AGC Inc. Minutes of Briefings on Operating Results for 1Q FY2020

Corporate Communications & Investor Relations Div.

[Overall company]

Q1: Which business is most affected by COVID-19 in 1H?

A1: Glass is the segment most impacted by COVID-19. We downgraded the forecast to 65.0 billion yen for net sales and 2.5 billion yen for operating profit. The majority of the factors involved in the downward revision are in the Glass segment. The suspension of shipments for automotive manufacturers in Europe and the U.S. has a significant impact. Although the Electronics segment has been performing fairly strongly, it will not be able to offset the deficit in the Glass segment.

Q2: How much impact from COVID-19 did you factor into the operating profit forecast for 1H?

A2: We have not calculated the impact on 1H operating profit, but we estimate there could be a decrease of around 35.0 billion yen.
1Q operating profit was around 26.0 billion yen without the impact of COVID-19. It would not have been surprising if 1H operating profit had been 60.0 billion yen, exceeding the initial forecast.

Q3: CAPEX and depreciation are yet to be determined. Will you reduce CAPEX to within the range of depreciation?

A3: We cannot apply the brakes suddenly to major investment projects, so it is difficult to dramatically reduce the amount of CAPEX.
We plan to make cuts to non-growth business investment.

Q4: You have lowered the forecast for strategic businesses, but did the figures factor in life science CDMO contracts such as COVID-19 vaccines?

A4: Yes.

Q5: Please explain your approach to shareholder returns.
Previously, the total return ratio was at least 50%, but is your approach to focus on liquidity in hand going forward?

A5: It is difficult to answer at the moment because the annual business results forecast is undetermined. However, our shareholder return policy is unchanged. We will let you know when the financial results are clear.

[Glass]

Q6: In February 2020, you listed architectural glass, automotive glass, and glass for display applications as businesses with low ROCE. Will you use the impact of COVID-19 as an opportunity to accelerate structural improvement in the Glass segment?

A6: In February 2020, we disclosed sub-segment ROCE and said that improving ROCE for architectural glass and automotive glass is a major management challenge. I cannot tell you about the specific plans at the present stage, but, faced with the possibility of a prolonged impact from COVID-19, we believe it is necessary to accelerate structural reform.

Q7: How will the Glass segment become profitable?

A7: Automotive glass is facing unusual conditions in which global automotive production has fallen significantly, and it is hard to imagine a rapid recovery. We want to take measures as quickly as we can based on the assumption that a recovery in the automotive glass business will take time.
As for architectural glass, new construction starts have slumped, particularly in Europe, and we have adjusted operations, such as reducing float glass furnace melting capacity and glass cullet production. The conditions are unusual, but we expect a gradual recovery. However, the price of architectural glass in Europe is extremely low. As is the case with automotive glass, we need to take measures early based on the assumption that there will not be a rapid recovery. We will do what we can so as not to miss the opportunity. First, we will manage capacity firmly.

Q8: 1H operating profit in the Glass segment is 21.5 billion yen in the red. What is the breakdown for architectural glass and automotive glass?

A8: The percentage is bigger for automotive glass. Operations in Europe and the U.S. practically stopped in April. Approximately half of the 400.0 billion yen in annual automotive glass net sales are in Europe and the U.S., so the impact is significant. Also, there is the impact of Japan as well from late-April.

[Electronics]

Q9: "Cost Reduction/Others" was +2.7 billion yen in the variance analysis for operating profit in the Electronics segment. Is this the contribution from full operation of the new G11 facility?

A9: Yes.

Q10: I hear that LCD panel manufacturers have adjusted production. How do you see the glass for LCD display applications business from 2Q onward?

A10: We expect 2Q shipments of LCD glass substrate shipments to be flat QoQ so there will not be a major impact.

In 2H, it is unclear what the impact of lower TV demand will be. However, there are no major concerns because AGC's customer structure has also changed considerably compared with the past.

Q11: Is the operation of the second G11 line progressing on schedule?

A11: It is generally according to plan.

Q12: Is it correct that the price of LCD glass substrate will continue to fall moderately?

A12: That's correct.

Q13: Last week, there was a molten leakage at a South Korean LCD glass substrate furnace. Will it have any impact on business results or shipments?

A13: It was not a major accident so will hardly have any impact on business results or shipments.

Q14: How much have EUVL mask blank shipments increased YoY?

A14: Shipments doubled YoY.

[Chemicals]

Q15: In terms of the forecast for the Chemicals segment, is it the correct perception that the chlor-alkali business will be able to maintain profitability because although there has been a downturn in market conditions for PVC, there is also a downturn for the raw material ethylene?

A15: The spread has improved for PVC due to cheaper ethylene. At the present stage, shipments to India have decreased, but there are no major concerns for Chemicals overall as India is expected to recover going forward. Although we consider the chlor-alkali business will maintain the current level or be slightly weaker, we should be able to fully offset this as we expect growth in fluorochemicals, specialty chemicals, and life science.

Q16: The 2Q net sales forecast for the Chemicals segment is down compared with 1Q, but will life science increase?

A16: Both net sales and operating profit are increasing for life science. There is hardly any need to take account of the impact from COVID-19. Although chlor-alkali and urethane will be weak, life science will offset them.

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