Minutes of Briefings on Operating Results for 3Q FY2022

Corporate Communications & Investor Relations Div.

[Overall company]

Q: Please explain your outlook for 2023 by business segment.

A: We are not in a position to explain the outlook for next year in detail at this point. Due to the unstable economic situation making it difficult to forecast the future, we ask that you wait until next February for more details. As I explained earlier, volumes of automotive glass are recovering from the bottom, and we think profitability will improve. Displays are at the bottom recently, and although the timing is difficult to read, once the adjustment is over, there is demand so we expect earnings to recover. We can say this with considerable visibility. Strategic businesses will also expand steadily next year. Other businesses are difficult to read because they are sensitive to the economy.

Q: What is your outlook for semiconductor-related products, including EUV, which is feared to be affected by the slowdown in demand for semiconductors. And also for the PVC market, which has undergone a significant adjustment?

A: We recognize that semiconductor industry as a whole is slowing down, but that high end is not so impacted. EUV mask blanks have been affected by customers' inventory adjustments, but CMP slurry and other products are doing well, so we are not too worried. EUV mask blanks are in an adjustment phase right now, but demand is strong, so we expect a significant increase from next year onward. PVC prices fell more than expected. We didn't expect the effects of the Chinese lockdown to last this long. But we don't think this will continue. We are concerned about how firm the global economy will remain, how the Chinese economy will recover, and the degree of economic growth. In addition, as we have been explaining, we are not concerned about a major drop in demand for PVC in Southeast Asia, because when the economy weakens there, infrastructure investment will be used to support the economy. For PVC, the focus is not so much on volume but rather on price movements. Yet it is difficult to forecast the future. We are not worried about the situation becoming any worse than it is now, but how much it will recover is hard to read at this point.

Q: Why did you revise your earnings forecast in the short term?

A: Originally, when earnings were announced at the beginning of the year, we estimated operating profit at ¥210 billion. We were projecting ¥95 billion in 1H and ¥115 billion in 2H. When 2Q earnings were announced, we had an overshoot in 1H at ¥115 billion but kept 2H unchanged at ¥115 billion, for ¥230 billion. At that time, there were no factors that could lead to a big drop in 2H, so we kept our forecast as is. In the end, 2H turned out much worse than we anticipated.

Q: Business sentiment is deteriorating rapidly. What are your thoughts on the need to reconsider future capital investment plans?

A: We do not feel the need to rethink the large amount of capital investment we are making in strategic and growth businesses, since these businesses will grow regardless of the overall business sentiment. We have already narrowed down our investment plans after careful scrutiny for core businesses, so we do not think it is necessary to reconsider them.

Q: While the level of cash and bank deposits is high, the amount of capital investment is decreasing. If you have surplus funds, shouldn't you being repurchasing our own shares?

A: Capital investment decreased for this year due to a slight delay in the progress of large projects, but capital investment that needs to be made will continue. Surplus funds may seem to be piling up, but as funds are being accumulated in companies that have a use for them, these funds will decrease as capital investment progresses. We will consider share buybacks flexibly in accordance with the shareholder return policy.

Q: The dividend payout ratio for this fiscal year is expected to exceed 50% due to the downward revision of the earnings forecast. What's the potential for a dividend cut?

A: Our shareholder return policy is to aim for a stable dividend payout ratio of about 40% and to flexibly implement share buybacks. At this level, we are not considering the possibility of a dividend cut.

Q: Why is net income attributable to owners of the parent company small compared to net income for the quarter?

A: Net income is divided into that attributable to parent company shareholders and attributable to noncontrolling interests. The chlor-alkali business in Southeast Asia is currently strong, and these companies are not wholly owned, but are operated through JV investments. The shareholding ratio is 70% in Thailand and over 50% in Indonesia with the portions attributable to non-controlling shareholders. Meanwhile, since most of the strategic businesses are wholly owned, we believe the proportion of profit attributable to parent company shareholders will increase as the ratio of strategic businesses increases.

Q: Could currency movements and geopolitical developments, including China, affect our plans related to capital investment and production sites? Also, is there any possibility of bringing cash held overseas back to Japan depending on exchange rate trends?

A: Geopolitical risks of course need to be considered. While we are not considering changing capital investment plans or production sites in the short term, we do need to consider hedging against geopolitical risks in the medium to long term. It is true that cash and bank deposits are located in various sites, but there are tax and use-of-funds issues associated with repatriation. These will be considered as we deal with the cash held overseas. At the moment, we are not thinking of a major repatriation of cash to Japan in line with exchange rate movements.

[Glass]

Q: What is the status of the glass business by region? In addition, is the rising cost of electricity increasing inquiries about Low-E glass and other high-margin products?

A : (As indicated by the weather mark on the slide) Brazil continues to do extremely well. Japan and Asia is not completely sunny, but it is getting much better than before. Prices are also rising, so we aren't overly worried. In terms of asset efficiency, we are generally approaching a passing grade, although some issues remain. In Europe, there is an urgent need to make buildings more energy efficient to reduce gas consumption. There is also strong demand for energy-efficient windows, and the renovation wave in the EU as a whole is a tailwind. Meanwhile, the economy has a bit unstable recently, and we are concerned about whether demand will continue. Energy surcharges are being added and glass prices are rising. In addition, the cost of building materials other than glass and construction costs are also quite high. Demand is strong, but costs are rising, and so we are worried about sustainability.

Q: The Q4 operating profit of glass is expected to improve by about ¥3 billion QoQ, but how do you view architectural and automotive glass?

A: Automotive glass accounts for almost all of it. A recovery in volume and the effects of price revisions are expected to come through.

Q: How will major input costs (energy costs) evolve in the future?

A: Gas and electricity have a major impact on input costs. With regard to European gas, a significant portion of the price of architectural glass is absorbed by the energy surcharge, but automotive glass suffers because a similar mechanism is not in place. Gas prices have temporarily dropped due to ample inventory buildup, but we are certain that they will remain high again after the winter is over, as inventory buildup will be required again. As for electricity, we believe it will remain high due to the use of gas to generate electricity. Part of the energy price increase will be offset by an energy surcharge on architectural glass. We believe that it is very important that electricity price increase is offset as a set with price revisions in automotive glass.

Q: With natural gas prices falling at the moment, will the cost of raw materials and fuel for architectural glass start improving from 4Q?

A: Although raw materials and fuel costs will fall, it is difficult to expect that this will lead to a significant improvement in profitability because sales in the European architectural glass market will drop during the Christmas season.

Q: What is the forecast for global car production this year and next? And what do you consider to be risks?

A: Automobile production has still not recovered, despite expectations that it would. We were originally told it would recover to pre-COVID levels by 2023, but now it is said that it will take until 2024. In the Asian region, the worst is over as the shortage of semiconductors has been resolved. We refer IHS data which shows 77.2 million units in 2021, 81.6 million units in 2022, and 85.9 million units in 2023, compared to nearly 90 million units before COVID. We are assuming that kind of trend.

Q: What is the range of price hikes for automotive glass you were able to achieve? Despite the price revision in the 3Q, the business remains in the red due to deteriorating market prices, but how should we factor in the impact of price revisions going forward?

A: We are already working on price revisions in a wide range of regions, and the range of revisions will become larger as we move into 2H. Also, as gas prices have skyrocketed, the current price revision level is insufficient, so additional price revisions are being implemented. That will take effect toward year-end, so we anticipate a certain impact. That said, the impact of the price revisions will not become apparent until next year. If the period being looked at is limited to this year, the revisions will not be enough to improve the profitability of the automotive glass business as a whole.

Q: What is the state of the businesses in Russia? Will you continue for the time being?

A: We stopped new investment immediately after the change in the situation this year. Due in part to the sanctions imposed by the EU and other countries, the Russian site is conducting businesses on a stand-alone basis. We currently are unable to bring people or cash in or out. We intend to continue to consider various possibilities depending on the situation and take appropriate actions.

[Electronics]

Q: Electronics' operating profit in 4Q is expected to remain roughly flat QoQ, but how do you view displays and electronic materials?

A: Sales of electronic materials remained strong in 2H. We expect the display business to remain challenging as customers continue to adjust their operating rates.

Q: Regarding display glass, competitors have commented that panel makers' operating rates bottomed out in September. How does AGC view the situation?

A: Our view on glass demand has not changed very much. We expect overall demand for display glass to increase slightly QoQ. As for AGC's shipments, we expect a slight decline QoQ due to the timing of customer operating rates, which is a bit different from the market. Our current view is that inventory adjustment will run its course from 2023 H1 and shipments will gradually recover, with a full recovery from 2023 H2.

Q: Please tell us about the growth rate of EUV mask blanks, cumulative for 9 months and for 3Q, both YoY and QoQ.

A: As explained in the previous results briefing, YoY sales are almost on even with last year due to inventory adjustments by our customers. We expect to see a recovery in the coming year and beyond and are looking for a fairly substantial increase in volume.

[Chemicals]

Q: At the 2Q briefing, CFO Miyaji said that we did not see a significant adjustment in PVC prices, but there has been a sharp adjustment since the summer. What do you think about the fact that your view of short-term market prices was overly optimistic?

A: Prices had been high until the 2Q earnings announcement and had fallen just before it. Since they fell sharply and we thought they would rebound. Since then, prices have not recovered by much, so indeed some aspects could have been overly optimistic. At the 2Q briefing, we explained that market prices in 1H were too high and that adjustments were forthcoming. However, at that time, we thought prices would drop mildly rather than rapidly, but they fell sharply. We failed to fully read the impact of the Chinese lockdown.

Q: Calculation of the Life Science operating margin based on the subsegment operating profit ratio of the Chemicals segment shows a significant improvement in 3Q. What's the reason for this? Also, can this high margin be sustained? There was mention of cancellation fees and I would like to know the impact of these.

A: The profit ratio is shown as an indication every quarter, but it is shown in 10% increments, which causes distortions. We are aware that simply multiplying by a ratio will give the appearance you have pointed out, but in actuality there is no meaningful change in margins between 1Q and 3Q. As for cancellation fees, we receive fees from some customers as a form of compensation for operation.

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