

AGC Inc. Minutes of Briefings on Operating Results for 1Q FY2021

Corporate Communications & Investor Relations Div.

[Overall company]

Q: Regarding earnings, what is your view on the decline in operating income decreased from Q1 to Q2?

A: In most years, there is not much seasonality between Q1 and Q2. To be honest, we do not see much that would lead to a decrease in profit. Due to the continuing strength in the PVC resin market, Q2 results may come in strong.

Q: In terms of the balance between 1H and 2H results, is the reason why 1H is stronger than 2H because the market for PVC resin was strong in 1H and you expect that to return to a more regular tone in 2H?

A: Yes, that is correct. Our full-year forecast for operating income is ¥160 billion, but we believe we are capable of around ¥140 billion, with a typical balance of ¥65 billion yen in 1H and ¥75 billion in 2H. The general image is ¥20 billion was added to this in 1H due to market factors.

Q: Since you will achieve your operating income target for 2023 in this fiscal year, will you revise the mid-term management plan target? I believe that cash flow will improve in line with the improvement in business performance, but do you plan to increase shareholder returns to match?

A: We did not expect to see such numbers in the first year of the mid-term management plan, so we will consider it from here on. We believe that we have not yet reached the level where we can generate ¥160 billion in operating income on our own, and we will consider this after seeing what happens this year.

Q: The government has raised its target for greenhouse gas reduction. Is there any possibility that this will change AGC's approach?

A: While the rise in Japan's target does not have a direct impact, we do feel that we need to accelerate our initiatives. AGC has set targets in its mid-term management plan to reduce GHG emissions by 30% and by 50% per unit of sales in 2030. The idea behind the 30% reduction in emissions is to offset business expansion by improving per-unit reductions. Based on the Paris Agreement, we expect a large reduction in Scope 2 electricity usage. For Scope 1, we will work on technological development to reduce emissions from kiln combustion.

[Glass]

Q: You have revised up the full-year operating income forecast for the Glass segment to ¥33 billion from ¥8 billion. What are the factors behind that?

A: Architectural glass exceeded our expectations. Demand is still weak in Japan, but Europe, North America, and South America are all enjoying strong demand, and the supply-demand balance feels tight for the first time in a while. Shipments are particularly strong in Europe, which accounts for a large percentage of our sales. Prices have also risen significantly from their previous decline due to the COVID-19 disaster, and this has been a driver for improved performance. Automotive glass was affected by the COVID-19 disaster in China in Q1 last year,

but is on a recovery track. Another contributing factor is that the cost deterioration caused by the production slump in 2018-2019 has been resolved.

Q: The profit level in the Glass segment is high, but is it sustainable? What is the breakdown by sub-segment of the full-year operating income forecast of ¥33 billion for the Glass segment?

A: Given the current situation, I would not be surprised if we did a little better than our full-year operating income forecast of ¥33 billion. We do not foresee any major disruptions in the supply-demand balance for both architectural and automotive glass, and expect the market to remain relatively firm. We do not disclose the breakdown of the forecast, but a rough image is that the ratio will be about 2:1 between architectural and automotive glass.

Q: In the mid-term management plan, you announced a structural reform project for the architectural glass business, headed by the CFO. When should we expect to see the results of this project?

A: We are working on various studies and cannot mention a specific time frame, but we are working to communicate the results of the project as soon as possible.

Q: You have recently announced an organizational change to split up the architectural glass business. Is it your policy to manage the business on a regional basis in relation to the structural reform project?

A: Ordinary cost improvements will be led by the business units, but in areas where it is difficult to improve profitability independently, Corporate will take the lead in structural reforms also with an eye to industry restructuring.

Since architectural glass is more a regional than a global business, we decided to realign the organization by lowering the organizational hierarchy by one level, so that the decision-making process would be faster and more efficient if the Company and Corporate worked together.

Q: You explained that the supply-demand environment for architectural glass business in Europe has improved. The graph shows a decrease on the supply side, but did other companies reduce their supply? Also, will the stopped kilns ever be restarted?

A: AGC has also stopped one kiln, and some of our competitors have also stopped their kilns. There is a possibility of an increase in supply due to the restart, but it depends on how the kiln has been stopped. Aside from plant closures, there are four stages: production volume adjustment through pull-downs, cullet recycling, hot hold to preserve and stop a kiln, and complete shutdown of operations. In the future, we expect kilns that have been pulled down to increase production and kilns that have been cold-repaired to start up, but we do not expect large growth in production in the near term.

Q: In the past, I believe there have been times when the supply of architectural glass was reduced, prices improved, and then the companies increased supply again, causing prices to drop. Will this scenario not happen again?

A: It is possible to increase production by building new kilns, but at present, the glass business is one where there are hurdles in recovering capital costs. Also, from the perspective of reducing CO₂ emissions, we believe the

appetite for companies to build new kilns is not as strong as it has been in the past.

[Electronics]

Q: Regarding the price of LCD glass substrates, your competitors are saying they have successfully raised prices. How are your efforts to raise prices?

A: We cannot comment on the specifics of price negotiations, but the trend is similar to that of our peers amid tight supply and demand.

Q: How do you see the price of LCD glass substrates in the future?

A: Supply-demand remains tight, but it is hard to gauge what will happen in the future. Since the business has historically suffered from continuously declining prices, we have no experience with price upswings and it is difficult to read.

Q: Regarding the Displays business in the Electronics segment, did the impact of the accident at the kiln in South Korea appear in Q1? Also, how much did sales of EUV mask blanks in Electronic Materials operations increase from the previous year?

A: The accident in South Korea occurred during cold repair and had little impact on our earnings as we had planned not to operate the facility in Q1. However, the accident delayed the start of operation for other kilns undergoing cold repair, likely resulting in a decrease in shipments for the year. It is not a very large impact, and other kilns will cover it.

We believe shipments of EUV mask blanks will be 50% higher than the previous year, as we have previously reported. Business is going well even when viewed on a quarterly basis.

Q: Not only Taiwanese companies but also US companies are talking about investing in semiconductor foundries. Is there potential for AGC's EUV mask blanks business to gain more momentum?

A: The expansion into memory, etc. will now begin in earnest. There is no doubt that the size of our business has also expanded beyond what we thought it would be a few years ago. The number of layers to which EUV is applied is increasing rapidly, and the business scale is larger than we initially thought. There are only two blanks manufacturers, so news of a US company joining the foundry business is positive for us.

Q: Why was the forecast for the Electronics segment unchanged at the time of the earnings revision in April?

A: Although the business environment is not that bad, we have maintained our operating income forecast announced at the beginning of the fiscal year due to the increase in depreciation costs from the start-up of new facilities. Demand is strong at the moment, so a little more growth in operating income would not be surprising.

Q: In the Electronics segment, I believe you were expecting a large increase in depreciation expenses in the full-year forecast, but there was not much of an increase in Q1. Does this mean that this impact will be felt from Q2 onward?

A: Yes, that is correct. Some of the depreciation in displays will start in Q2.

[Chemicals]

Q: What is the outlook for the markets for PVC resin and caustic soda in the Chlor-alkali business? Also, do you expect the PVC resin spread to narrow in the second half? Do you expect the price of caustic soda to exceed \$300/MT?

A: Market prices for PVC resin are rising due to the impact of the cold wave in North America and other factors. Yet, we do not expect this level to continue indefinitely and we expect the spread for PVC resin to narrow in the second half of the year. As a result, we expect the balance between 1H and 2H in our full-year forecast to be opposite to that of normal years. That said, since the supply-demand situation is favorable now, the current spread may continue. The caustic soda market had been sluggish, but has started to rise since Q1, and the situation is becoming favorable.

Q: With regard to the PVC resin business, is there any impact from Chinese manufacturers' production using the carbide method? Also, what are your views on demand trends due to the escalation of the COVID-19 pandemic in India?

A: The amount of PVC resin produced by China's carbide method that goes outside of China is limited, and we do not believe that it will have a significant impact on our business in Southeast Asia. As for India, no major impact has been confirmed at this time, but we believe that caution is necessary in the future.

Q: If shipments of PVC resin to India are halted, is there a risk to AGC's earnings?

A: Since most of our shipments are to Southeast Asia, we do not think there is much risk.

Q: The sales forecast in the Life Science business for 2021 is ¥110 billion, an increase of ¥10 billion from the February forecast and of ¥30 billion from 2020 results. What is behind the overshoot from the February forecast? Also, how much of the ¥30 billion-yen expected increase in sales is due to the contribution of contracts related to COVID-19 vaccines and therapeutic agents?

A: Our initial outlook for the Life Science business may have been a bit conservative. It is not that there was a big difference in expectations, but the overall performance was better than expected. Contracts were tilted toward Q1, which led to a big increase in sales. We believe that the business will remain strong throughout the year. The share of Life Science sales forecast for 2021 related to COVID-19 is not particularly large.

Q: Regarding the CDMO business in the Life Science, is there any indication that raw material procurement is under pressure?

A: In some areas of the industry, the procurement of raw materials for the production of COVID-19 vaccines has become quite tight. However, we are not worried at the moment because we are operating globally.

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