi Kasei Corporation's earnings for Q3 that ended December 31st, 2019. We will begin with a presentation from Mr. Yutaka Shibata, CFO, and then take questions.

Other participants from Asahi Kasei are: Yozo Sato, Corporate Accounting & Control; Toshiyasu Horie, Basic Materials Strategic Business Unit, or SBU; Yukifumi Kuwaba, Performance Products SBU; Hiroaki Sugiyama, Specialty Solutions SBU; Eiji Ishikawa, Separator Administration, Specialty Solutions SBU; Izumi Kawata, Asahi Kasei Microdevices Corp.; Kensuke Sakai, Asahi Kasei Homes Corp.; Masato Kashiwagi, Asahi Kasei Pharma Corp.; and Futoshi Hamamoto, Investor Relations. Let me give the floor to Mr. Shibata now.

Shibata: Good afternoon. This is Yutaka Shibata, CFO. Thank you very much for joining us for this briefing. I would like to present Q3 earnings and the revised full-year forecast, referring to the presentation material slides.

P. 3 Focus of Q1–Q3 2019 results

Let us begin with slide 3. In the first 3 quarters of FY 2019, we booked net sales of ¥1,588.5 billion, which is almost unchanged from the same period last year. Sales increased for Homes and Health Care, but decreased for Material.

Consolidation of the newly acquired Erickson Framing Operations LLC for Homes and Cardiac Science Corporation for Health Care, in addition to growth in existing businesses resulted in net sales increase by ¥42.9 billion for Homes, and ¥15.2 billion for Health Care. Meanwhile, Material sales decreased by ¥53.5 billion, despite the positive impact of full-year contribution from

Sage Automotive Interiors, Inc. The global economic slowdown, including sluggishness in the Chinese market, the slowdown in automotive-related markets, resulted in slower demand in many products and the decline in market prices.

Operating income was ¥140.2 billion, down ¥16.9 billion year-on-year. As was the case for net sales, Homes and Health Care were up by ¥7.4 billion and ¥1.7 billion respectively. Material was down by ¥27.7 billion. This decline in Material is largely due to the impact of the general slowdown in the economy, and in particular, that of the Chinese economy.

For Basic Materials, there was also the impact of the maintenance shutdown of naphtha cracker and plants for derivatives in H1. This pushed up fixed costs by roughly ¥3 to ¥4 billion. The impact of the economic slowdown on Basic Materials manifested in various forms. Lower price of feedstock has resulted in inventory valuation loss under the gross average method for roughly ¥3 to ¥4 billion. Terms of trade deteriorated for key products such as Acrylonitrile, or AN, and MMA. And capacity utilization was lower. Yet another factor was decreased licensing income. With all of these, operating income for Basic Materials was down ¥19.1 billion year-on-year.

With regard to Performance Products, the slowdown in automotive markets affected synthetic rubber for tires, through lower capacity utilization, increased fixed costs, and deteriorated terms of trade due to increased competition. Shipments were also down for engineering plastics and Leona nylon 66 filament for airbags. On the non-automotive side, the Chinese economic slowdown meant reduced demand for hygienic materials and apparel. Hygienic materials include nonwovens for diapers and cosmetic facial masks. Apparel was also hit by this warm winter.

Within the Material segment, Specialty Solutions were relatively unaffected by the economy. However, the dry-process lithium-ion battery separator business was hard hit by fires of energy storage system, or ESS, in South Korea. Separator shipments for ESS applications have been down to near zero during Q1, as well as since September. After more fires in South Korea since late August, even at this moment, it is not clear when shipments will recover.

P. 4 Focus of FY 2019 forecast

Slide 4 shows the revised forecast for the full year. We have downward revised both net sales and operating income. Net sales is downward revised by ¥31 billion from the November forecast to ¥2,190 billion. Operating income is downward revised by ¥14.5 billion to ¥178.5 billion.

Homes and Health Care are firm, with both net sales and operating income in line with forecast. For Homes, the forecast is ¥721 billion in net sales and ¥73 billion in operating income. For Health Care, we expect ¥336 billion in net sales and ¥42.5 billion in operating income.

We have downward revised the forecast for Material. The net sales forecast is downward revised by ¥25 billion to ¥1,114 billion. Operating income is downward revised by ¥13 billion to ¥94 billion. This as we do not expect notable improvement in market conditions between Q3 and Q4. We have also factored in the impact of the 2-week suspension of the naphtha cracker of Asahi Kasei Mitsubishi Chemical Ethylene Corp. in January.

The acquisition of Veloxis Pharmaceuticals Inc. that we announced in autumn 2019 was closed in January and the process to convert it into a wholly-owned subsidiary is under way. Associated expenses are included in corporate expenses and eliminations.

We have not factored in any impact of the novel coronavirus at this time. Ahead of the Chinese New Year, we had built up inventory and shipped necessary amounts of necessary products to customers. At this moment it is only as if we are simply in week two of the holiday, and no real impact has materialized yet. We intend to restart capacity in China starting next week. However, given the uncertainty about the relevant authorities' policies and regulations, we are not in a position to provide any reasonable estimate of the impact at this point in time.

In light of the above, we have revised the forecast on the net income attributable to owners of the parent to ¥127.5 billion. The forecast on the annual dividend per share has also been revised from what was announced in November, taking into account the revision to the net income forecast. It is now forecast to be ¥34 per share, the same as in the previous year. There is no change in our policy in which the company intends to maintain stable dividends while aiming to continuously raise dividends through earnings growth. Please be advised that the revision reflects the current forecasts and that, as always, the decision will be made based on the final results of the fiscal year.

P. 7 Statements of income, Apr.–Dec. 2019 vs. 2018

Please turn to slide 7. Consolidated statement of income for the nine-month period. Net sales were as described at the beginning. Gross profit ratio was 32.1%, about the same level as in the previous year. SG&A expenses increased by ¥16.2 billion year-on-year, which had a negative impact on the operating income. The main factors were an increase in amortization of goodwill and labor costs in relation to the acquisitions of Sage and Cardiac Science, as well as an increase in outsourcing costs related to IT investment.

Operating profit ratio was 8.8%, down 1.1 points year-on-year. Non-operating income and expenses worsened by about ¥3.1 billion year-on-year. The main factor was the deterioration in equity in earnings of affiliates, mainly in relation to PTT Asahi Chemical Company Limited, whose performance was affected by lower MMA market price.

Extraordinary income and loss were net income of ¥500 million, as shown on slide 15, an improvement of about ¥1.5 billion year-on-year. As for extraordinary income, we reduced strategic shareholdings, as in the previous year. The amount was larger than in the previous year. As for extraordinary loss, an impairment loss was recorded in relation to the marketing rights in pharmaceuticals, namely of XIAFLEX for treatment of Dupuytren's contracture, and a loss on disaster was recorded in relation to damage caused by typhoons and tornadoes during 2019.

Income before income taxes was ¥146.2 billion, down ¥18.5 billion year-on-year, and net income attributable to owners of the parent decreased by ¥12.1 billion at ¥103.8 billion.

P. 8 Balance sheets

Moving on to the consolidated balance sheets, comparing to the end of March 2019. Total assets increased by ¥131.5 billion. This was due to an increase in inventories in Homes and an increase in fixed assets and liabilities due to acquisitions and capital investment. In Homes, the main reason was an increase in work in progress against the backdrop of strong orders.

Interest-bearing debt and others are shown at the bottom left. Interest-bearing debt increased by ¥115.1 billion. This was due to increased capital demand from active capital expenditure and acquisitions. The D/E ratio rose 0.07 points to 0.38.

P. 9 Cash flows

Slide 9 shows consolidated cash flows. Net cash provided by operating activities was cash inflow of ¥82.6 billion, a decrease of ¥19.9 billion year-on-year, mainly due to a decrease in operating income. Net cash used in investing activities was ¥110 billion, which was less than in the previous year. This is because during the same period in the previous year, there were the acquisition of Sage and others. Free cash flow was net outflow of ¥27.5 billion. With net cash inflow provided by financing activities, cash and cash equivalents at the end of the quarter totaled ¥208.7 billion.

P. 10 Sales and operating income increase/decrease by segment, Apr.–Dec. 2019 and 2018

Please turn to slide 10. Sales and operating income increase/decrease by segment. I'll just cover the key points.

The Material segment posted lower sales and profit. While there was a positive impact of the new consolidation of Sage, slowdown in the Chinese market and automotive-related markets resulted in the deterioration in demand and market prices. There also was an impact of naphtha cracker suspension. Due to these factors, operating income decreased.

Homes posted higher sales and profit, mainly owing to an increase in the number of deliveries overall and the positive effect of the sales price differential from higher average unit prices due to increased deliveries of larger homes. Homes set new record highs for the nine-month period in both sales and operating income.

Health Care Segment also posted higher sales and profit. This was due to a decrease in fixed costs in pharmaceuticals and a strong performance of Critical Care.

P. 12 Consolidated operating performance forecast

Please turn to slide 12, full-year forecast for FY 2019. As mentioned earlier, we revised downward the full-year forecast for net sales, operating income, and net income attributable to owners of the parent. The assumed domestic naphtha prices and exchange rates are as shown in the slide. The naphtha price is projected to be ¥43,600 for H2, and ¥43,200 for the full year. The exchange rates for the full year are ¥109 to the US dollar and ¥121 to the euro. The annual dividend forecast is ¥34 per share, the same as in FY 2018, which brings the payout ratio to 37%.

P. 13 Sales and operating income forecast by segment

Slide 13 shows sales and operating income forecast by segment. As explained earlier, the biggest difference in sales and operating profit is found in the Material segment, with little prospect of notable improvement in market conditions and an impact of naphtha cracker suspension.

That concludes my presentation. Thank you for your attention.

Question and Answer Session

MC: Thank you Mr. Shibata. We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. My first question is about dividend. You have downward revised the outlook, but also said the final amount depends on full-year results. Does that mean you may readjust it according to the final earnings figure with a focus on payout ratio, rather than dividend per share? I suspect the downward revision is an indication of your lack of confidence going into FY 2020.

Shibata: Thank you for your question. As we set forth in our medium-term management initiative last May, we intend to maintain stable dividends while aiming to continuously raise dividends through earnings growth, for a payout ratio of around 30 to 40%. Stable is the basic idea, so we would want to deliver, at a minimum, the same annual dividend as last year, meaning ¥34 per share. Given the uncertainties, however, the final decision will have to wait till we have full-year results.

Mr. Watabe: Well, considering the share price, you could have stayed with a dividend increase this time, but that’s just my view.

My next question is about Basic Materials. Why did operating income deteriorate that much for Q3? I do not think the AN spread changed so much during this quarter. Naphtha prices did not change too much either. I am therefore not sure how inventory loss under the gross average method could be so large. Can you elaborate further on Q3 results?

And can you also tell us about the impact of the suspension of the naphtha cracker? You stressed it was only for two weeks, so is it correct to assume that the impact is limited? What should we expect for Q4?

Horie: Horie from Basic Materials SBU. With regard to Q3 operating income, as you rightly pointed out, the AN spread did not change much. However, the price of Asian propylene, which Tongsuh Petrochemical Corp., Ltd. in South Korea purchases, did come down significantly during Q3. That Asian propylene caused the inventory valuation loss. Also related to Tongsuh Petrochemical was a negative impact of foreign exchange on consolidated net sales. Another negative factor was that licensing income decreased from the same period last year. Furthermore, there was weakness in demand for each product, such as polystyrene and styrene, and all that collectively also squeezed Q3 income.

For Q4, as you mentioned, there would be an impact of the 2-week suspension of the naphtha cracker. The current estimated impact is slightly above ¥1 billion, so that is not too significant. However, there have been signs of general slowdown in domestic demand starting from Q3. Fixed costs tend to concentrate in Q4. And we expect the AN spread to be narrower in Q4 compared with Q3. With all that, Q4 operating income should be down from Q3.

Mr. Watabe: Thank you very much.

Mr. Yamada: Yamada from Mizuho Securities. My first question is also about Material, in particular, Performance Products. There appears to have been considerable slowdown from Q2 to Q3. You did mention qualitative factors such as the slowdown in automotive production and in the Chinese economy. Can you provide more specifics, perhaps a breakdown by product? For example, did a large part of the decline come from synthetic rubber, or perhaps, Sage?

Kuwaba: Kuwaba from Performance Products SBU. With regard to operating income difference between Q2 and Q3, fibers, performance polymers, and consumables were all down. Among performance polymers, synthetic rubber was only slightly down. Engineering plastics declined due to a number of maintenance turnarounds during Q3. With regard to fibers, demand was softer for each product. For consumables, there was a rush demand ahead of the consumption tax hike in Q2 and a reactionary decline in Q3.

Mr. Yamada: Your consumables shipments would usually increase in Q3. Was this year an anomaly due to the consumption tax hike? And with regard to synthetic rubber, is the decline mostly related to tires? If so, can you explain why you are expecting further decline in Q4 from Q3 for Performance Products?

Kuwaba: With regard to consumables, as you mentioned, the consumption tax hike meant part of the sales we would normally expect in Q3 happened upfront in Q2. That pushed Q2 sales up and Q3 down. Q4 is always slow due to seasonality, and this year again, Q4 will be down from Q3. Among Performance Polymers, we expect Q4 to be down from Q3 for synthetic rubber. This is driven by shipments as well as terms of trade in the face of intensifying competition. Fibers in Q4 will be slightly up.

Mr. Yamada: Thank you for that. My next question is about the Health Care business category. I understand that your R&D expenses for clinical trials, etc. tend to be concentrated in Q4 every year. But this year, the decline in operating income from Q3 to Q4 appears quite large against the relatively small decline in net sales. Would costs be higher than usual this time?

Kashiwagi: Kashiwagi from Asahi Kasei Pharma. As you rightly pointed out, our pharmaceutical R&D costs tend to concentrate in March. What is unusual this year is that because of the consumption tax hike, some sales were brought forward into Q2 from Q3, so that the apparent sales difference between Q3 and Q4 is smaller. The operating income overall is pretty much just as planned. It’s just that concentration of expenses towards March.

Mr. Yamada: Can I take it that R&D costs are more concentrated in Q4 this year than usual, which makes the operating income decline from Q3 to Q4 look larger?

Kashiwagi: Yes, that is correct.

Mr. Yamada: Thank you very much.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan. My question is also about quarter-on-quarter difference with regard to Specialty Solutions within Material. Q3 operating income was down by about ¥1 billion from Q2. But lithium-ion battery separator shipments for ESS applications was already down in Q2, so that won’t be much different. Shipments for automotive applications should have increased. Electronic devices should have been firm, particularly devices for smartphone camera modules. Why is Q3 operating income down from Q2, then? Can you provide more detail, even if only qualitatively?

Sugiyama: Sugiyama from Specialty Solutions SBU. The situation is generally as you described. Separators were not much changed between Q2 and Q3. Electronic devices for both smartphone-related and automotive applications are doing well and were slightly up. The decline mostly comes from the former performance materials, and in particular, ion-exchange membranes, largely due to the slowdown in the Chinese economy. All added up, the result was this decline.

Mr. Ikeda: Is this also related to the large shipments for ion-exchange membranes back in Q2?

Sugiyama: Yes, that is correct.

Mr. Ikeda: Can I then understand that shipments of electronic devices for smartphone-related applications, such as camera modules, remained firm with no particular slowdown in demand?

Sugiyama: Yes, smartphone-related shipments in Q3 were firm.

Mr. Ikeda: Thank you very much. Now on lithium-ion battery separators, can you describe how Q3 shipments fared on a year-on-year and quarter-on-quarter basis, and also how business was by region, for example, in China, Europe, and the rest of the world, in particular for automotive applications, please?

Ishikawa: Ishikawa speaking for separators. With regard to year-on-year difference, for the wet-process separator, thanks to capacity expansion, shipment increased, mostly for automotive applications. But dry-process separator shipments are down. They enjoyed strong performance up to Q3 FY 2018 for use in ESS, but were hit by the ESS fires. The Chinese government policy on electric vehicles had an impact here, too.

Mr. Ikeda: What about the difference between Q2 and Q3? Is it correct to understand that shipments of the dry-process separator were either down or at least not increasing much for ESS and for automotive use in China, while shipments of the wet-process separator for automotive use went up? Can you share with us any actual numbers?

Ishikawa: For the dry-process separator, shipments did resume and recover in July and August after the South Korean government made an announcement in June regarding the ESS fires. But then, another fire occurred in August. As a result, shipments in Q3 were down compared with Q2. On the other hand, wet-process separator shipments were flat between Q2 and Q3.

Mr. Ikeda: Still on that point, my understanding is that there already is a good market for automotive applications in Europe and you have the benefit of the added capacity. Why are wet-process separator shipments not growing more? Is it because the proportion of consumer electronics is now smaller than before?

Ishikawa: Yes, shipments for use in consumer electronics decreased from Q2 to Q3.

Mr. Ikeda: But shipments for automotive applications did increase. I see. Thank you very much.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. My first question is about Health Care. According to slide 26, there are noticeable year-on-year sales declines for Teribone osteoporosis drug and for medical devices in Q3. Can you explain why? Can you also elaborate on the outlook for Q4, please?

Kashiwagi: Kashiwagi from Asahi Kasei Pharma. During Q3, Teribone did not feel much effect of the autoinjector formulation, while the impact of competition proved to be stronger than the original expectation, and therefore the performance suffered somewhat compared to the previous year. On a full-year basis, with the launch of the autoinjector formulation in December, we believe that between this formulation and conventional formulation, the results would be almost the same as in the previous year.

Mr. Takeuchi: So, basically, you are expecting the sales of the Teribone autoinjector to contribute in Q4, and that’s incorporated your forecast. And in fact that’s what’s happening now, am I correct?

Kashiwagi: That is correct.

Mr. Takeuchi: How about medical devices?

Hamamoto: Hamamoto of Investor Relations. In terms of year-on-year comparison of Q3 results, medical devices felt the impact of the weaker euro. Also, as mentioned repeatedly, Planova virus removal filters go through fluctuations from quarter to quarter. And there was a decrease in sales volume of dialyzer in Japan.

Mr. Takeuchi: In slides 19 and 20, sales forecast for the Health Care business category is lowered by ¥4 billion, while the operating income forecast is raised by about ¥500 million. Am I correct to assume that that's because sales decline is expected for products with relatively smaller profit margin? What are the reasons for the mismatch in changes in sales and profit?

Kashiwagi: Kashiwagi of Asahi Kasei Pharma. Your assumption sounds fine. In addition, lower fixed costs are contributing to operating income.

Mr. Takeuchi: I see. My second question is on the Basic Materials, namely AN price spread. What was it in Q3 and what's the Q4 assumption? Can you also talk about the capacity utilization rate, the actual in Q3 and the current level?

Horie: Horie from Basic Materials. First, the AN price spread for Q3. The average market price of AN was $1,535 per ton, and propylene was $860 per ton, for the spread of $675 per ton. The Q4 forecast assumes the AN price of $1,390, propylene $900, for the spread of $490. Regarding the capacity utilization rate, basically we operated in accordance with demand, which remained firm during Q3, and so the level was maintained at 80 to 90% in Q3. For Q4, there was a suspension of naphtha cracker as you know, but we are in the recovery phase now and so excluding the impact of the suspension, we plan to raise the utilization rate to close to full capacity.

Mr. Takeuchi: I see. So, am I correct to understand that you think it would be some time before the AN price spread to improve, given new production capacity expansion by your competitors, and demand situation?

Horie: Regarding the price spread, we need to carefully watch the effects of coronavirus outbreak mentioned at the outset. Therefore, as you have indicated, our current view is that the improvement is perhaps not likely in the January–March quarter, but sometime after that.

Mr. Takeuchi: I see. Thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is on Specialty Solutions, changes from Q3 to Q4. Sales are expected to be flat quarter-on-quarter, while operating income is projected to decline. I believe usually there is an increase in fixed costs from Q3 to Q4, but can you comment on the current sales status for separators, electronic devices, and others?

Sugiyama: Sugiyama from Specialty Solutions. In our forecast from Q3 to Q4, which excludes the impact of coronavirus outbreak as mentioned earlier by the CFO, we expect shipments of wet-process separator to slightly increase for both consumer electronics and automotive applications, as an effect of capacity expansion. However, with an increase in fixed costs and others, we are projecting a slight decrease in operating income. As for electronic devices, as Q4 usually experiences a trough in demand centering on smartphones, we expect a slight decline quarter-on-quarter. As for others such as ion-exchange membranes and electronic materials, there are positives and negatives, and as a whole, we expect a slight decrease in profit. That is the overall forecast.

Mr. Umebayashi: So, am I correct to assume that you expect the wet-process separator for consumer electronics will increase without any seasonality involved?

Sugiyama: Yes. You can say that.

Mr. Umebayashi: I see. Thank you. My second question is on Homes. For FY 2019 you are not expecting profit to increase as much as sales due to an increase in fixed costs. While profit kept increasing year-on-year up to Q3, you are not expecting much profit for Q4. Is that because you will be spending fixed costs as planned in Q4?

And another question. In your latest revision, you lowered your annual dividend forecast from the November announcement back to the same amount as in the previous year. But should your overall profit turn out to be higher than projected, can we assume that there still is a possibility that the actual dividend be raised again, by one yen, for example?

Sakai: Sakai from Asahi Kasei Homes. I will answer the first part of your question on fixed costs of Homes. Fixed costs tend to slip behind the plan. Another factor is that given we are experiencing tough order situation currently, we plan to spend large advertising and other expenses in Q4 to recover orders. So, we expect the costs incurred will be in line with the plan.

Shibata: This is Shibata speaking. You are right about the dividend. We always look at the year-end results to determine the final dividend amount. Dividend forecasts are all interim, and we will review the actual amount based on the full-year results as of the end of March.

Mr. Umebayashi: I see. Thank you.

Mr. Miyamoto: Miyamoto from UBS Securities Japan. My first question is on Basic Materials. From November forecast, you have lowered net sales by ¥4 billion and operating income by ¥5 billion. But based on what you said earlier, the spread assumption between AN and propylene seems to have been revised slightly upward. What then are the factors for the downward revision, other than the impact of naphtha cracker suspension amounting to over a billion yen?

Horie: Horie from Basic Materials. In comparison with the FY 2018 H2 results, first of all, there is an impact of the inventory valuation loss by the gross average method during H2 of this fiscal year. In addition, there is a decrease in licensing income. There also are effects of slight narrowing down of price spreads. For example, as the prices of feedstock, such as naphtha, have begun to rise in Q4, we will be raising prices for polyethylene and polystyrene, but due to the time lag in the price hikes, the spread will worsen. With the accumulation of these factors, combined with the slowdown of the overall macro economy, each product is facing tougher conditions.

Mr. Miyamoto: Of those factors that you mentioned, which is contributing to the downward revision the most?

Horie: More important is the accumulated effect of spread deterioration.

Mr. Miyamoto: I see. My second question is on Critical Care, which continued to grow in Q3. Can you give us an update on the resuscitation business and LifeVest wearable defibrillator? You are expecting a slight increase in Q4, up ¥1.4 billion from Q3 in operating income. Is there any particular factor that accounts for this projected increase?

Shibata: Shibata speaking. The situation of Critical Care is not much different from what we have been describing so far. Nothing special happening. In resuscitation, we acquired Cardiac Science. Market share is increasing, and business continues to be strong, particularly in the US. As for LifeVest, steady growth continues, albeit at a more moderate rate, given that the size is becoming larger, as mentioned every time. That's one big reason. And there’s a factor of the timing of shipment. Every year, Q4 experiences relatively strong shipments, and so we are expecting the same for this year. Nothing special here.

Mr. Miyamoto: Looking at the increase/decrease in operating income on slide 18, the sales price differential for Critical Care amounted to ¥2.2 billion, a rather large difference. I suspect it had to do with product mix. Could you give us some details on this?

Shibata: Shibata speaking. This was due to product mix. There are various product groups, and it depends on the shipping situation at that time. But I'm afraid I can't give you any details.

Mr. Miyamoto: I see. Thank you.

Mr. Okazaki: Shigeki Okazaki from Nomura Securities. First on separators. I think you were initially projecting a 20 % growth in volume year-on-year for the wet-process separator for H2. What is the current situation? And the Korean government yesterday blamed the battery as the cause of the ESS fires. What is your view on that? And how would this affect the future demand do you think?

Ishikawa: Ishikawa for separators. Regarding the first question of increase in sales volume by about 20 to 30% in H2, we currently expect the wet-process separator to be in line with that. As for the dry-process, we expect ESS applications to be sluggish. The Korean government's statement yesterday on the ESS fires that you referred to may have an influence the battery, and so the volume might be further reduced. There is a slight possibility of that.

Mr. Okazaki: Am I correct to understand that in Q3 the wet-process separator grew by about 20% to 30% year-on-year?

Ishikawa: Yes.

Mr. Okazaki: Can you give us some details on the lawsuit against W-SCOPE?

Ishikawa: Since it's about a lawsuit, I'm afraid we cannot comment on it.

Mr. Okazaki: Understood. My second question. Performance Products forecast has been revised downward from the November forecast. What are the factors behind this? And corporate expenses and eliminations has also been revised downward. Is this in relation to the M&A costs mentioned earlier?

Sato: Sato from Corporate Accounting & Control. The reason for the downward revision of corporate elimination is, as you have correctly indicated, the acquisition of Veloxis Pharmaceuticals Inc.

Kuwaba: Kuwaba from Performance Products. As for factors behind the downside revision to H2 forecast, first, there is no change in consumables forecast. The main factors are the sluggishness felt by engineering plastics and synthetic rubber, and the weaker-than-expected performance in fibers.

Mr. Okazaki: Of the ¥7-billion downward revision for Performance Products over all, what are the major product areas?

Kuwaba: Relatively speaking, the synthetic rubber is the largest, followed by fibers and engineering plastics.

Mr. Okazaki: I see. Thank you.