Transcript of Financial Results Conference for Q2 Fiscal 2018, held on November 2, 2018

Asahi Kasei Corporation

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Presentation

Hamamoto: Thank you very much for taking part in the briefing on FY 2018 Q2 financial results of Asahi Kasei Corporation. I will be serving as the moderator today. I am Futoshi Hamamoto, Investor Relations.

Let me first introduce participants from our company today: Yutaka Shibata, CFO; Yozo Sato, Corporate Accounting & Control; Toshiyasu Horie, Petrochemicals Strategic Business Unit, or SBU; Yukifumi Kuwaba, Performance Polymers SBU; Akira Fukuda, Separators SBU; Izumi Kawata, Asahi Kasei Microdevices Corp.; Kensuke Sakai, Asahi Kasei Homes Corp.; and Hiroki Ideguchi, Asahi Kasei Pharma Corp.

Now I would like to ask Mr. Shibata to make presentation.

Shibata: I am Yutaka Shibata, CFO of the company. Thank you very much for joining us despite your busy schedule today. I will give you an overview of the financial results of H1 of FY 2018 and forecast for the full fiscal year.

P. 2 Focus for consolidated results for fiscal quarter ended September 2018

Please turn to page 2. What I would like to tell you first is that we have been able to achieve new records as our H1 results for net sales, operating income, ordinary income, and net income attributable to owners of the parent.

To give you the performance by segment, in Material, sales and operating income increased. If you look at further breakdown of the results, in Fibers, shipments increased for Lamous microfiber suede, and Bemliese continuous-filament cellulose nonwoven, while in Chemicals, acrylonitrile, or AN, improved its terms of trade and increased shipments, and in Electronics, shipments of Li-ion, or LIB, battery separators increased.

In Homes segment, sales increased, but operating income remained almost flat

year-on-year. In order-built homes business, the number of buildings delivered for unit homes fell, but in real estate business, both rental management and condominium construction showed strong performance.

In Health Care segment, we have achieved increases in both sales and operating income. In medical devices, Planova virus removal filters saw increased shipments. Critical Care business continued to perform well with an increase in shipments of defibrillators for professional use.

I will explain about the forecast for the full FY 2018 later in my presentation, but we have made upward revisions for net income, operating income, ordinary income, and net income attributable to the owners of the parent, representing record highs for net sales, operating income, and ordinary income.

One of the highlights in Q2 FY 2018 is the completion of the acquisition of Sage Automotive Interiors Inc., or Sage, on September 27th, making it one of our consolidated subsidiaries. In H1, we have incorporated the balance sheet, but not the P/L, of Sage on our consolidated financial statements, as its P/L will be reflected in our H2 results. Therefore, the earnings result of Sage has not been included in H1 FY 2018. The forecast for the full FY 2018 does have the earnings of Sage incorporated.

When you compare the balance sheets between the end of March 2018 and end of September 2018, you can see the total assets increased by ¥264.9 billion, of which ¥140.5 billion is attributed to the acquisition of Sage. We also provisionally assumed ¥80 billion in goodwill associated with this acquisition. Since we have yet to complete PPA, or purchase price allocation, we want you to regard it as a provisionally calculated figure.

P. 6 Summary of financial results

Let me move on to page 6, which shows the summary of financial results. Net sales totaled ¥1,041.5 billion, up ¥76.7 billion year-on-year. Operating income was ¥104.3 billion, up ¥11.7 billion year-on-year. Ordinary income increased by ¥12.1 billion to ¥110.3 billion, and net income attributable to owners of the parent by ¥8.1 billion to ¥78.9 billion, thus breaking the previous records at all these P/L item lines.

The domestic naphtha price was ¥51,000/kL, up ¥13,500/kL year-on-year. And this affected various parts of our businesses. The market average exchange rate was ¥110 to the US dollar.

The interim dividend for H1 2018, as we announced at the earnings report for Q1, will be ¥17 per share. Under our current mid-term management initiative “Cs for Tomorrow 2018,” the target total return ratio for FY 2018 is set at 35%. We intend to decide upon the year-end dividends, based on the actual net income attributable to the owners of the parent posted for FY 2018, in consideration of the total return ratio of 35%.

P. 7 Statements of income

Page 7 shows the summary of statements of income on a consolidated basis. We posted net sales of ¥1,041.5 billion and gross profit of ¥336.5 billion, with gross margin staying almost flat year-on-year.

SG&A expenses totaled ¥232.2 billion, up ¥11.6 billion from the year before. Primary reasons include the increased head counts to reinforce sales activities, as well as expenses associated with the relocation of the head office.

Operating income was ¥104.3 billion, representing 10% as a percentage of sales.

Net non-operating income was positive, as was the case in the previous year, totaling ¥6 billion. This was mainly because of the improved performance by PTT Asahi Chemical Co. Ltd., or PTTAC, in Thailand, which brought about net equity in earnings of affiliates of ¥6.7 billion.

Net extraordinary income was a surplus of ¥4.9 billion, due to gain on sales of investment securities posted through continued sale of some of the strategic holdings of shares in this fiscal year.

This brought us income before income taxes of ¥115.1 billion, and net income attributable to owners of the parent of ¥78.9 billion.

P. 8 Balance sheets

Please take a look at consolidated balance sheets on page 8. Total assets increased by

¥264.9 billion, primarily because of consolidation of Sage, which pushed up the total assets by ¥140.5 billion. Other reasons include the increased inventories in Homes segment, as well as increased inventories due to the rise in feedstock costs. Moreover, noncurrent assets increased because of a rise in capital investment.

Liabilities increased by ¥179.9 billion, mainly because we procured funds to finance the acquisition of Sage, which led to the rise in interest-bearing debts. With this increased interest-bearing debts, the D/E ratio was 0.32 as of the end of September 2018.

Net assets increased by ¥85 billion, primarily due to the increased retained earnings and weaker yen seen toward the end of H1, which resulted in a rise in foreign currency translation adjustment.

P. 9 Cash flows

Next, page 9 shows cash flow statements. Net cash inflow provided by operating activities was ¥73.7 billion, down ¥40 billion from a year before, due primarily to increases in corporate income tax payment and in inventories, as was mentioned earlier.

Investments associated with the acquisition of Sage and funds raised for that transaction resulted in the net outflow of cash from investing activities of ¥119.1 billion, and net cash inflow from financing activities of ¥61.2 billion.

Consequently, cash and cash equivalents at the end of the period was ¥168.8 billion.

P. 13 Fibers

I would like to explain about the status of each segment using the slides from page 13.

First, on Fibers. Sales posted ¥72.8 billion and operating income ¥7.3 billion, representing positive year-on-year growths in both sales and profits. We were affected by the rise in feedstock costs, but increases in shipments of Lamous and Benliese contributed to the growth.

P. 14 Chemicals

For the Chemicals business category, net sales increased year-on-year to ¥427.3 billion. Operating income also increased to ¥59.3 billion.

Both sales and operating income increased for petrochemicals. Terms of trade improved for AN, and this time there was no maintenance turnaround at the naphtha cracker of Asahi Kasei Mitsubishi Chemical Ethylene Corp. in contrast with the previous year. With regard to AN, the market price in H1 averaged at $2,078 per ton of AN, against $1,098 per ton of propylene. The resulting spread was $980 per ton.

For performance polymers, sales increased, but operating income decreased. Sales of engineering plastics remained firm. But operating income was down year-on-year after very favorable terms of trade for synthetic rubber in the same period last year.

Performance materials and consumables also booked sales growth, but operating income decline. Among performance materials, ion-exchange membranes and other products booked firm sales. Shipments for electronic materials, however, decreased. Costs increased for consumables.

P. 15 Electronics

Now to Electronics. Sales came in at ¥77.9 billion, up ¥300 million year-on-year. Operating income was unchanged at ¥5.6 billion.

For separators, sales and operating income were both up thanks to increased LIB separator shipments.

On the other hand, sales and operating income were down for electronic devices. Sales of camera module devices for smartphones among others were down from the same period of FY 2017.

P. 16 Homes

For Homes, sales increased to ¥271.8 billion while operating income was unchanged at ¥24.3 billion.

Order-built homes were down for both sales and operating income, due to decreased number of buildings delivered for Hebel Haus unit homes.

On the other hand, both sales and operating income increased for real estate, remodeling

and others, thanks to firm performance of rental management and condominium construction.

The value of new orders for order-built homes in H1 increased by 8.8% from the same period previous year. The increase was for both unit homes and multi-dwelling homes.

P. 17 Construction Materials

For Construction Materials, sales came to ¥26.9 billion, up ¥800 million year-on-year, while operating income was almost unchanged at ¥1.9 billion. Shipments were firm for insulation materials, but feedstock costs rose.

P. 18 Health Care

For Health Care, sales came in at ¥68.4 billion, operating income at ¥10.6 billion, both up year-on-year.

For pharmaceuticals, both sales and operating income decreased. Shipments of newer drugs such as Teribone osteoporosis drug increased. However, sales of long-listed products decreased due to reduced reimbursement prices and competition from generics.

For devices, both sales and operating income increased, thanks to increased shipments of Planova.

P. 19 Critical Care

Last but not least, let us look at Critical Care. Sales increased year-on-year to ¥86 billion. Operating income also increased to ¥11.4 billion. Shipments of defibrillators for professional use were strong.

The table on the lower side of the slide shows results in US dollars. US dollar-based sales increased by 13.8% year-on-year. Gross operating income before PPA impact increased by 18.3%.

P. 21 Consolidated operating performance forecast

Now let us look at the forecast, starting from slide 21. This time, we have upward revised the forecast for net sales, operating income, ordinary income, and net income attributable to owners of the parent, from the figures we published in May.

The revised forecast means new record highs for net sales, operating income, and ordinary income. The new forecast is ¥2,210 billion for net sales, up ¥55 billion from the May forecast, ¥210 billion for operating income, up ¥20 billion, ¥222 billion for ordinary income, up ¥23 billion, and ¥160 billion for net income attributable to owners of the parent, up ¥20 billion.

Actually, in FY 2017, when we booked the highest ever net income attributable to owners of the parent, the figure was boosted by about ¥17.2 billion due to a one-time effect of the US tax reform, as tax effect accounting resulted in lower-than-usual tax expenses. Taking this into consideration, this ¥160 billion forecast would be, in effect, the highest ever on a comparable basis.

For the domestic naphtha price, we are now assuming ¥53,800/kL, which is ¥3,800 higher than the initial assumption.

The assumed exchange rate in May was ¥105 to the US dollar, but now we are assuming ¥110 to the dollar, reflecting recent levels.

We have not revised the annual dividend forecast, which is currently ¥34 per share. As I mentioned earlier, we may revisit this against the total return ratio target of 35%, when we have full-year results.

P. 24 Operating income forecast by business category

Let us now turn to slide 24, which shows the operating income forecast by business category.

The operating income forecast for Fibers is ¥14.5 billion, upward revised by ¥500 million. Each business continues to be firm, and nonwovens such as Lamous, in particular. From H2, Sage will be newly consolidated, which has a significant impact on sales. The sales forecast is upward revised by ¥25 billion. Regarding the impact on operating income, while we are still in the midst of the PPA process, we expect that, after amortization of goodwill, the net impact on operating results would be almost neutral.

For Chemicals, the forecast is upward revised by ¥15.5 billion to ¥109 billion. Part of this

comes from the exchange rate, but the largest factor is the wider spread for AN. The AN market price stayed at high levels in H1. That will probably moderate sometime in H2. We now assume an average price of $2,000 per ton of AN, against $1,100 per ton of propylene, for a spread of $900 per ton over the full year.

For Electronics, the new forecast is ¥10 billion, upward revised by ¥2.5 billion. This comes from the exchange rate and reduced fixed expenses for separators.

The forecast for Homes is unchanged at ¥61 billion. The value of new orders and number of buildings delivered are both in line with the initial plan.

We have downward revised Construction Materials by ¥500 million to ¥4 billion in operating income. We are being a little conservative here, as shipments of AAC, autoclaved aerated concrete, and insulation panels may fall short of plan.

For Health Care, the operating income forecast is ¥18.5 billion, upward revised by ¥1 billion. Among medical devices, Planova performed well in H1, and we expect full-year results to exceed the initial forecast.

Critical Care has been upward revised by ¥3.5 billion to ¥23.5 billion. This comes from the effect of the foreign exchange rate and continued strength in defibrillators for professional use.

This concludes my presentation. Thank you very much.

Question and Answer Session

Hamamoto: Let me move to Q&A session. Please raise your hands if you have any questions.

Mr. Yamada: Yamada from Mizuho Securities. I have two questions. You explained about the forecast for the full year. In Chemicals, given the profit in H1 significantly higher than the forecast announced in May, can't you raise the profit forecast slightly more for H2? Or are there any risks you expect in areas other than AN?

Likewise, Homes in H1 overachieved the profit forecast in May, but has been left unchanged in its forecast for the full year. Have there been any time lag in deliveries of houses? Could you explain a bit more?

Horie: Horie from the Petrochemical SBU. If I may comment on petrochemicals, in H2, we do not expect much upside because there is a slight uncertainty in demand due to the trade friction between the US and China. We have slightly factored in the concern in terms of volume. Moreover, the maintenance turnarounds for polystyrene and MMA are scheduled in H2, which causes the fixed expenses more skewed toward H2. These are some of the factors eroding the profit in H2.

Kuwaba: Kuwaba, from the Performance Polymers SBU. As for performance polymers, I would like to compare the forecasts announced in May and the latest forecast, both for H2.

First in engineering plastics, in H1, the feedstock costs were higher, but in H2, price increases and other measures will help improve the terms of trade significantly, and thus we expect to see an upside in profit from the forecast in May.

As for synthetic rubber, in H2, we believe things will go mostly in line with our original assumption.

Given all these factors, we have decided to make an upward revision to the profit forecast for H2 announced in May.

Hamamoto: Hamamoto of IR. Let me make some comments on the performance materials and consumables. When the forecasts presented in May and this time are compared, foreign exchange rates are working slightly favorably for us, and sales of ion-exchange membranes are showing strong performance, while electronic materials are expected to fall short of the original forecast in May, with less volume. Consumables are mostly in line with the forecast in May.

Mr. Yamada: In Homes, sales in H1 was slightly behind the forecast, and yet a positive growth in profit was achieved, which makes me believe that Homes has become structurally more profitable.

Could you explain why sales forecast has been raised, while profit forecast has been lowered in H2, compared to those announced in May?

Sakai: Sakai from Asahi Kasei Homes. Let me take up that question. Some of the SG&A expenses planned for H1 have been carried over to H2, which is the biggest reason, and the business itself has been going well.

Mr. Yamada: Thank you. My second question. In Health Care, profit was ahead of the forecast in H1, and yet the forecast for H2 has been revised down. Could you give us more details behind this decision?

And in Critical Care, it doesn't seem that you have raised your forecast for H2 as much as one would expect. Could you explain more about your thoughts around this?

Ideguchi: Ideguchi from Asahi Kasei Pharma. Let me explain about the pharmaceuticals first. Compared to H2 of the previous fiscal year, we have incorporated increases in sales volumes of newer drugs including Teribone. As in the case of H1, impacts from NHI drug price revisions and competition from generics are expected to result in drop in sales of long-listed drugs. But this is likely be offset by the increased sales of newer drugs, and therefore, we forecast a year-on-year positive growth in profit. Sales increase from exports including those to China is another factor counted for the year-on-year increase.

However, as for medical devices, Planova performed significantly well in H2 of the previous fiscal year, compared to which we are slightly conservative for H2 of this fiscal year. As a result, our forecast ended up in a year-on-year drop in profits for the total Health Care business category.

Shibata: Shibata speaking. Just to add to what has been said, in Critical Care, compared to the forecast in May, H2 forecast has been raised for profit this time.

As for pharmaceuticals and medical devices, the latest full-year forecast is an upward revision to the one in May. In Planova, some of the demand expected for H2 has been moved up in H1 this year, and so I would like you to evaluate the performance on a full-year basis.

Mr. Yamada: Was the demand for Planova that shifted from the H2 to H1 large in amount? Critical Care in H1 was significantly ahead of the forecast in May. Were there any particular reasons, such as carry-over of some expense from H1 to H2, or structural factors to drive up sales?

Shibata: Shibata speaking. Planova is used in the production of plasma derivatives and biotherapeutics, but the timing of the shipments is uneven and varied from customer to customer. Since we have a limited group of customers, we directly talk to them to update ourselves on their status, and put together the forecast based on the information. So, I would like you to understand that, these are the numbers that have taken into account that sort of demand information.

In Critical Care, what was positive in H1 was the timing of shipments. There are several reasons for that. One is defibrillators for the military. They are not purchased every month or at any regular intervals, but in H1 there were strong shipments for the military.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. There are two questions. The first question has to do with Electronics. Sales have not grown much from Q1 to Q2, and the profit was flat in H1 year-on-year. Despite that, there was ¥3.4 billion in positive contribution from operating costs and others, which I suspect was, due to the change in the way of depreciating capex in Japan, to the straight-line method. If this is the case, even with this one-time positive factor, you ended up with a flat profit growth, which makes me worried that things may be really challenging. You said electronic devices saw a drop in profit. Have the prices of separators been falling significantly for instance? Could you give me more details on year-on-year, and Q1 to Q2 comparison for separators and electronic devices separately?

Fukuda: Fukuda from Separators SBU. Let me explain about the comparison between Q1 and Q2.

Electronics in total saw its sales and profit grow. Separators had their sales increase but profit remain unchanged. The sales volume of dry-process LIB separators did increase, but partly due to the increased fixed costs, the operating income remained flat despite the increased sales value.

Kawata: Kawata from Asahi Kasei Microdevices. Let me explain about electronic devices. Sales in Q2 were about the same as in Q1, but due to the change in product mix, profit posted an increase.

Mr. Watabe: How did you perform in Q2, as compared to the same period last year in Electronics?

Fukuda: Fukuda speaking. Electronics as a whole fell both in sales and profits in Q2 year-on-year, but separators enjoyed an increase in sales and profits. As I said, this was mainly due to the increased sales volume of dry-process LIB separators.

In comparing Q2 this year and Q2 last year, for wet-process LIB separators, added production capacity that has become operational in H1 of FY 2018, is expected to start contributing to the financial results on a full scale in H2, and so, the volume has not grown in terms of year-on-year comparison. But we plan to grow the volume in H2.

Kawata: Kawata speaking. With regard to electronic devices, those for camera modules used in smartphones underperformed the previous year, which had a significant impact on the overall result of decrease in both sales and profits.

Mr. Watabe: On page 15, am I correct to say that what is referred to, under the operating income increases due to operating costs and others, is change in the depreciation method?

Fukuda: Fukuda speaking. In this operating income increase/decrease factor analysis, sales prices and operating costs and others are mostly attributed to separators, both are primarily due to the changes in product mix and more or less offset each other.

Operating costs and others also include the benefits of the increased capacity utilization ratio.

Mr. Watabe: I understand that a total impact of slightly less than ¥4.0 billion was attributed to the change in the depreciation method, for the entire company. By segment, which one has been affected more?

Shibata: Shibata speaking. I don't have the exact numbers at hand now, but Chemicals has benefitted most as they have more capital investment.

Mr. Watabe: Are you saying that Electronics has not been affected much?

Shibata: We have made a lot of investments in separators as well, so there was an impact on separators, but our understanding is that Chemicals benefitted more.

Mr. Watabe: My second question is about orders received in Homes. Consumption tax hike is likely to be implemented next year, while extension of mortgage-loan tax credits is expected. How do you envision they would impact your business?

Sakai: Sakai from Asahi Kasei Homes. We have left the forecast for the orders for the full year unchanged from the one announced in May. In H1, orders received were relatively strong, most of which is attributed to our own efforts. There have been many natural disasters recently, which has heightened people's awareness of protection against disasters. By reinforcing trainings for our sales personnel on our strengths, including disaster resilience, rebuilding, and value-added rental properties, we plan to emphasize those advantages to our customers to grow sales further.

We have not assumed that much impacts from mortgage tax credit extension and consumption tax hike.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. With regard to Chemicals, according to slide 24, the operating income was ¥59.3 billion in H1, with ¥49.7 billion forecast for H2. Can you provide a breakdown by each of the three businesses, please? What is your assumption for AN in H2?

Horie: Horie for petrochemicals. With regard to AN, the spread in H2 is assumed at $825 per ton, whereas in H1 it was $980 per ton, meaning terms of trade worsens in H2. In addition, we are scheduling maintenance turnarounds for polystyrene and MMA in H2, which pushes up fixed expenses. As a result, operating income for petrochemicals will decrease from H1 to H2.

Kuwaba: Kuwaba for performance polymers. For performance polymers, we expect operating income growth from H1 to H2, for both engineering plastics and synthetic rubber.

For engineering plastics, feedstock costs rose in H1 and put downward pressure on operating income, but in H2, sales prices are raised, so that terms of trade are better.

For synthetic rubber, demand is generally higher in H2 than in H1, and sales volume therefore increases.

Hamamoto: Hamamoto from Investor Relations. For performance materials and consumables, our forecast is roughly flat between H1 and H2. Consumables will be slightly down, due to the usual seasonality. Performance materials will be mixed. We expect performance coating materials to be up but electronic materials to be slightly down, for example. But all combined, the forecast is flat.

Mr. Takeuchi: With regard to performance polymers, you are assuming a naphtha price of ¥56,500/kL in H2, higher than in H1. Do you assume terms of trade to improve in H2, from the very unfavorable state in H1?

Kuwaba: Kuwaba for performance polymers. Yes, that is correct.

Mr. Takeuchi: Thank you. My next question is on AN. Market prices are now softening, perhaps since Q2 was too good. What do you expect going forward? How do you expect supply and demand to be in H2, and what about capacity utilization?

Horie: Horie for petrochemicals. Regarding market prices of AN, we do not expect a major decline during the October–December quarter, due to maintenance turnarounds in October and November. However, in the January–March quarter, most of the turnarounds would have been completed and production levels would return to normal. In addition, new capacity in China may come on line as early as March. Which means supply may start to increase in the January–March quarter.

On the demand side, although there is no tangible impact yet, we do recently see some signs of cautiousness in the market, in relation to the trade friction between the US and China. This uncertainty has been factored into our forecast, particularly for Q4.

Meanwhile, we intend to keep capacity utilization at around 85–90%, while keeping a close eye on demand, just as we have been doing.

Mr. Takeuchi: One confirmation, please. You assume an average spread of $825 per ton in H2. Would the January–March spread be narrower than October–December, below that average? And would spreads in Q2 and Q3 be above $900 per ton?

Horie: Yes, that's correct.

Mr. Takeuchi: Thank you very much.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan Inc. Regarding separators, can you provide some quantitative indication about shipments, how they grew in H1, and what you expect over the full year, please? And if possible, can you tell us about the trend by application, for automotives, energy storage systems, or ESS, and consumer electronics, respectively, please?

Fukuda: Fukuda for separators. Let me share with you the usual index of monthly average shipment relative to Q1 FY 2013. If we say Q1 FY 2013 average was 100, then monthly shipments in FY 2017 averaged 279 in H1 and 291 in H2, as mentioned previously. The average for H1 of FY 2018 came to 353. For the full year, we are expecting shipments to be up by approximately 30% from the previous year. Demand continues to be strong, and production is running at full capacity for both wet-process separators and dry-process ones.

As I mentioned earlier, for the dry-process, shipments increased significantly year-on-year, thanks to the completed capacity expansion. For the wet-process, year-on-year growth may appear to have moderated in Q2. This is partly because new capacity commissioned towards the end of H1, will only contribute in full from H2. It is also because Q2 last year was very strong, and we were already operating very close to full capacity. From H2 onwards, however, with the added capacity, we expect volume growth.

With regard to growth in different fields of application, we expect continued, steady annual growth of several percent for consumer electronics use. For use in automotives, the growth rate is about 30–40% per annum.

ESS is also showing strong growth now, but it is a very young market, and therefore hard to forecast. We are carefully watching how it develops. It is certainly a promising growth area, as increased use of renewable energy requires combining wind or solar power generation with power storage systems.

Mr. Ikeda: I have a follow-on question there. I would assume that future capex would have to be quite large in scale, perhaps in hundreds of million square meters, or so. What ideas do you have for FY 2019 and onwards?

Fukuda: We have already announced plans for capex up to FY 2020. As market growth continues, we may decide on further expansion, and if so, we will make announcements in due course.

As for the scale of expansion, given the nature of the process, the wet-process capacity will be expanded in relatively large increments, while the dry-process can be ramped up in smaller increments. Any expansion plan will take into consideration, and make the most of such characteristics.

Mr. Ikeda: Thank you. My second question is on Critical Care. With regard to defibrillators for professional use, as your competition is discontinuing their major product line, you must be gaining market share. Can you confirm whether that is indeed the case, and whether that will continue going forward?

In addition, can you also tell us about how you intend to expand LifeVest wearable defibrillator operations outside of the US, please?

Shibata: This is Shibata speaking. We are not in a position to comment on other companies. But as a fact, the share of ZOLL in the North American market has indeed increased over the past year. Actually, five years ago when we acquired ZOLL, they already had the No. 1 market share for professional use defibrillators in North America. So, Zoll has always been strong. And they have taken good advantage of that position to grow their business, and further increase market share. They have also continued to develop and introduce new products.

This market was already relatively mature, so we were not expecting rapid growth. But they have managed to maintain growth, and part of it is apparently by taking market share from competition. I'm afraid it is difficult to tell how long this will continue.

With regard to LifeVest, they are now available in Japan, Germany, and France, in addition to the US. As a medical device, it takes some time for market penetration, as we need to work through regulatory and health insurance systems. But the potential is big, so we will keep working on it.

Mr. Ikeda: Thank you very much.

Mr. Umebayashi: Umebayashi from Daiwa Securities. I have a question on automotive-related business as a whole. I know there are regional differences that automotive-related demand may be relatively weaker in China and Europe, for example, but stronger in other regions. But overall and combined, given seasonality, sales in H2 should be higher than in H1. It sounds like your business is generally doing well, but what areas could potentially be affected by a sudden downturn in demand? How about engineering plastics, synthetic rubber for fuel-efficient tires, or Sage?

And in relation to Sage, I have another question. It appears that the Sage contribution to your H2 Fibers sales forecast is about ¥25.0 billion. That should translate into about ¥50.0 billion per year. But according to information you have provided previously, my impression was that Sage sales should be closer to ¥55.0 billion per annum. Where does the difference come from? Is it due to intercompany elimination, with some Lamous sales now internal to the group?

Shibata: Shibata speaking again. With regard to Sage, as you say, the difference is due to intercompany elimination.

Regarding automotive-related business, we do not manage all of that as a unified business segment, so it is difficult to provide an all-encompassing answer to your question, given that we serve the automotive industry in many ways, across Fibers, engineering plastics, synthetic rubber, and Electronics. As I mentioned earlier, Lamous shipments for automotive use have been very strong, with most of the growth coming from use for automotive interiors.

Kuwaba: Kuwaba for performance polymers. Let me add a comment on engineering plastics and synthetic rubber. According to auto-sales statistics, there appears to have been a slow-down in September. Especially in China, automobile sales volume was down 11% from a year ago. In fact, sales in China has been down year-on-year for three months in a row, with July down by 3%, August down by 3%, and September down by 11%. We are therefore, carefully watching developments in the Chinese market, including whether all this is due to the recent escalation in trade friction with the US.

Actually, our sales of engineering plastics and synthetic rubber in China have somewhat slowed down recently.

Mr. Umebayashi: Thank you very much.

Hamamoto: This brings us to the end of today's briefing. Thank you very much for joining us.