

AGC Inc. Minutes of Briefings on Operating Results for 3Q FY2020

Corporate Communications & Investor Relations Div.

[Overall company]

Q: What are the reasons for increasing the full year operating profit forecast for strategic business from ¥30.0 billion to ¥32.0 billion?

A: Mobility is weaker than expected due to the impact of COVID-19. Electronics overall is stronger than expected. EUV mask blanks are in line with expectations. However, shipment volume of optoelectronics materials has increased with advancing use of compound-eye lens technology in smartphones. Life Science is also stronger than expected with the growth of the CDMO business.

Q: What is the segment breakdown of the ¥2.0 billion increase in operating profit for strategic business?

A: Electronics and Life Science are growing at the same rate.

Q: You said that you had determined the annual dividend forecast taking account of business performance next fiscal year and beyond. How do you see business performance next fiscal year?

A: Europe is uncertain, but we believe that business performance overall is on a recovery track. If the current “with COVID-19” environment continues, profit will increase next fiscal year. Considering that operating profit would have reached ¥120.0 billion for the current fiscal year had it not been for COVID 19, our earning capability is improving.

[Glass]

Q: In 3Q, you posted ¥6.0 billion in restructuring expenses in the glass business. Roughly how much do you plan to post for the full year?

A: In 3Q, we posted restructuring expenses due to the shutdown of one float glass furnace at the Boussois factory in France.

Q: Will the levels of 5% for ROS and 10% for ROCE for the glass business come into view from next fiscal year?

A: Increasing ROS and ROCE to those levels in the short term is difficult. In Japan, we are proceeding with talks on the business integration with Central Glass, and we want to achieve ROCE of 10% as soon as possible, together with measures like this to change the industry structure.

Q: Does this mean that structural reform is also needed in the Japan glass business in order to achieve ROCE of 10%?

A: We believe that industry structural reform is needed considering the future demand trends in Japan. We

also want to implement industry structural reform in other regions if there are opportunities to do so.

Q: The glass business recovered considerably in 3Q. Can it make a profit next fiscal year? You said there are concerns about the impact of the second wave of COVID-19 in Europe in 4Q. Could factories stop operating due to lockdowns?

A: At the present stage, it is difficult to talk about next fiscal year. If the current “with COVID-19” environment continues, we might be able to aim for profit next fiscal year. The shutdown of production lines at automotive manufacturers in Europe from mid-March through May had a major impact. At the moment, our customers’ production lines are not shut down, but production lines could be shut down depending on the conditions. However, it is difficult to imagine that countries will shut down economic activity completely. Also, we expect that 4Q will not deteriorate as much as 2Q due to improvements in healthcare systems and other factors.

Q: Roughly how much were restructuring expenses related to the glass business in Europe?

A: In 3Q, we recorded approximately ¥10.0 billion in restructuring expenses for structural reform and loss on retirement of non-current assets related to the glass business in Europe.

Q: Do you expect restructuring expenses in 4Q as well?

A: At present, we do not expect significant expenses in 4Q.

Q: What is the background to the recovery in glass market conditions?

A: Demand for automotive glass recovered more quickly than expected. In China, demand was up year on year. The recovery was faster in Europe than initially expected as well. We were also pessimistic about architectural glass, but the recovery was rapid.

Q: With regard to restructuring in the glass business, at the last announcement of financial results, you said that you will consolidate and discontinue automotive glass production lines in Europe and the U.S. as quickly as possible, so significant business restructuring expenses were expected in 3Q. Does this mean that the faster-than-expected market recovery is the reason why you have not factored major expenses into the forecast for the current fiscal year and that you will carry out structural reform after confirming demand trends?

A: We have implemented structural reform measures, mainly in the automotive glass business in Europe and North America. However, rather than closing factories, we have shut down production lines. We have mostly shut down old facilities that are nearly fully depreciated, so major expenses associated with structural reform are unlikely. As we have said previously, we are promoting a shift from old facilities to facilities with higher productivity.

[Electronics]

Q: The QoQ increase in LCD glass substrate volume is small compared to the market. Have you lost market share?

A: Differences with competitors on volume trends are due to customer composition. LCD glass substrate is performing well, and there are practically no concerns. Stay-at-home demand was strong in 3Q, but we are viewing 4Q somewhat cautiously.

Q: What were the YoY changes for EUV mask blank sales for the current fiscal year? What is the forecast for next fiscal year?

A: Volume increased steadily, and we expect sales upward of ¥10.0 billion for the current fiscal year. Sales will not be as much as double those in 2019 but have remained strong. Sales are expected to exceed ¥20.0 billion in 2021 and are at a level where we can aim for over ¥40.0 billion in sales in 2025.

[Chemicals]

Q: Why did chlor-alkali profit decline in 3Q amid positive market conditions? When will the benefits from the improved market conditions appear?

A: As caustic soda is used in a variety of industries, the price has fallen, significantly affected by the impact of the COVID-19 pandemic in Southeast Asia. On the other hand, the vinyl chloride price in Southeast Asia has been relatively stable. Despite the COVID-19 pandemic, strong infrastructure investment has underpinned demand. Current performance is on a recovery trend, due in part to the improvement in the vinyl chloride spread. However, the recovery trend overall is not very strong because caustic soda is weak.

Q: The price of ethylene, the raw material for vinyl chloride, was high. Did that have an effect?

A: There is a time lag between ethylene inventory withdrawals and market conditions, and that had an effect. This will improve gradually.

Q: Have you cut production with the weak demand for caustic soda?

A: No.

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