Transcript of Financial Results Conference for Q2 Fiscal 2021, held on November 5, 2021

Asahi Kasei Corporation

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Participants

Koshiro Kudo
CFO
Yozo Sato
General Manager, Corporate Accounting & Control
Takuya Takahashi
Senior General Manager, Planning & Coordination, Basic Materials SBU
Nobuhiro Yamaguchi
Senior General Manager, Planning & Coordination, Performance Products SBU
Hiroaki Sugiyama
Senior General Manager, Planning & Coordination, Specialty Solutions SBU
Eiji Ishikawa
Senior General Manager, Separator Administration, Specialty Solutions SBU
Izumi Kawata
Vice President, Corporate Administration & Planning, Asahi Kasei Microdevices Corp.
Kensuke Sakai
General Manager, Accounting & Control Dept., Asahi Kasei Homes Corp.
Ryuji Kibe
General Manager, Business Strategy & Planning, Asahi Kasei Pharma Corp.
Futoshi Hamamoto
General Manager, Investor Relations

Presentation

Hamamoto: Good afternoon. Thank you very much for joining us in the conference call on Asahi Kasei Corporation's earnings for Q2 of FY 2021. This is Futoshi Hamamoto from Investor Relations serving as a moderator. We will begin with a presentation from Koshiro Kudo, CFO. After that, we will take questions.

Other participants from Asahi Kasei 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, for separators; Izumi Kawata, Asahi Kasei Microdevices Corp., Kensuke Sakai, Asahi Kasei Homes Corp.; and Ryuji Kibe, Asahi Kasei Pharma Corp.

I'll now give the floor to CFO, Mr. Kudo.

Kudo: Good afternoon. This is Kudo speaking. I will go over the results for the first 6 months and the forecast for the full year for FY 2021.

P. 2 Focus of H1 2021 results and FY 2021 forecast

Page 2. I will just hit on highlights here.

Net sales, operating income, ordinary income, and net income were all at record highs for a H1. In addition to the recovery in Material, Health Care managed to overcome decline in ventilator shipments, to maintain the same level as in the previous year.

FY 2021 is expected to be the best year ever in all terms from net sales to net income. Based on the strong performance in H1, we have made upward revisions to the full-year forecast announced in May.

Regarding shareholder returns, we expect to pay an interim dividend of ¥17 per share and an annual dividend is forecasted at ¥34, which will bring the cumulative dividend payout ratio to 38.3% for FY 2019–2021, the 3 years under the current medium-term management plan.

P. 5 Summary of financial results

Next, page 5. Summary of major financial results for the first 6 months.

Net sales ¥1,181.0 billion, operating income ¥113.1 billion, ordinary income ¥119.2 billion, and net income attributable to owners of the parent ¥91.3 billion, representing significant increase in sales and profits from the same period of the previous year, which was seriously affected by COVID-19. These results were almost in line with the forecast made in August except for net income, which was significantly higher with partial booking in H1 of tax expense reduction, originally forecasted for H2, from the reconfiguration of Veloxis Pharmaceuticals, Inc. organizations. The amount was ¥8.2 billion. Earnings per share was ¥65.79 and dividend per share was ¥17.

P. 6 Sales and operating income by segment (vs. H1 2020)

Next, page 6. Sales and operating income by segment, year-on-year comparison. For your reference, the sales and operating income for H1 of FY 2019 are also posted on the far left.

Material posted significant increase in both net sales and operating income on recovery in demand, to exceed the results for the pre-COVID H1 of FY 2019. One factor is the increase in shipments due to the significant recovery in the automobile-related markets. In addition, the petrochemical market prices rose sharply against the backdrop of a recovery in demand. In addition, there was growth in high-value-added businesses such as electronic materials and ion-exchange membranes.

In Homes, although the number of deliveries decreased in the condominium business from the strong level in the previous year, strong performance in the U.S. business and consolidation of the Australia business brought about increase in sales and profit.

Health Care maintained the previous year’s level in net sales and operating income despite a decline in ventilator shipments from the year-ago period which saw a surge in demand, owing to strong performance of mainstay businesses in Critical Care such as defibrillators, as well as firm performance of pharmaceuticals and medical devices.

P. 7 Sales and operating income by segment (vs. forecast in August)

Next, net sales and operating income by segment, comparing to the forecast made in August.

While sales were generally in line with the previous forecast, operating income exceeded the forecast due to reduction in fixed costs and difference in timing.

As for Material, sales were slightly lower than the forecast due to the greater-than-expected impact of the reduction in automobile production due to semiconductor shortages. But the operating income was on par with the forecast, partly because market prices for petrochemicals, particularly acrylonitrile, or AN, did not fall as much as expected.

Homes and Health Care were generally in line with the forecast. Operating income exceeded the forecast due to the strong performance of the U.S. business for Homes, and some of SG&A expenses in Health Care being deferred to H2.

P. 8 Statements of income

Moving on to the consolidated statements of income.

Gross profit was ¥386.0 billion, and the gross profit margin was about the same year-on-year. SG&A expenses were ¥272.9 billion, an increase of ¥27.0 billion, due to increased expenses for logistics and R&D as an effect of newly consolidated companies such as McDonald Jones Homes Pty Ltd. Operating income was ¥113.1 billion, with operating margin of 9.6%, an improvement of 1.8 percentage points.

Non-operating income was ¥6.1 billion, an improvement of ¥5.4 billion year-on-year with improvement in equity in earnings of affiliates due to improved performance at PTT Asahi Chemical Company Limited, which produces AN in Thailand.

Extraordinary income and loss was effectively net zero, with a gain of ¥8.1 billion and a loss of ¥8.2 billion, including gain on sale of investment securities from the sale of strategic shareholdings, and recording of business structure improvement expenses related to alternative semiconductor production following the fire incident.

Income taxes were ¥26.8 billion, up ¥3.7 billion year-on-year. While there was an increase in taxes due to increased profits, there was a reduction in tax expenses associated with the reconfiguration of Veloxis organizations. Net income was ¥91.3 billion, an increase of ¥44.5 billion year-on-year.

P. 9 Balance sheets

Next, consolidated balance sheets.

Comparing the end of March 2021 and the end of September 2021, total assets increased by ¥126.5 billion. In addition to the recording of goodwill and intangible assets associated with the acquisition of Respicardia, Inc. there was an increase in accounts receivable with recovery of sales.

Liabilities increased by ¥43.8 billion, with interest-bearing debt increasing by ¥37.5 billion, and accounts payable increasing due to higher feedstock prices.

Net assets increased by ¥82.8 billion, as a net result of a decrease in retained earnings due to dividend payments and the recording of net income.

The debt-to-equity ratio was 0.45, keeping within the target range of around 0.5.

P. 10 Cash flows

Slide 10 describes cash flows.

Net cash provided by operating activities was an inflow of ¥76.7 billion. While pre-tax income increased year-on-year, working capital such as accounts receivable increased as sales recovered, and the net cash inflow therefore decreased.

Net cash flow from investing activities was an outflow of ¥91.6 billion. M&A-related cash outflows were almost unchanged from the same period last year. Last year, it was about the automotive fabrics business of Adient plc. This year it is about Respicardia and McDonald Jones.

The resulting free cash flow was a net outflow of ¥14.9 billion.

Net cash flow from financing activities was an inflow of ¥6.3 billion even after dividend payments, due to fundraising.

The balance of cash and cash equivalents at the end of September was ¥209.0 billion.

P. 12 Consolidated operating performance forecast

From here, let us discuss the full-year forecast. Let us turn to slide 12.

For the full year of FY 2021, we now expect net sales of ¥2,453.0 billion. The operating income forecast is ¥100.0 billion for H2 and ¥213.1 billion for the full year. Full-year ordinary income forecast is ¥222.0 billion, and net income attributable to owners of the company is forecasted to be ¥185.5 billion. All figures from net sales to net income would be new record highs. For operating income, FY 2018's ¥209.6 billion is the highest so far.

Substantial year-on-year increase in net income is expected due to reduced tax expenses associated with the reconfiguration of Veloxis organizations for an amount of ¥24 billion. This has been factored in from the initial forecast.

P. 13 Sales and operating income forecast by segment (vs. FY 2020)

Slide 13 describes the sales and operating income forecast by segment in comparison with the same period previous year. The left-most column shows FY 2019 figures for reference. There was significant impact of COVID-19 in the previous year, particularly in H1. In comparison, we expect significant increase in sales and operating income this time.

For Material, we expect both sales and operating income to increase thanks to recovery in demand in each market and a rapid rise in petrochemical market prices centered on H1.

For Homes, we also expect sales and operating income to increase after the consolidation of operations in Australia and strong performance of the U.S. business.

For Health Care, we expect sales to increase, but operating income to decline. The Health Care business category is showing firm performance. Within Critical Care, while core businesses such as defibrillators remain strong, shipments are down for ventilators after that surge in demand last year.

P. 14 Sales and operating income forecast by segment (vs. forecast in May)

Slide 14 explains how the forecast has been revised from that announced in May.

We have upward-revised forecasts for all 3 segments, and especially Material, after firm performance in H1. The rest of the slide is what I have already discussed, so rather than dwelling on that, I would like to highlight other points that may be of interest, from the appendix slides.

P. 25 Overseas sales

Let us first look at slide 25. Slide 25 describes overseas sales, which accounted for 49.1% of the group total sales in H1. Most notably, the percentage of overseas sales for Homes has increased to 18.4% from only 2.5% a year ago. For Material, the percentage increased from 53.9% to 61.2%, reflecting demand recovery outside of Japan.

We expect the overseas sales percentage to stay at around 50% for the time being.

P. 27 Primary investments by business category

Next, let us go to slide 27. Slide 27 describes capex, depreciation and amortization, as well as R&D expenses.

We expect depreciation and amortization excluding amortization of goodwill for the full year to come to ¥121.0 billion. As written at the bottom of the slide, amortization of goodwill in H1 amounted to ¥13.7 billion, and we expect around ¥30 billion for the full year. This means full-year total depreciation and amortization including goodwill of around ¥150 billion.

With operating income of above ¥210 billion, the full-year EBITDA would come to around ¥360 billion.

P. 41 Operating income for FY 2019–2021

Let us now look at slide 41.

As mentioned at the beginning, FY 2021 is the final year of the 3-year medium-term management initiative. The table on slide 41 shows half-year operating income figures throughout the 3-year period from FY 2019. The medium-term operating income targets we initially set for FY 2021 were ¥150 billion for Material, ¥75 billion for Homes, and ¥56 billion for Health Care.

Within Material, for Basic Materials, the focus has been on improving profitability and reducing volatility. Around 90% of contracts for AN now adopt formula-based pricing that factors in feedstock costs.

For Performance Products, we are reviewing the supply chain for automotive-related products. We are also reviewing each product from the perspective of applications and development so as to improve profitability.

Specialty Solutions business has continued steady growth since FY 2019 even during the pandemic, with an operating income of ¥34.8 billion in FY 2020, and a forecast of close to ¥40 billion for FY 2021. The growth drivers are electronic materials and separators. We will continue to focus on such high-performance, differentiated products for growth.

With regard to Homes, operating income may fall short of the ¥75-billion medium-term target by about ¥6 billion. After that significant impact of COVID-19, however, there is now recovery in orders for order-built homes. Domestically, our focus is on improving profit margins and transforming our marketing approach for order-built homes as orders are coming through different channels than before. The focus for overseas businesses is to get to stable growth. Operations in Australia and the U.S. are geographically and strategically very focused and look set to be solid earnings contributors. We are now aiming to achieve the medium-term target figure just one year later.

For Health Care, while figures went up and then down in relation to a surge in demand for ventilators, particularly in H1 of FY 2020, aside from that, underlying growth has continued. Operating income was ¥43.5 billion in FY 2019, and the forecast for this year is ¥59.5 billion, which exceeds the medium-term target of ¥56 billion by ¥3.5 billion. Even in the face of the pandemic, the segment greatly contributed to consolidated group earnings and at the same time proactively executed M&As. In the new medium-term management initiative that begins in the next financial year, Health Care will surely be positioned as a key growth driver.

This concludes my presentation. Thank you very much for your attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have a question on Material, Performance Products, and Specialty Solutions. What were the reasons for the decline in profit from Q1 to Q2? Also, how do you see H2, including the impacts of reduction in automobile production and semiconductor shortages.

Yamaguchi: Yamaguchi from Performance Products. First, changes from Q1 to Q2 in Performance Products. One factor is the time lag in reflecting higher material prices in the selling prices. While raw material prices soared from Q1 to Q2, some products had yet to have them reflected in the selling prices. There also was a factor of fixed costs tending to increase at the end of each half year. Profit fell from Q1 to Q2 mainly due to those two reasons.

As for the projection for H2, we expect that the terms of trade will improve and recover. In addition, while the impact of the reduction in automobile production particularly in North America was felt in H1, we expect a recovery in H2, albeit gradual. With that expectation, we are projecting profit to improve in H2.

Sugiyama: Sugiyama from Specialty Solutions. Overall, semiconductor market remained strong in Q2, and sales of functional coating materials for automobiles were also strong. As for lithium-ion battery, or LIB, separators, however, slowdown in Chinese smartphones affected consumer electronics applications, while automobile production adjustments due to semiconductor shortages affected automotive applications. In addition, there were impacts on all businesses of increase in raw material costs and logistics costs, as well as changes in product mix. Due to these factors, profits decreased quarter-on-quarter.

From H1 to H2, profits are expected to decline in performance materials, separators, and electronic devices. Performance materials expects strong shipments overall, including electronic materials for semiconductors on one hand, but also rather serious impact of soaring raw material prices, and an increase in fixed costs related to equipment operating in H2 and scheduled maintenance and repairs, hence lower profit.

Separator business expects strong shipments continuing for automotive applications, while consumer electronics applications expect impact of seasonal factors and slowdown in Chinese smartphones. Added with regular price revisions in January, and soaring raw material costs and logistics costs, we expect a slight decline in profit.

Electronic devices expects shipments to remain strong, but due to increase in expenses related to outsourcing, profit is projected to decline.

Mr. Watabe: My next question is on Critical Care. Even considering the positive effect felt in Q1 from accounting treatment associated with the acquisition of Respicardia, sales and profit in Q2 seem too low. What were the reasons? Also, could you talk about the factors behind the projected decline in profit from H1 to H2, including the impact of the acquisition made by ZOLL.

Hamamoto: Hamamoto from IR will take that question. From Q1 to Q2, while recovery trend continued for conventional defibrillators and LifeVest wearable defibrillators, although shipments temporarily decreased for both quarter-on-quarter. Another factor was, as you indicated, the one-off positive impact in Q1 of accounting treatment associated with the Respicardia acquisition. Also, SG&A expenses increased in Q2 period due to the recovery of sales activities.

From H1 to H2, profit is expected to decrease by ¥5.6 billion, despite steady growth expected for defibrillators and LifeVest. The accounting treatment of Respicardia will account for over half of the projected decline in profit, as explained at the Q1 earnings briefing.

The rest are the combination of a couple of elements. One is the increase in R&D expenses. Another is the cost factor of defibrillators. Last year, increased production of ventilators served to lower the unit production cost of defibrillators due to common cost, and during H1 of this fiscal year, shipments were made from those low-cost inventories, but that would no longer be the case in H2.

That's the difference.

Another factor is new consolidation. Once the acquisitor process of Itamar Medical Ltd. is completed, it will be consolidated, but we do not expect its profit contribution in H2 of this fiscal year.

Due to these factors, we are projecting profits to decline from H1 to H2.

Mr. Yamada: Yamada from Mizuho Securities. I have a question on Basic Materials. You indicated that about 90% of your contracts for AN are based on price formula that reflect feedstock prices. Can we assume then that the current profit level of Basic Materials will be sustained, since only small portion of your business would be exposed to price volatility, and just about the only things to consider is the impact of inventory valuation gain and loss? So my question is on the volatility in the Basic Materials business.

Takahashi: Takahashi from Basic Materials. What that 90% referred to was the proportion of transaction agreement contracts in which cost factors are incorporated in the price formula to a certain degree, for example 50%, which helps to alleviate the impact of price volatility.

Mr. Yamada: Can you give us a sense of the degree of impact alleviation?

Takahashi: It depends. But generally speaking, the impact of changes in the feedstock price is maybe reduced to half through these arrangements.

Mr. Yamada: How about setting upper bounds and lower bounds to the price spread? Do you have those contracts as well?

Takahashi: Yes, there are such contracts, but not all. Through those arrangements, we are trying to stabilize profit by reducing the cost impact as much as possible.

Mr. Yamada: I see. I hope that helps to clear the current concern over the narrowing of AN price spread.

My next question is on Homes. Usually, deliveries of order-built homes are concentrated in Q4 every year, but based on your full-year forecast, I don't see much difference between H1 and H2. I presume it's mostly in relation to your overseas business and soaring raw material and fuel prices, especially steel prices. Do I take it that you are making conservative assumptions for H2? Can you comment on that, in relation to earlier remarks that you hope to achieve the final operating profit target under the medium-term plan one year behind schedule in FY 2022?

Sakai: This is Sakai from Asahi Kasei Homes. In terms of H1 vs. H2, one big factor is the new Accounting Standard for Revenue Recognition that is applied starting from this fiscal year, FY 2021. That is the factor improving the balance between H1 and H2 in the order-built homes business. Raw material prices will have a significant impact in FY 2021, but we are working to improve profitability by reducing costs and improving productivity toward FY 2022. We are making efforts so as to achieve the final profit target in the current medium-term management plan in FY 2022, one year behind schedule.

Mr. Yamada: I see. Today steel prices are soaring, Do I take it that you have means to hedge that through internal self-help efforts and by raising the unit price at the time of new product launch?

Sakai: Yes, you are correct. We are doing both.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. My first question is the usual sales volume index for LIB separator. What was it in H1? Also, a battery manufacturer is being sued for huge damages in relation to the recalls of electric vehicles, and there are reports that separators are to blame in some cases. So, I'm wondering whether you are experiencing an increase in order inquiries, as supplier of high-quality separator. Also, given that Korean battery makers are moving to build factories in the U.S., I'm wondering whether production of Hipore wet-process LIB separator in the U.S. is likely sometime in the future.

Ishikawa: Ishikawa from separator business. First, the volume index in H1 of FY 2021 was 455.

Regarding the impact of EV recalls, we are not seeing a particular increase in customer inquiries in relation to the recalls of electric vehicles at this point in time, but suffice it to say that high quality of our products is well appreciated and recognized by our customers.

Regarding production in the U.S., yes, we are aware of the plans by the Korean manufacturers, but we already have a production site in the U.S. for Celgard dry-process LIB separator. The question of where and when to expand operations is being discussed and considered as we speak.

Mr. Miyamoto: A follow-up question. I think the sales volume of LIB separators in H1 increased by about 17% year-on-year. In terms of wet-process vs. dry-process, or by applications, how did they compare? Also, what is your outlook for the full year?

Ishikawa: Ishikawa from separator business again. In H1, dry-process separator slightly decreased for ESS, energy storage system, applications, but increased for automotive applications. Wet-process separator sales remained very strong, and especially in Q1, sales for smartphones in China increased significantly. Wet-process separator was very strong in H1.

Regarding the full-year outlook, although there are concerns over the impact of semiconductor shortages on automotive applications, we believe it will be almost on par with the May forecast. H2 growth is generally limited due to seasonal factors in consumer electronics applications, but our plan is to secure growth on a full-year basis.

Mr. Miyamoto: My second question is about Critical Care. H1 results exceeded plan and you also upward revised the full-year operating income forecast by ¥5.5 billion. This despite the impact of the acquisition of Itamar. What products are driving performance? Conventional defibrillators? LifeVest?

Hamamoto: Hamamoto from Investor relations speaking. The H1 results exceeding forecast and the upward revision for the full-year are thanks to better-than-expected recovery of both conventional defibrillators and LifeVest from the decline due to COVID-19. There are other factors such as the weaker Japanese yen and the positive impact of accounting treatment associated with the acquisition of Respicardia. But fundamentally, it is that the core businesses are recovering steadily.

Mr. Miyamoto: Thank you very much.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is about the Health Care business category. Regarding the H2 forecast, while you expect net sales to increase, operating income is decreasing to ¥10.1 billion from ¥12.5 billion in the same period last year. Can you tell us why?

Kibe: Kibe from Asahi Kasei Pharma speaking. For pharmaceuticals, in H2 compared with the same period a year ago, shipments are expected to increase, but operating income is expected to decrease due to expenses associated with in-licensing and increased expenses for online activities by medical reps. While on the one hand we are trying to control fixed costs, we are also aggressively investing where necessary for the future.

Hamamoto: Hamamoto from Investor Relations. With regard to medical devices, we expect net sales to increase on the back of shipment growth for Planova virus removal filters and a weaker yen. Operating income, however, is expected to decrease in a similar way to pharmaceuticals, as activity-related expenses and R&D expenses are to increase.

Mr. Umebayashi: What about Veloxis, how would H2 compare against the same period previous year?

Hamamoto: Hamamoto speaking again. We expect year-on-year sales growth for Envarsus XR immunosuppressant.

Mr. Umebayashi: Thank you. My next question is about Specialty Solutions. In H1, you booked expenses for alternative production in relation to the fire at your semiconductor plant as extraordinary loss. Will the same be true for H2, or will such expenses now be recorded as operating expenses?

Kawata: Kawata from Asahi Kasei Microdevices speaking. In H1, we booked expenses for starting-up alternative production as extraordinary loss. From H2, we plan to book such expenses as operating expenses.

Mr. Umebayashi: How much would that be? In H1, you booked ¥5.1 billion in business structure improvement expenses within extraordinary losses. Do you mean that amount is reflected in the operating income forecast for Specialty Solutions?

Kawata: Not exactly, because that figure for business structure improvement expenses includes other expenses, not just costs associated with starting-up alternative semiconductor production.

Mr. Umebayashi : If so, can you tell us how much of such cost you would book as operating expenses in H2?

Kawata: I am afraid I cannot provide further detail.

Mr. Umebayashi: I see. Thank you.

Mr. Watanabe: Watanabe from Mitsubishi UFJ Morgan Stanley Securities. My first question is about Homes. On slide 31, it says operating income for “overseas business, etc.” came to ¥5.7 billion in H1. According to Asahi Kasei Homes, the initial forecast was ¥4.8 billion for the full year, so you have already exceeded that. What caused this?

Also according to Asahi Kasie Homes’ latest disclosure, the full-year operating forecast is ¥8.7 billion, which suggests lower operating income in H2 than H1. Can you tell us why?

Sakai: Sakai from Asahi Kasei Homes speaking. Operating income in H1 increased by ¥5.3 billion from the same period last year. This is thanks to new consolidation of the Australian business and strong performance of the U.S. business.

The expected decline in operating income in H2 compared with H1 is mainly related to the U.S. business. In H1, lumber prices soared and that was reflected in sales prices to some extent, but that situation is expected to normalize in H2.

Mr. Watanabe: Are you saying that H1 results for the U.S. business were exceptional? Are you lowering sales prices in H2?

Sakai: H1 was certainly exceptional. We will keep monitoring the situation in H2.

Mr. Watanabe: My next question is on the balance sheet. In your financial summary, within inventories, work in process decreased significantly, while merchandise and finished goods increased. Can you tell us why?

Sato: Sato from Corporate Accounting & Control speaking. The decrease in work in process is due to the application of the new Accounting Standard for Revenue Recognition, which mostly affected Homes, while the increase in merchandise and finished goods is due to higher market prices and inventory increase for Material. For Homes, the new standard for revenue recognition pushed inventories down, while pushing accounts receivable–trade up.

For the Group as a whole, the change in revenue recognition reduced inventories by approximately ¥50 billion and increased accounts receivable by about ¥25 billion.

Mr. Watanabe: Thank you.

Mr. Okazaki: Okazaki from Nomura Securities. First, on AN. Can you tell us about the price and spread during Q2 and your assumptions for H2? How do you see the supply-demand balance going forward in light of power shortage in China and capacity expansion by other suppliers? There were reports suggesting that you will restart idled capacity at your Korean subsidiary, Tongsuh Petrochemical Corp., Ltd. Can you tell us more about that? And for that additional supply, would you also apply formula-based pricing that factors in costs?

Takahashi: Takahashi from Basic Materials SBU speaking. Q2 price averages were $2,267 per ton of AN, $1,005 per ton of propylene, for a spread of $1,262 per ton. The spread was not squeezed as much as expected and was wider than $1,100 per ton that we assumed in the previous forecast.

For H2, there is still uncertainty with regard to the impact of China's environmental regulations. AN is currently traded in the market at slightly above $2,200 per ton. For Q3, we are assuming $2,200 per ton. For Q4, we are assuming $1,800 per ton, as we expect supply-demand balance to relax with new supply coming online from capacity expansion at other suppliers. Propylene is currently traded at around $1,050 to $1,100 per ton. We expect it to remain at this level during H2 due to high crude oil prices. Our assumption for H2 is $2,000 per ton of AN, $1,050 per ton of propylene, for a spread of $950 per ton.

With regard to China's environmental regulations, this is affecting production not only of AN, but also of ABS resin, which is one of the main applications for AN. We need to keep an eye on the situation. Having said so, fundamentally there is firm demand for AN, especially for use in ABS resins, and we do not expect a major deterioration in the supply-demand balance.

We are aiming to restart idle capacity in South Korea at around the end of 2022 and are working out details now. In terms of pricing, we will consider formula-based pricing that factors in costs.

Mr. Okazaki: Thank you. My next question is about the Health Care business category. It appears that sales growth of Envarsus XR in Q2 was rather sluggish compared with Q1, or with the same period last year. Is it due to the impact of COVID-19 still continuing from Q1? How confident are you that growth would recover in H2? And can you explain why the operating income forecast was downward revised from the initial forecast?

Hamamoto: Hamamoto speaking. The growth rate of Envarsus XR has indeed slowed down temporarily, due to the impact of COVID-19. Activity was restricted for medical reps. The number of new kidney transplants came down. There are reports that a certain number of kidney transplant recipients died due to COVID-19 infection, and this may be a factor, too. However, these are all temporary effects due to the pandemic.

Meanwhile, the share of Envarsus XR in the tacrolimus market is steadily increasing. It is prescribed to more than 35% of new kidney transplant recipients. The growth is outpacing expectation. We therefore expect recovery going forward.

Kibe: Kibe from Asahi Kasei Pharma speaking. The downward revision of the operating income forecast is mainly due to Envarsus XR sales falling short of plan. We do, however, believe that the drug will be back on the growth path, once we recover from the COVID-19 impact.

Mr. Okazaki: Thank you very much.

Hamamoto: This concludes today's earnings briefing. Thank you very much for joining us.