Transcript of Financial Results Conference for Q3 Fiscal 2018, held on February 7, 2019

Asahi Kasei Corporation

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Presentation

MC: Good afternoon ladies and gentlemen, thank you for joining us in the conference call of Asahi Kasei Corporation despite your busy schedule. We will first have Yutaka Shibata, CFO, give the overview of the fiscal 2018 Q3 financial results and then take questions.

In addition to Yutaka Shibata, this conference call is attended by: Yozo Sato, from Corporate Accounting & Control; Toshiyasu Horie, from Petrochemicals Strategic Business Unit, or SBU; Yukifumi Kuwaba, from Performance Polymers SBU; Eiji Ishikawa, from Separators SBU; Izumi Kawata, from Asahi Kasei Microdevices Corp.; Kensuke Sakai, from Asahi Kasei Homes Corp.; Hiroki Ideguchi, from Asahi Kasei Pharma Corp.; and Futoshi Hamamoto, from Investor Relations.

Without further ado, briefing on Q3 financial results.

Shibata: Good afternoon, this is Yutaka Shibata. I will give the overview along the presentation material entitled fiscal 2018 Q3 financial results. Details of each business will be provided later in response to your questions during the Q&A session.

P. 3 Focus of Q3 2018 results and fiscal 2018 forecast

Please turn to page 3. These are the highlights of the results for FY 2018 Q3 from April to December and the full-year forecast. As shown there, starting around December 2018, market prices fell rapidly centering on petrochemicals in Chemicals of the Material segment, particularly the price of acrylonitrile, or AN. Still on a nine-month basis between April and December, net sales and operating income increased year-on-year.

Full-year forecast has been revised downward from the forecast announced in November in light of the drop in market prices affecting petrochemicals, but given firm performance in Homes and Health Care segments in line with the plan, we expect a year-on-year growth in net sales and

operating income on a consolidated group-wide basis.

P. 4 Outline of Q3 2018 results

Page 4, the top half describes the results for the first nine month, April through December. Net sales, operating income, and ordinary income achieved highest-ever results. Net income attributable to owners of the parent was the second highest ever.

In the Material segment, Chemicals saw AN perform particularly firmly during the first half of the year, while in Fibers, nonwovens such as Lamous microfiber suede and Bemliese continuous-filament cellulose nonwoven were firm. In Electronics, shipments of Lithium-ion battery, or LIB, separator grew, resulting in a year-on-year increase in profit.

In the Health Care segment, a year-on-year growth in profit was recorded in Critical Care driven by an increase in shipments of defibrillators for professional use, and also in medical devices which saw a growth in shipments of bioprocess products.

Net income attributable to owners of the parent was lower year-on-year, due to lower gain on the sale of investment securities and a one-time positive effect of the US tax reform in FY 2017.

Excluding those special factors, results were equally firm year-on-year.

The bottom half of the page describes the results for the three-month period from October to December, during which lower profit was posted on higher sales. The big factor was the rapid decline of market prices that affected the Material segment as mentioned earlier. The Homes segment and the Health Care segment performed in line with the forecast in November.

Petrochemicals in the Material segment felt the serious impact of the market price decline of AN, which led to deteriorated terms of trade. Shipments decreased as well. Mainly, underlying factor for the sharp decline in the AN market price was abrupt production adjustments on the part of ABS resin and acrylic fiber manufacturers, the two main application areas for AN. That was the main reason for the profit decline in the Material segment.

While automotive and smartphone related markets are beginning to feel the impact of changes in the world economy, particularly slowing down of the Chinese economy, the size of the effect was limited compared to the petrochemicals centering on AN.

The Homes and the Health Care segments also posted lower profit year-on-year. But both results were in line with the November forecast, so you can regard them to have performed as expected.

P. 5 Outline of fiscal year 2018 forecast

Please turn to page 5, the outline of FY 2018 forecast. We have revised the forecast for the Material segment, the specific figures of which will be shown later. Accordingly, consolidated operating income forecast for the entire group has been revised downward from ¥210 billion to ¥201 billion.

Main factor again is the decline in the AN market price, which fell sharply particularly from December 2018 to January 2019. But more recently, with recovery trend reported in the plant operating rates of ABS resin and acrylic fiber manufacturers, we expect the AN market price to follow a gradual recovery trend. Still we will keep a close eye on the development.

The forecast also partly reflects a hint of slowdown or uncertainty in areas related to the automotive market particularly in China.

We have not changed the forecast for the Homes segment and the Health Care segment from the November forecast as their current performance is in line with the plan.

Another revision made is on corporate expenses and eliminations, which are now projected to be higher than in the November forecast as R&D expenses and others are now expected to be slightly higher. But on a full-year basis, we project the FY 2018 operating income and net income to be higher than both the target set in the medium-term management initiative “Cs for tomorrow 2018” and the initial forecast announced in May.

The last paragraph on page 5 is on shareholder returns. Our basic policy remains unchanged in that year-end dividends will be based on the consolidated net income results, in consideration of total return target of 35% as set forth in the mid-term management initiative.

P. 8 Summary of financial results

Please now turn to slide 8, which shows the summary of financial results.

Net sales for the nine-month period came to ¥1,586.7 billion, operating income ¥156.7 billion, ordinary income ¥165.3 billion, and net income attributable to owners of the parent ¥115.4 billion.

For the October–December period, net sales increased but other income figures came down year-on-year.

P. 9 Statements of income

Slide 9 shows a summary statement of income.

Net sales is as discussed earlier. The gross profit margin is almost unchanged year-on-year, but there has been an impact of market prices falling in December and the resulting decline in terms of trade for Chemicals.

SG&A increased due to increased headcount to reinforce sales activity and for the relocation of the headquarters.

Operating income margin was almost unchanged at 9.9%.

With regard to extraordinary items, gain on sale of investment securities from the unloading of strategic holdings was smaller compared with a year ago.

The year-on-year difference in net income reflects the lower-than-usual tax expenses last year due to the US tax reform. There is no such one-time effect this year.

P. 11 Balance sheets

Let us now turn to slide 11, which shows the balance sheets. Let me point out a few salient points here.

Total assets at the end of December came to ¥2,597 billion, up ¥289.9 billion from the end of March. ¥134.3 billion comes from the acquisition of Sage Automotive Interiors, Inc., which was completed on September 27, 2018.

Inventory increased during the period, in particular for Homes, ahead of deliveries scheduled by the end of March. Property, plant and equipment also increased as a result of active capital investments.

Interest-bearing debt increased in relation to the acquisition of Sage and the increase in inventories. As a result, the debt-to-equity ratio rose by 0.15 points to 0.38.

P. 12 Cash flows

Slide 12 shows cash flows. Cash flow from operating activities was a net inflow of ¥102.4 billion. This is less about ¥50 billion from the same period last year despite pre-tax income of ¥164.3 billion, due to the increase in inventory and income taxes.

Cash flow from investment activities was a net outflow of ¥163.8 billion. Cash outflow increased due to acquisition of shares in the amount of about ¥90 billion, mostly in relation to the Sage deal, and due to increased capex.

The resulting difference in free cash flows is matched by borrowings, and interest-bearing debt increased.

Further details by segment and business category are provided starting from slide 13. I will not discuss each of them now but will be happy to answer questions later.

P. 27 Consolidated operating performance forecast

Let us now jump to slide 27 and discuss the full-year forecast.

Slide 27 shows the latest forecast. This time, we have revised the net sales forecast to ¥2,171 billion, down ¥39 billion from the previous ¥2,210 billion announced in November. Operating income is also downward revised from ¥210 billion to ¥201 billion. Ordinary income is downward revised from ¥222 billion to ¥209 billion. Net income attributable to owners of the parent is downward revised from ¥160 billion to ¥145 billion.

P. 28 Sales and operating income forecast by segment

Please turn to slide 28 for more details.

The revision for the sales forecast comes from the Material segment. The forecast for other

segments, Homes and Health Care, are maintained, as they are in line with expectation.

With regard to operating income, the downward revision of ¥9 billion includes ¥7 billion from Materials and ¥2 billion from corporate expenses and eliminations.

Going back to slide 27. With regard to dividend and the payout ratio, our position remains unchanged. Once we have full-year results, we will decide accordingly.

This concludes my presentation. Thank you very much.

Question and Answer Session

MC: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. Can you give us an update on chemicals market? You did describe the AN market price but what's the current situation in terms of both supply and demand? I think the market price is bottoming out, can you comment on that? Can you also give us an update on performance polymers, and performance materials and consumables?

Horie: This is Horie from the Petrochemicals SBU to answer the first part of your question on AN. From October to December, there was fair amount of operation adjustments on the part of ABS resin manufacturers. In addition, there was a decline in the rate of operation of acrylic fiber manufacturers in Asia. Overall, AN demand in Asia dropped by over 10% during this period by rough estimate.

Additional factor was that, against the backdrop of the depreciation of the Turkish lira, the world's largest acrylic fiber manufacturer in that country in Turkey significantly reduced production, leading to the influx of surplus AN in Europe into the Asian market.

So during this three-month period, there was a sudden downturn in AN demand and market prices. But since January, the operating rate of Asian ABS and acrylic fiber manufactures has returned to the July–September level. But given that this was right before the Chinese New Year holidays, we need to keep a close eye on the development going forward to see whether the recovery sticks.

Mr. Watabe: Is the Turkish acrylic fiber manufacturer maintaining the reduced production? And can you also comment on the market prices of AN and propylene for Q3 and Q4?

Horie: As the Turkish lira remains weak, the reduced production continues. But we are told that that level of reduction has been moderated somewhat.

As for the AN market price and the price spread with propylene, the average AN market price in the October–December quarter was $2,050 per ton, and a price spread with propylene of around $1,040 per ton was secured for this period. For the January–March quarter, the AN market price is assumed to be $1,385 per ton, and we are projecting the price spread to be $385 per ton.

Kuwaba: This is Kuwaba from the Performance Polymers SBU. I will briefly explain the situation of performance polymers for Q3, the October–December quarter. Synthetic rubber and engineering plastics both posted higher profit compared to the same period previous year. However, shipments did not grow year-on-year. Shipment growth was somewhat sluggish, especially as sales of automobiles in China were decreasing, and electrical and electronic components moved sluggishly.

The reason for the higher profit was the improved terms of trade, as engineering plastics saw price hikes while feedstock costs became stable.

Hamamoto: Hamamoto of Investor Relations to comment on performance materials and consumables. Situation for performance materials and consumables was almost the same as for the April–September nine-month period and the October–December three-month period. Overall sales were firm. But shipments of electronic materials for smartphone-related applications were down year-on-year. Consumables sales were also firm, but did feel the impact of higher cost including fuel and raw materials.

Currently, there is an impact of Chinese New Year holidays and downturn in the Chinese

economy, and electronic materials for smartphones and others are expected to be sluggish. Saran Wrap cling film expects a usual quarter-on-quarter decline in shipments following a peak demand in Q3 for seasonality. Overall, we expect a quarter-on-quarter decline in profit for performance materials and consumables.

Mr. Yamada: Yamada from Mizuho Securities. In Chemicals, you are estimating the AN-propylene price spread for January–March quarter to be $385 per ton, which indicates that propylene price is projected to be around $1,000 per ton, the same level as in Q3. In the meantime you are assuming that domestic naphtha price will fall to ¥41,000/kL. Does that make sense? There seems to be a mismatch. What do you think?

Also, I wonder if there are special factors in Chemicals that we should be mindful of Q3 and Q4 such as inventory valuation loss by the gross average method.

Horie: Horie from the Petrochemicals SBU. As for your first question, about the propylene price, as you have correctly pointed out, the assumed price in January–March have not changed from actual price in October to December at around $1,000 per ton. This is somewhat related to the timing of making this projection. Perhaps projected price is slightly overpriced.

Secondly, as you have correctly guessed, feedstock prices are on a plummeting trend in January–March period, resulting in a sizeable inventory valuation loss by the gross average method, in the order of billions of yen.

Mr. Yamada: I see, thank you. My second question is on Electronics. From Q3 to Q4, you are projecting sales to decline by ¥3.3 billion, and operating income to decline by ¥3.2 billion, a big drop quarter-on-quarter. Is this because you are expecting a significant drop in the unit prices, or is it major deterioration in the product mix is expected, or is it that there are some special costs anticipated in Q4?

In addition, can you give us an update on electronic devices for smartphone applications? Also an update on separators if there has been any major change which I doubt.

Kawata: Kawata from Asahi Kasei Microdevices. First I would like to explain about the electronic devices. From Q3 to Q4, we are feeling a significant impact of the slowdown in the Chinese economy. There also is an impact of the Chinese New Year holidays. For these reasons we are projecting lower sales and profit.

You also asked about the electronic devices for smartphone applications. Now please bear in mind that our customers and target applications are different for electronic devices and separators, and therefore the situations aren't necessarily the same. For electronic devices, sales during H1 were sluggish and lower than in the previous year. But as we moved into H2, adoption of our products by the customers increased and shipments are recovering. Thus we expect that the results for electronic devices in H2 to be more or less in line with the forecast announced in November.

Ishikawa: Ishikawa from the Separators SBU. From Q3 to Q4, a decrease in sales volume of consumer electronics applications due to seasonal factors was a big factor as always, resulting in lower sales and profit. In addition, a number of newly added facilities began to operate, and related fixed costs and others are rather concentrated in Q4. So Separators expect a decline in revenue and profit from Q3 to Q4.

Mr. Yamada: Now you are projecting the sales and profit to decline by about the same amount between Q3 and Q4. Would that be because of increased fixed costs for separators, or significant deterioration of the product mix, or simply a drop in the unit price? Which is it?

Ishikawa: There were impacts of lower sales volume, changes in the product mix, and fixed cost increases, and others.

Mr. Yamada: I see, thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is on your AN production volume. Can I first ask whether you reduced and are reducing production in Q3 and Q4?

Horie: Horie of Petrochemicals SBU. Regarding the operation of AN, as we always say, we decide on the operating rate of our plants according to the market demand. With respect to the October–December quarter, the operating rate was a little lower, at around 80%. Production volume was lower than during the July–September period. For January–March, we will decide on the operation while watching how far the demand will recover after the Chinese New Year holidays. So we will be operating the plants between 80 and 85% while watching the demand.

Mr. Umebayashi: I see. So, in January, the operating rate was still around 80%, but if things look good after the Chinese New Year holidays, you will raise it to say about 90%. Would that be a fair description?

Horie: Yes.

Mr. Umebayashi: I see, thank you. The second question is about the downward revision of FY 2018 full-year forecast. Ordinary income has been revised downward by ¥13 billion, and net income by ¥15 billion. So the amount of revision is bigger for net income than for up to ordinary profit. Page 35 suggests that in Q3, impairment loss of about ¥3 billion was recorded as part of extraordinary loss. Can you describe what was involved there?

Sato: Sato from Corporate Accounting & Control. Changes in the extraordinary income and loss was mainly attributable to the downward revision on the gain on sales of investment securities.

Mr. Umebayashi: I see. What about the ¥3 billion or so impairment in Q3? What constituted that?

Sato: It's coming from the decision to dispose of some facilities in the Material segment with a view to raising the production efficiency.

Mr. Umebayashi: I see. On a related note, the net equity in earnings of affiliates for Q3 was slightly down year-on-year, and I take it that you are expecting further decline in Q4. Am I correct to assume that that is also directly affecting the net income?

Sato: Yes, you can say that.

Mr. Umebayashi: I see. That's all, thank you.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. My first question is on Homes. Page 36 shows order trends. The value of new orders in Q3 was down 2% year-on-year. I do realize that last year's level was rather high, but I wonder if there are any changes taking place in factors surrounding new orders. I've also noticed that the order forecast for H2 remains unchanged from the previous forecast. Are you confident of the recovery in Q4?

Sakai: Sakai from Asahi Kasei Homes. As you've correctly observed, value of new orders for Q3 was down year-on-year as the record-high level was achieved last year, so the basis of comparison was challenging to begin with. Still, this year's level was the second highest in fifteen years. In fact, value of new orders for the single month of December was the highest ever. As the orders are trending upward, we kept the forecast unchanged with an aspiration to set a new record in the January–March period.

Mr. Takeuchi: In that sense, would it be fair to say that leading indicators such as the number of visitors to model houses are not too bad?

Sakai: Yes, you can say that.

Mr. Takeuchi: In Homes, according to page 17 of the presentation material that shows year-on-year comparison of the October–December results, operating costs and others was negative ¥2.5 billion. Can you give us the background, and whether you expect the negatives associated with operating costs to increase further?

Sakai: This was basically due to the increase in fixed costs in order-built homes and the decrease in profit in pre-built homes in Real Estate following decreased sales.

Mr. Takeuchi: So do I understand correctly that it's not that there was a big increase in such costs as building materials or labor in Q3?

Sakai: That's correct. No big increase in Q3?

Mr. Takeuchi: My next question is on Critical Care. According to slides 33 and 34, and looking at quarter-on-quarter differences, Critical Care sales increased from Q2 to Q3, while profit was slightly down. But from Q3 to Q4 you expect sales to decline while operating income is to increase. Is this due to the timing of costs being incurred?

Shibata: Shibata speaking. Actually, sales mix is also a factor.

Mr. Takeuchi: Is it correct to understand that the underlying trend of growth remains unchanged for both the LifeVest wearable defibrillator and defibrillators for professional use?

Shibata: Basically unchanged. Defibrillators for professional use continue to be very strong, and still drives growth of Critical Care. Regarding LifeVest, as we have said previously, now that the scale of business is much larger, the growth is milder.

Mr. Takeuchi: Thank you very much.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan Inc. Can I begin with a clarification question? In the earlier discussion on operating income for Chemicals, were you talking about the difference between Q3 this year and last year, or were you comparing Q3 against Q2?

Hamamoto: Hamamoto from Investor Relations. That was year-on-year comparison for Q3. I did also refer to the nine-month period with regard to performance materials and consumables, but what I said then applies to Q3, too.

Mr. Ikeda: Between Q2 and Q3, operating income of Chemicals decreased by about ¥3.5 billion. While part of this would be seasonality related to performance materials and consumables, was there actually a significant decline in petrochemicals? Can you tell us more about how each of the three businesses performed, so that I can get a sense of relative contributions?

Hamamoto: Hamamoto from Investor Relations again. The operating income decline comes from petrochemicals. Both performance polymers and performance materials and consumables were up.

Horie: Horie for petrochemicals. With regard to the operating income decline of petrochemicals from Q2 to Q3, while the AN spread did not change much, there was a large decline in shipments during the October-to-December quarter due to change in demand.

Mr. Ikeda: Thank you. One more point there. The recovery in market prices for AN appear to be rather slow, despite AN users ramping up capacity utilization from around January. Is that because the market expects supply-demand balance to loosen, due to capacity expansion at your competition in China? What is your expectation for supply and demand in Asia?

Horie: As you pointed out, a Chinese AN supplier is expected to bring additional capacity of 260 thousand tons per annum online sometime in 2019. The exact timing is still unclear, though. On the demand side, while capacity utilization was rather high in January ahead of the Chinese New Year, it is difficult to tell what happens once that is over. Many AN users are taking a wait-and-see approach, so there is no clear sense of direction. Our current view is that market prices will recover gradually during the quarter.

Mr. Ikeda: Thank you. My next question is a similar one, this time about Electronics. Operating income growth for Electronics from Q2 to Q3 was somewhat sluggish. At the earnings briefing for Q2 results, you explained that while new capacity came online for wet-process LIB separators, contribution was limited due to the timing. In Q3, however, I expect that additional capacity to have contributed in full. How did the two businesses, separators and electronic devices, perform in Q3 compared to Q2, and how much did Q3 separator shipments grow year-on-year?

Kawata: Kawata from Asahi Kasei Microdevices. With regard to electronic devices, between Q2 and Q3, adoption of camera module devices for smartphones increased. However, as I mentioned earlier, there were effects of the slowdown of the Chinese economy and a difference in sales mix. As a result, sales increased but operating income was flat.

Ishikawa: Ishikawa from Separators SBU. Separator sales were almost flat, but operating income increased. Separators for lead-acid batteries were affected by the slowdown in the automotive market, particularly in China. On the other hand, there was considerable increase in shipments of the LIB separator, thanks to new capacity coming online.

Mr. Ikeda: How much did LIB separator shipments grow in Q3? Over 20% year-on-year?

Ishikawa: Yes, roughly that much.

Mr. Ikeda: Thank you very much.

Mr. Okazaki: Okazaki from Nomura Securities. First on Chemicals. You have downward revised the full-year operating income forecast by ¥6 billion. The reasons given are the fall in naphtha price causing valuation loss, and AN. But on the other hand, profitability may be improving for polyolefins, for example. Can you provide a more detailed breakdown of the ¥6 billion, and, if possible, some numbers, please?

Horie: Horie for petrochemicals. The decline in terms of trade for AN, especially during the January–March period, is a major negative factor. Also significant is the inventory valuation loss by the gross average method, caused by the drastic fall in naphtha price.

On the other hand, polyethylene and polystyrene operations are upward revised, as terms of trade are improving thanks to lower feedstock costs. This offset some of the negative factors. All taken into account, the downward revision is by ¥6 billion.

Mr. Okazaki: The latest AN spread assumption for the revised H2 forecast must be narrower by about $100 per ton than the assumption you had in November. Can I assume that the downward revision this time roughly corresponds to the impact from that difference?

Horie: With regard to the narrower spread, you are correct. But as I mentioned earlier, there is also the effect of shipments.

Mr. Okazaki: Can we take it that you have not revised the forecast for performance polymers or for performance materials and consumables?

Kuwaba: Kuwaba from performance polymers. For performance polymers, we have downward revised the operating income forecast for H2 from what we announced in November. This applies to

both synthetic rubber and engineering plastics. The main reason is that shipments are falling short of what we expected, due to slower automotive-related demand, mainly in China.

Hamamoto: Hamamoto from Investor Relations. Let me comment on performance materials and consumables. We have not downward revised the forecast for this business. Some products are certainly affected by the Chinese economic slowdown, but others in the sales mix, such as ion-exchange membranes, are making up for that.

Mr. Okazaki: Thank you. Now, regarding shareholder returns, can we take it that you still regard a total return ratio of 35% as the target level and that you are considering various options, including share buybacks?

Shibata: Shibata speaking. Yes, that remains unchanged.

Mr. Okazaki: Thank you very much.

Mr. Miyamoto: Miyamoto from UBS Securities Japan. First on Electronics. You have downward revised the full-year forecast by ¥5 billion in sales and by ¥1 billion in operating income. Can you provide a breakdown of this between electronic devices and separators, with some details, if possible?

Kawata: Kawata from Asahi Kasei Microdevices. Electronic devices have been affected by the slowdown of the Chinese economy, and we have downward revised the forecast for both sales and operating income for H2.

Ishikawa: Ishikawa for separators. For H2, we had rather ambitious expectations for dry-process LIB separator growth, but we may fall short of that. In addition, as we mentioned earlier, shipments of lead-acid battery separators may also fall short of plan, due to the slowdown in the automotive market, especially in China. We have therefore downward revised the forecast for both sales and operating income.

Mr. Miyamoto: Which business had a larger impact on the downward revision this time, electronic devices or separators? Can you respond for sales and operating income, respectively, please?

Kawata: Kawata from Asahi Kasei Microdevices. The impact was similar, on both counts.

Mr. Miyamoto: Thank you. With regard to separators, you mentioned dry-process separator growth falling short of plan. Why did that happen? I understand that last year, fire broke out in South Korea from energy storage systems, and that raised some concerns. Are you affected by that, and is this the reason for the shortfall?

Ishikawa: Ishikawa for separators. Q3 sales were not affected, but we are closely monitoring the situation.

Mr. Miyamoto: Thank you. My second question is on Chemicals. You have already explained the difference between Q3 to Q4 for performance materials and consumables. Can you also tell us more about petrochemicals and performance polymers, please?

Horie: Horie for petrochemicals. First of all, as we mentioned earlier, there is a decline in terms of trade for AN. And the large decline in feedstock costs in Q4 is to result in inventory valuation loss by the gross average method. As a result, we expect Q4 to be down considerably compared with Q3.

Kuwaba: Kuwaba for performance polymers. Between Q3 and Q4, we expect both sales and operating income to be flat. Operating income for synthetic rubber will be down due to maintenance turnarounds, but engineering plastics will be up.

Mr. Miyamoto: With regard to petrochemicals, what about terms of trade for products other than AN?

Horie: Horie for petrochemicals. With regard to terms of trade other than for AN, the situation is mixed. For polyethylene, we are factoring in sales prices falling in line with lower naphtha prices, which reduces margin. On the other hand, for polystyrene, due to industry practice of formula pricing, changes in feedstock costs are reflected with a delay of about a quarter. As you know, market prices of benzene have been coming down, so Q4 will benefit from that. All combined, Q4 will be slightly up from Q3.

Mr. Miyamoto: Which had a larger impact on the operating income decline from Q3 to Q4, AN or the inventory valuation loss?

Horie: AN has a larger impact.

Mr. Miyamoto: Thank you very much.

Mr. Umeda: Umeda from JP Morgan Securities Japan. I have a question about the value of new orders for order-built homes. You said it will improve in the January–March quarter. Can you explain more about the order outlook? Timing-wise, there would be some rush demand ahead of the consumption tax hike. How much order growth can we expect in FY 2018, and in H1 and H2 of FY 2019, respectively?

Sakai: Sakai from Asahi Kasei Homes. We are still working on FY 2019 figures, so at this point in time we do not have anything that we can share. For Q4 FY 2018, the order environment is good. Visitor flow to model houses and showrooms has been strong. December 2018 was the best December ever with respect to value of orders received. We intend to focus our marketing message around the outstanding performance of our homes, in particular disaster resistance, and stimulate rebuilding demand through advertisements and promotion so as to win more orders.

Mr. Umeda: Is that strong visitor flow the beginning of the rush demand ahead of the consumption tax hike? Or is it something unique to Asahi Kasei, perhaps as a result of your efforts?

Sakai: We think it is partly due to the calendar effect. We do not regard it as the rush demand already kicking in. However, as I said earlier, we will be implementing measures, such as promotional campaigns, so as to increase the visitor flow.

Mr. Umeda: Thank you very much.

MC: With that, we would like to close today's briefing. Thank you very much for joining us.