

Minutes of Briefings on Operating Results for 1Q FY2023

Corporate Communications & Investor Relations Div.

[Overall company]

Q: Please tell me how Q1 tracked versus the plan for each segment. Also, please tell me the outlook for each segment in Q2.

A: In Q1, progress in Automotive and Architectural Glass beat our expectations. On the other hand, operating rate adjustments in Displays were prolonged, and demand for chlor-alkali was below expectations. Displays, Performance Chemicals, and Life Science businesses are expected to improve in Q2. As for the chlor-alkali market, it is not likely to get worse than now, but it is also difficult to project a major improvement. In past years, our Q2 has been on par with or slightly better than Q1, and we expect this to be the case this time as well.

Q: The caustic soda market is currently lower than the levels shown in your graph. The semiconductor business environment is also expected to be more challenging than assumed at the beginning of the fiscal year. Is a significant profit recovery possible toward H2 given such circumstances?

A: In terms of Company-wide profit, Q1 was ¥34.2 billion; we forecast ¥75 billion in H1. ¥115 billion in H2. Looking only at H1, the figures appear to be favorable. I recognize that the question is whether there will be a ¥40 billion increase in profit in H1 and H2. Traditionally, AGC's business has been tilted toward H2. The second half is usually more profitable by 15 billion to 20 billion yen. In addition to that, we are anticipating a ¥40 billion increase in profit, factoring in some economic recovery. Whether or not the economic recovery is achieved depends largely on the chlor-alkali market. Although the future of the market is uncertain, it is difficult to imagine a further decline in market conditions considering transportation costs, and the market is expected to improve gradually. At this point, we are maintaining our earnings forecast and believe there is a reasonable likelihood of achieving it.

Q: With AGC's PBR below 1x, how do you plan to improve it?

A: Our PBR is around 0.8x, but the biggest issue is that ROE is unstable. In good times, it exceeds 10%, but the five-year average is about 5% to 6%. Our top priority is to stabilize ROE at 8% or higher, and hopefully around 10%. If we can do that, we think PBR will exceed 1x. The portfolio must be transformed to achieve this. Stabilizing both strategic and core businesses is an important theme. Although architectural glass has stabilized somewhat compared to the past, we will continue to make steady efforts to stabilize earnings in the core businesses, which have a significant impact on ROE. On top of that, we will expand our strategic businesses to strengthen our overall portfolio. We believe if ROE rises, PBR will surely follow.

[Automotive]

Q: Operating profit in Automotive made significant progress in Q1 against the full-year forecast. Do you expect the same level of profit in Q2 and beyond?

A: Although Q1 showed a considerable recovery, this business is somewhat seasonal and usually tilted toward H1. This fiscal year may turn out differently from previous years as automobile production is gradually recovering. On the other hand, the outlook for China, Europe, and the US is uncertain, so it is a bit unclear whether the situation we saw in Q1 will continue in Q2 and beyond. It's too early for optimism, though we

made a respectable start and results were better than initially expected.

Q: Regarding the price increases for automotive glass, is it correct that pricing is two-tiered: fixed and variable? If so, how much have you been able to raise fixed prices?

A: For architectural glass, some regions were able to pass on the higher energy costs in the form of energy surcharges. However, such a mechanism doesn't exist for automotive glass, and prices are negotiated on an individual basis. The price revision is based on last year's raw material and fuel prices and takes into account various factors. There is no concept of fixed or variable prices, and it is difficult to explain our pricing in detail. Please take away that our higher prices reflect not only the portion of energy that has risen, and that we have raised base prices as well.

Q: Regarding the price hike of automotive glass, page 13 shows a ¥13.8 billion YoY increase in Sales Volume, Price, and Product Mix, while the Purchase Price of Fuels/Raw Material was -¥3.7 billion, a significant positive net effect. How long do you expect to sustain this substantial positive?

A: Gas prices are also falling now that we have revised our prices, and the figures are getting better, but it will be difficult for this to continue as is. Due to shipping volume and other factors, we must be cautious over H2. Sales volume, price, and product mix are shown as a net amount, but a significant portion is the effect of the price increases. The impact of raising base prices will remain.

[Electronics]

Q: What is the outlook for LCD glass substrate shipments in Q2?

A: Shipments are gradually recovering, and overall demand rose about 10% QoQ. We expect AGC's shipment growth to be slightly outpace the increase in overall demand.

Q: What is the background to the decision to end LCD glass substrate production at the Kansai Plant, Takasago Factory, and what is the P/L impact for next year and beyond? Specifically, what is the expected impact on sales due to fixed cost cuts and production volume reductions?

A: Production in this business in Japan is done in Amagasaki, Takasago, and Yonezawa. Customer demand in Japan has become very weak, and the main production sites have shifted to China and other overseas countries. It is significant that major customers have largely disappeared from the domestic market. Another factor is that domestic production has been greatly impacted by higher raw material and fuel costs. We are implementing a series of measures, including the withdrawal from low-margin size glass substrates, as announced in February 2023, and would like to pass on disclosing the P/L impact of this production cutback alone. Since there are a series of measures involved, we will talk about them due course, but we would like to refrain from discussing them today.

Q: Your competitors seem to have posted lower sales of EUV mask blanks. Please tell me AGC's the growth rate YoY and QoQ. You are targeting for more than 40% YoY growth for the full year, but is there any change in your outlook? Also, what is your projection for the bottoming out of the semiconductor materials market?

A: Although there is some seasonality, our sales of EUV mask blanks fell slightly QoQ. YoY growth exceeded 20%. This year, we expect sales to be more than 40% higher YoY, as originally projected, due to both market

growth and expansion of our customer base. It is quite challenging to predict when the semiconductor materials market will bottom. We concur with the general view is that it will gradually recover. It is unclear when the market will actually bottom and grow.

Q: AGC announced a 30% capacity expansion for EUV mask blanks. Shipment growth slowed down last year, but has it returned to the growth trajectory initially expected from this fiscal year? Please provide additional information on new entrants.

A: We have been communicating that we want the business to exceed ¥40 billion by 2025. The business was growing along that path until 2021. In 2022, it stalled a bit due to the situation at customers, but now we are back to our original assumptions. The trend of new players planning to enter the market has not changed. We are now in a situation where we need to further expand capacity.

[Chemicals]

Q: What is the outlook for PVC/caustic soda markets in Southeast Asia?

A: PVC is showing some recovery, but it is hard to label it a strong one. The slow economic recovery in China has suppressed PVC prices in Southeast Asia due to surplus products from China. The market also lacks momentum due to the influx of product from North America. However, current market conditions are challenging also for Chinese PVC manufacturers, and we expect a gradual recovery after bottoming out now. The caustic soda market had been rising in H2 2022 due to the inability to produce in Europe due to surging electricity costs, but is now in an adjustment phase. We now expect it to bottom and recover toward H2.

Q: How do you see the impact of the expansion by Reliance Group in India in relation to the chlor-alkali business in Southeast Asia?

A: India is a huge market and is growing at a rapid clip. Both caustic soda and PVC are growing, and this level of expansion will be completely absorbed by that demand. The impact on other regions and on AGC in Southeast Asia is minimal.

[Life Science]

Q: Q1 earnings in Life Science are deteriorating. How much front-loaded cost is being incurred? Also, how long will the front-loaded costs last?

A: Q1 2022 had a slightly higher level of profit due to some special factors. Compared to that, profit appears to have dropped significantly. It's a business that is traditionally tilted toward H2. Although we do not disclose the breakdown of front-loaded costs, etc. in detail, in addition to such costs, operation was unstable due to the start-up of a new large-scale facility. The negative impact from these costs were incurred in Q1. We expect profits to bottom out in Q1 and rise thereafter, as the negative impact of the startup-related factors will be drop out of the picture.

Q: Is there a sense of the CDMO business growing from Q1 to Q2? The full-year forecast is for flat profits, although we are aware production is quite firm one year ahead due to orders, etc. from the outset.

A: At this point, we have not changed our Life Science operating profit forecast of ¥21 billion. Yet we are concerned about the situation where funds are not being used to invest in bio ventures. One of the strengths and characteristics of Life Science business has been its ability to take on many small-scale projects such as

bio-ventures, but this is having a slightly negative impact on our current situation. There are orders in the longer-term pipeline, some confirmed and some yet to come, so not all orders for 2024 have been confirmed. The key point will be how many non-new COVID projects can be won in the future.

Q: Regarding the reduction of capital flows to biotech ventures, what magnitude of risk do you see potentially at this point, and what is your perception of plant operating rates, if you have one?

A: In addition to bio-ventures, we also produce for conventional customers. The magnitude of the risk depends on the US financial situation and is difficult to predict. Although the operating rates of newly acquired plants, etc. is still low at the moment, we expect earnings to improve as the operation of all plants, not only in the US, will gradually increase toward 2024. That said, the issue of funds for bio-venture companies is still difficult to read.

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