

AGC Inc. Minutes of Briefings on Operating Results for FY2018

Corporate Communications & Investor Relations Div.

[Overall company]

Q1

Regarding the operating profit differential between the first half and the second half of FY2019, I believe AGC's operating profit is normally weighed toward the second half, and do you expect the difference to be larger in FY2019 than in a normal year?

A1

- Although it differs from year to year, operating profit in the second half tends to be higher than that in the first half by approximately 15.0 billion yen, due to characteristics of our businesses.

- Various large facilities are scheduled to start up in the first half of FY2019, but they will not reach full-scale operation and will require large expenses in the first half. However, those facilities will be put into full operation and contribute to profits from the second half. Considering this, we have projected operating profit of 50.0 billion yen for the first half and 75.0 billion yen for the second half.

- In the second half of FY2018, there were special factors, such as a rise in natural gas prices in Europe and inventory disposals of specialty glass for display applications. Excluding those factors, we could expect to achieve an operating profit of around 70.0 billion yen. With the addition of 5.0 billion yen to that level, we have projected an operating profit forecast of 75.0 billion yen for the second half of FY2019.

Q2

AGC has various new facilities starting up in the first half of FY2019. How much of an increase in costs do you expect from the new facilities?

A2

The new facilities, notably, G11 facilities and a power generating plant in Indonesia, will be responsible for a considerable portion of the increase in depreciation expenses of 18.3 billion yen in FY2019 over the previous year.

[Strategic business]

Q3

Regarding progress in the expansion of strategic businesses, you said that the strategic business contribution ratio to operating profit in FY2018 was 17%. Isn't that greater-than-expected progress? It seems your projection for the strategic business contribution ratio in FY2019 and FY2020 is conservative.

A3

- The strategic business contribution ratio in FY2018 was roughly in line with our expectations. By area, the contribution ratio in the semiconductor-related components business was slightly higher than expected and that in the optoelectronics business was slightly lower than expected, while the contribution ratio in the life science business was in line with our expectations.
- The strategic business contribution ratio to operating profit in FY2019 and FY2020 will depend on how successful our new products are. For instance, Park Electrochemical Corp. (the electronics division), which we acquired in FY2018, has interesting 5G-related technologies. By developing such technologies and products to contribute to operating profit, we may be able to accelerate the growth of the strategic business contribution ratio.
- We will look towards the possibility of additional M&As with the target of achieving a strategic business contribution ratio to operating profit of 40% in FY2025.

Q4

AGC has set a sales target for next-generation high-speed communication-related products of 60.0 billion yen for FY2025. What is the timeline for growth? What is the growth potential of on-glass antennas?

A4

- We expect that sales of CCL materials will grow rapidly with the development of 5G networks.
- Sales of on-glass antennas are not included in the sales target for next-generation high-speed communication related products of 60.0 billion yen. There is no telling when 5G networks will become widely available. Therefore, we cannot possibly make a sales projection for on-glass antennas, although it is an interesting business.

Q5

I think on-glass antennas have growth potential in applications for self-driving cars, don't

they?

A5

We believe so. Last year, we issued a press release on our success with 5G communications glass-mounted antennas on vehicles moving at a high speed. We will promote adoption of car-mounted antennas on vehicles. In addition, we are placing expectations on on-glass antennas serving as base stations. On-glass antennas have the potential to become a big business, but we can only say at this time that it is a possibility.

Q6

Do you find that fluorine products will have applications in 5G networks?

A6

Exactly. That is one of the purposes of acquiring the electronics business of Park Electrochemical Corp. (the electronics division).

[Glass]

Q7

Regarding the operating profit margin of the glass business, you explained the profitability decline at the earnings results briefing for 3Q. What is the current situation?

A7

- The productivity of the automotive glass business in Europe has declined since FY2017, but it will start improving in full-scale from FY2020 when the new automotive glass plant starts up in Morocco.
- Orders for automotive glass are strong in Japan, but productivity decreased. We are getting out of that bottleneck, and we expect that productivity will start increasing after bottoming out in the first half of FY2019.

Q8

What is the outlook for automotive glass in the European and Chinese markets?

A8

- Japan's market will remain firm.
- China's market has begun to slow, but Japanese car manufacturers, which are our main customers, are doing relatively well in the market.
- Although North American market conditions are not weak, changes in vehicle sales mix are acting as a headwind for AGC.

- The Western European market has remained rather weak since the implementation of new emission and fuel consumption standards.

[Electronics]

Q9

According to your forecast for FY2019, operating profit in the Electronics Segment is expected to decrease 1.0 billion yen from FY2018. Is this mainly because of the transfer of the car-mounted display for cover glass business from the Electronics Segment to the Glass Segment?

A9

- The car-mounted display for cover glass business is one of the businesses we expect to grow, although its profit contribution is still limited. Therefore, the impact of the transfer of this business is small.

- Depreciation cost will increase by the start-up of the G11 LCD glass substrates plant. The electronic materials business is a growing business, but not yet to fully offset this depreciation cost, resulting in a decrease in operating profit.

Q10

Regarding the outlook for shipment volumes of LCD glass substrates for FY2019, the market is forecasted to grow at a mid-single digit percentage and AGC expects to grow more rapidly than the market. So, can I assume that AGC's shipment volumes will grow by a high single digit percentage?

A10

We forecast the market will grow by 3-4%. Our business is expected to grow at a slightly higher rate than the market, due to contributions from our new G11 facilities in China.

Q11

Are you planning to build new facilities for LCD glass substrates in the near future?

A11

We cannot give a specific answer, but we expect that most of the new facilities for large-size panels built by customers will be in China, and we will properly consider the feasibility before investing.

Q12

As for the LCD glass substrate business, while AGC will start up G11 facilities in the LCD glass substrate business, panel manufacturers, centering on Taiwanese manufacturers, have

started adjusting inventories according to available information. Have you factored in the impacts of inventory adjustments on the operating forecast for FY2019?

A12

We hear that some customers will adjust their inventories. However, our business is going strong at present, and we are not considering reducing capacity utilization.

Q13

Do you expect any impact on the electronics material business from the smartphone market entering an inventory adjustment phase?

A13

Shipment volumes in the electronics material business are being affected by the inventory adjustment phase, and we do not expect a large increase in future shipments, either. With the increase in the number of cameras on smartphones and the expected shift toward high-end models, AGC, as a manufacturer of high-end, value-added items, has the potential to expand its business in the long term.

Q14

While semiconductor market conditions are weakening, how much impact will they have on AGC's electronics materials business and other businesses?

A14

Our semiconductor-related components center on high-end materials and consumable materials, such as EUV lithography photomask and CMP slurry, and shipments of those items have been affected little by the downturn in the market. I think the degree of impact on the semiconductor-related business differs depending on what products the company makes.

Q15

Can I assume that the marginal profit ratio of EUV mask blanks is as high as that of competitors?

A15

That's right. EUV mask blanks will deliver high profit margins, although the business requires facilities, such as inspection systems, that have a high depreciation costs.

Q16

What is the probability of achieving the EUV mask blanks sales target of 20.0 billion yen for FY2020? If sales of EUV mask blanks reach 20.0 billion yen, can I assume that they will account for a significant proportion of the operating profit target of 40.0 billion yen for strategic

businesses in FY2020?

A16

We are confident, to a certain degree, about achieving the target. The market share of our EUV mask blanks was below 50% in FY2018. However, we have negotiations for orders ongoing with customers, and we expect that the market share of the product will increase toward FY2020. With such an increase in market share, the sales composition of EUV mask blanks in strategic businesses will grow.

[Chemicals]

Q17

What is the outlook for the chlor-alkali market in FY2019?

A17

- We forecast that the market will remain firm overall in FY2019.
- Ethylene prices are currently on a slight upward trend, which we believe is temporary. Considering that there will be shipments of shale gas-derived ethylene from North America, we consider that our forecasted ethylene prices for FY2019 of USD900 are at an appropriate price level.
- Spot prices of caustic soda are currently on a downward trend. However, this is due to the temporary factor of BIS requirements in India, and we expect that the weak price trend will end soon.
- We expect that market conditions for vinyl chloride will be firm. This is because vinyl chloride is used mainly in infrastructure facilities and is not very sensitive to economic factors.

Q18

Can I assume that the profit margin of the life science business increases as sales grow?

A18

The key factor for the profitability of the business is the capacity utilization of tanks. The profit margin of the business increases with capacity utilization. We cannot expect the life science business to be transformed into a big business with an extremely high profit margin like the drug discovery business. However, the business has a high investment efficiency and its profitability is expected to increase to a satisfactory level.

Q19

What are the potential risks to the life science business?

A19

The greatest risk is intensification of competition. Many venture companies are springing up in the biopharmaceutical business, and AGC is growing its business rapidly by winning an increasing number of CMO service contracts from such biopharmaceutical start-ups. With the aim of tapping growing demand, other competitors are also making moves to enter the CMO service business. AGC will compete with those newcomers by further enhancing its strengths in delivering reliable products to customers with short delivery times. Meanwhile, we have no concerns about the growth potential of the market.

Q20

You project a significant profit growth in the Chemicals Segment in FY2020. What is the breakdown? Is the high growth attributable to the life science business?

A20

The life science business will be the biggest growth engine. We are making large capital investments in the biopharmaceutical business, as well as the synthetic pharmaceutical and agrochemical business, so we can expect high profit growth in these businesses. Meanwhile, we are receiving strong orders for fluorine products, and we can expect an increase in profit by shifting to high-end products. On the other hand, facility expansion for chlor-alkali is not expected to generate positive impacts until after FY2021, so this business is unlikely to experience high profit growth until FY2020.

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