

Minutes of Briefings on Operating Results for FY2019

Corporate Communications & Investor Relations Div.

[Overall company]

Q

Please give us a breakdown of the factors behind the profit increase by segment in FY2020.

A

We can only give you a rough picture. As for the glass segment, operating profit is expected to increase in the automotive glass and level off or increase slightly in the architectural glass business.

As for the electronics segment, operating profit will certainly increase in the display business due to the start of full-capacity operation of G11 facility for TFT-LCD glass substrates.

As for the chemicals segment, we can expect an operating profit increase in the chlor-alkali business due to the elimination of loss costs incurred by damage from typhoons and facility problems last year. We also expect an operating profit increase in the life science business because the business is growing steadily.

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You have mentioned that operating profit will be close to 160 billion yen in FY2021 owing to the effects of capital investments implemented in the past three years. How is the growth of operating profit going?

A

We have made capital investments in each segment. We believe we can grow operating profit close to 160 billion yen by getting those investments off the ground on a full-scale basis in 2020-2021 in order to contribute to the Group's earnings. It is not that the operating profit target will be achieved through a contribution from growth in any single segment.

Meanwhile, the capacity expansion investment for fluorochemicals has the possibility of making the greatest contribution to the Group's earnings, and we are expecting the investment to start delivering results from 2021. Another investment with potential for profit contribution is the capital investment in EUV mask blanks. We are projecting a significant increase in shipment volumes of EUV mask blanks in 2021, and we have made capital investments to expand production capacity to accommodate the volume increase. Also, operating profit of the life science business will certainly increase.

With a boost from a tailwind in the market conditions for glass and chemicals, in addition to the above factors, it is not impossible for the Group to achieve an operating profit of 160 billion yen.

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Regarding page 11 of the reference material for the medium-term management plan, please tell us about the Company's view on the sale of strategic shareholdings.

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We have already sold strategic shareholdings worth about 100 billion yen. However, we still have strategic shareholdings outstanding worth 100 billion yen or more, which account for 10% or more of shareholders' equity. We will continue to sell strategic shareholdings, but the remaining shareholdings are those that are difficult to sell. It might take time to sell those shares, but we will continue with the sale of strategic shareholdings.

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AGC has not purchased treasury shares recently. Has there been any change to the Company's policy? As I recall, the Company purchased treasury shares in the past even after achieving a consolidated total return ratio of 50%.

A

We have not changed our shareholder return policy. We will flexibly consider purchasing treasury shares according to our profit situation and status of capital investment.

[Glass]

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What are the reasons for the glass segment posting an operating loss in 4Q of FY2019 and what are the prospects for the segment in FY2020?

A

Our greatest concern now is the glass business in Europe. Both 4Q shipment volumes and prices of architectural glass in Europe fell below our estimates. In addition, our performance with the automotive glass business in Europe is currently very weak. We will install new facility for high value added products, and improve productivity.

Meanwhile, depreciation costs for the current fiscal year will decrease by 3.0 billion yen per year due to the recognition of an impairment loss on fixed assets in North America last year. In addition, we expect a profit increase of approximately 3.0 billion yen due to the absence of maintenance and repair costs for automotive glass substrate furnaces recorded in Japan last year. Combining these, we expect that operating profit will improve by approximately 6.0 billion yen and increase year-on-year.

Q

Will you continue to adjust capacity utilization for the production of architectural glass in Europe in 2020?

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We will continue with the capacity utilization adjustment in 2020 given the current market conditions.

Q

Regarding the glass segment, do you expect an operating loss to remain in 1Q of FY2020?

A

The glass segment will not record an operating loss in 1Q of FY2020. Shipments of architectural glass in Europe will be weak because 1Q is the off-peak demand period. However, shipments were also weak in 4Q due to the impacts of the Christmas holidays, so we don't expect 1Q operating profit to be particularly weak on a QoQ basis. On the other hand, we expect the operating profit of the automotive glass business to increase YoY in 1Q, assuming that the business experiences peak demand in Japan in 1Q, that there are no temporary cost increase factors, such as problems with glass substrate production facilities that occurred last year, and that depreciation costs decrease due to the recognition of an impairment loss related to the automotive glass business in North America.

One thing we are concerned about is that the outbreak of coronavirus could adversely impact automobile supply chains. But for that factor, the glass segment will not record an operating loss in 1Q.

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Regarding operating profit in the glass segment for FY2020, you have projected an improvement of 7.7 billion yen compared to FY2019. I understand that you expect an operating profit improvement of 6.0 billion yen due to the absence of the maintenance and repair costs for glass furnaces in Japan that were incurred in FY2019 and the effects of recognizing an impairment loss in North America. Given that you expect such profit increase factors to fully translate into profit growth, can I assume that you are projecting earnings in the European operations to level off from the previous year?

A

The European operations are a cause for some concern. Regarding factors behind a profit improvement from the previous year, the cost increase caused by starting up of a new production facility for architectural glass in Asia last year has been almost eliminated. We are hoping that the profit improvement due to the cost reduction will offset a profit decrease in Europe.

There is a possibility that the coronavirus outbreak, if its effects appear, will have a negative impact on the Group's earnings. If production at automakers gets back on track smoothly after the Chinese New Year holidays, we do not need to worry about the impacts of coronavirus. However, if the impacts are prolonged, it will become a risk factor.

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What revenue improvement effects do you expect if business integration with Central Glass is realized?

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We cannot answer this question because it constitutes insider information. Faced with a shrinking market,

there are only limited things a single company can do. But, simply integrating business with Central Glass is not enough to produce positive effects, and is pointless. We are working out ways to bring benefits to both AGC and Central Glass.

Electronics

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Operating profit in the electronics segment decreased YoY from 3Q to 4Q of FY2019. I believe the factor behind this profit decrease is the fall in shipment volumes of materials for optoelectronics. What is your take on the outlook for 1Q of FY2020?

A

Shipments of electronic materials are normally weighted toward 3Q. Therefore, the operating profit of electronic materials declined QoQ in 4Q of FY2019 due to the usual seasonal factors.

Meanwhile, we expect robust shipments of electronic materials in 1Q of FY2020. We expect that shipment volumes of smartphones will increase significantly to exceed those of the same period of the previous year, taking into account factors such as the sales mix of product models at customers. In addition, we incurred a heavy burden of depreciation costs in 1Q of FY2019 due to the low capacity utilization of the new production facility for 11th generation LCD glass substrates following its start-up. However, this production facility is operating at full capacity in 1Q of FY2020. Considering these factors, we expect that 1Q operating profit in the electronics segment will increase YoY.

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Did sales of EUV mask blanks increase QoQ in FY2019?

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Yes, they did. EUV mask blanks sales grew QoQ in 2019, which is in line with our projections. Because our customer mix for EUV mask blanks is different from that of our competitors, our sales growth rate is different from that of our competitors. Even so, we believe that we are making steady progress toward increasing market share to 50%, as CEO Shimamura has explained.

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Regarding EUV mask blanks, the initial target for sales for FY2019 was 10.0 billion yen, but the actual sales results were 8.0-9.0 billion yen. Is my understanding correct? Do you project EUV mask blanks sales to be 15.0-20.0 billion yen in FY2020 and 20.0 billion yen or more in FY2021?

A

EUV mask blanks sales in FY2019 were roughly in line with your understanding. Although it depends on customers' circumstances, EUV mask blanks sales are estimated to be around ten and several billion yen

in FY2020, not double the sales level in FY2019. We believe we will be ready to aim at sales of 20.0 billion yen or more in FY2021.

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What are the reasons that lead you to expect a sales increase for EUV mask blanks in FY2021?

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It is because the shift to mass production at customers will progress. Once customers get into the mass production phase, they will increase multiple purchases, which we expect to lead to a volume increase.

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Some view that the volume of EUV mask blanks demanded will be fewer in the mass production phase than in the R&D phase. What is your take on this?

A

We don't think that is the case.

Q

Are you planning to make additional capital investments in the G11 facility for TFT-LCD glass substrates? Isn't there any possibility that such an additional investment will increase depreciation costs and cause operating profit to decline again in FY2020?

A

China is becoming the main market for TFT-LCD glass substrates. What is of particular importance is to establish our position with G11 TFT-LCD glass substrates. The prices of TFT-LCD glass substrates remained flat in 4Q, which is the first time since 2010 and is attributable to a growth in demand for G11 TFT-LCD panels. Therefore, we consider that we need to and will make additional investments in the G11 facility for TFT-LCD glass substrates.

As you pointed out, the start-up of a new production facility will be accompanied by a temporary cost increase. However, given that the depreciation period is short, we consider that the business will turn out to be profitable in the end.

Chemicals

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Do you expect prices of caustic soda to remain flat?

Please tell us about your outlook for caustic soda prices and PVC spread in 2020?

A

Our price estimate for caustic soda is around \$300/ton. Meanwhile, we expect that the market conditions for PVC and ethylene will remain unchanged. Demand for PVC is solid in Southeast Asia, driven by strong infrastructure investments in the region. As for ethylene market conditions, structural inflows of shale gas-derived ethylene and ethylene derivatives to Asia and Southeast Asia are weighing down the ethylene price.

Therefore, the PVC spread will be steady, and we can secure adequate profits.

Strategic businesses

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Regarding the operating profit of strategic businesses in 2020, you mentioned at the time of the 3Q earnings announcement last year that it will reach 40.0 billion yen depending on the circumstances. What circumstances are required for strategic businesses to achieve an operating profit of 40.0 billion yen?

A

We revised down the operating profit forecast of strategic businesses for FY2019 from 28.0 billion yen to 24.0 billion yen in 3Q, but the operating profit ended up at 26.5 billion yen. While sales of EUV mask blanks were weaker than expected, sales of materials for optoelectronics were stronger than expected, causing operating profit to overachieve the forecast made in 3Q. Our forecast for the operating profit of strategic businesses in FY2020 is 35.0 billion yen, but there is a possibility that it will reach 40.0 billion yen. In particular, with a shift to dual- to triple-camera smartphones, the operating profit of optoelectronics materials could grow further depending on how smartphone sales go. In addition, there is a possibility that the operating profit of EUV mask blanks also will exceed our forecast, depending on our customers' production increase schedules.

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Can I assume basically that the electronics segment has upside factors?

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That's right.

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