

Minutes of Briefings on Operating Results for 2Q FY2022

Corporate Communications & Investor Relations Div.

[Overall company]

Q : How did 1H progress compared to your initial assumptions?

A : Our initial forecast was ¥210 billion for the full year, with operating profit of ¥95 billion for 1H and ¥115 billion for 2H. However, our current forecast is for an increase of about ¥20 billion in 1H, with 2H remaining unchanged, so ¥230 billion for the full year. This was mainly due to the strong performance of Chemicals, especially the chlor-alkali business, in terms of both volume and price.

Q : The operating profit plan for FY2022 (FYE12/2022) is set at ¥230 billion, which means that you will achieve the mid-term management plan goal for FY2023 one year ahead of schedule. What is the earnings outlook for FY2023? Will it be possible to secure an increase in revenue and profit compared to 2022? Please explain by segment.

A : I cannot give specifics for FY2023 as that remains to be seen. However, we expect to achieve the operating profit target of ¥230 billion for the final year of the mid-term management plan this year, and naturally we would like to go even higher next year. The outlook for 2H, including the economic situation, has become somewhat more uncertain, and we must carefully assess 2H earnings trends and their connection to FY2023. Naturally, we would like to aim for further growth.

Although the company will achieve record profits this year, the automotive glass and display businesses are facing very difficult conditions. The strategic businesses are expanding steadily and the Chemicals business is generating solid profits thanks to the tailwind from chlor-alkali. So the company is not in a position to achieve ¥230 billion from strength across the board. For FY2023, we expect volumes of automotive glass to increase due to vehicle production recovery, and the display business, which has been weakening due to inventory adjustments by panel makers, is expected to recover. As for strategic businesses, they will continue to grow steadily in FY2023. Market conditions for chlor-alkali are somewhat difficult to read, but as mentioned above, there are many factors that could lead to an increase in sales and profits. In a nutshell, we have high expectations for automotive glass and displays, strategic businesses are strong, and although the market for chlor-alkali may soften slightly from FY2022, we currently believe that other businesses will be able to fully offset this.

Q : Regarding the impact of the yen's depreciation, you have changed the forex assumption a weaker yen. Please explain the impact of this by segment.

A : The Glass segment is a local business of local production for local consumption. The weaker yen will have a positive impact on the consolidation of overseas operations denominated in foreign currencies, but the Japanese operations include imported raw materials denominated in foreign currencies, which will have a negative impact on the segment. So overall the impact is neutral.

As for the Electronics business, since the display business's costs are mainly denominated in foreign currencies while sales are denominated in yen, a weaker yen will result in higher costs and a negative impact on the business. On the other hand, for the electronic materials operations, although some costs are denominated in foreign currencies, most costs are incurred in Japan and sales are mainly denominated in foreign currencies, so the yen's depreciation is a positive. The impact on the segment as a whole is almost

neutral here as well.

For Chemicals, the overseas chlor-alkali business, which is a local business, makes a very large contribution to profits, and the yen's depreciation will have a positive effect when consolidating this business. Since the fluorine business incurs costs mainly in Japan, and a significant proportion of products are sold overseas, the yen's depreciation will be a tailwind in this area as well. The Life Science business also has a large weighting in overseas operations, so the yen's depreciation will have a positive effect when consolidating the earnings. Therefore, the depreciation of the yen is basically positive for the Chemicals segment.

Looking at the company as a whole, the change in forex assumption has a positive impact of approximately ¥10 billion for the full year.

Q : Overseas chlor-alkali and fluorine are included among growth businesses, but what is your definition of a growth business? Are there other growth businesses within the core business?

A : To explain AGC's business portfolio approach, we first divide the overall business into core and strategic businesses. Strategic businesses are positioned as growth businesses as they are. The core businesses are divided into two categories: growth businesses and cash-generating businesses, and, when necessary, businesses for which structural reforms are being considered. When classifying a business as a growth business, AGC takes into consideration the following factors: the market will grow over the medium to long term, and AGC will be able to acquire a certain strong market position. In this regard, we are positioning our overseas chlor-alkali and fluorine businesses there at this time. We will continue to review our portfolio annually in response to changes in the market and the status of our technological development and business expansion.

Q : Regarding your approach to shareholder returns, net profit has also been revised up, and if the guidance is followed, the dividend payout ratio will be slightly below 40%. Please explain about dividends and share buy-backs.

A : The current announcement shows a dividend payout ratio of 38.8%. The company's return policy is the same as previously explained, with a stable dividend payout ratio of around 40% as a target and share buybacks will be implemented flexibly. We did not revise our dividend forecast at this time, although we will consider share buybacks and dividend revisions flexibly, taking into account the status of capital expenditures and future earnings prospects.

Q : Your share price is lackluster even though operating profit is at all-time high. What is your assessment of the current share price?

A : Frankly speaking, we believe that share price is quite lower than the fundamentals would suggest. However, this is due to the fact that AGC has not been able to sustain strong earnings in the past. Therefore, one of the directions that the company should aim for in its business portfolio transformation is to be "resilient to market fluctuations". The reality is that the company has not been able to demonstrate stable earnings, as evidenced by the fact that after achieving record operating profit in 2010, profits declined for four consecutive fiscal years. Now, unlike in the past, we are generating operating profit from multiple businesses, and we have very stable and growing businesses such as strategic businesses. We expect this to be reflected correctly in our earnings in the near future and that we earn understanding from the market.

[Glass]

Q : Fuel prices are spiking in Europe. How will this affect earnings in architectural and automotive glass? Will you be able to pass on higher fuel costs to customers in 2H of 2022 and again in 2023?

A : Soaring natural gas prices in Europe have a big impact on our costs. As we have said in the past, the energy surcharge, which automatically adds fuel price increases to the price of European architectural glass, has been functioning since February of this year. So we have been able to pass on a significant portion of the energy costs in the sales price. We have passed on higher costs 1H but not in total, and we expect to pass on in 2H as well. Meanwhile, it is difficult to suddenly raise the price of automotive glass, and we have been negotiating on various price fronts. However, the effects of these requests have not yet been felt in 1H, so we were directly hit by the sharp rise in raw material prices. We are gradually gaining understanding and will begin to see the effects from 2H of this year. We believe that the effect will be even greater in FY2023 and beyond. In particular, the automotive glass business is in an irregular situation of losing money, and we will make every effort to return to the black as soon as possible.

Q : AGC has posted losses since 3Q last year with respect to automotive glass, and I believe that the deficit in 2Q 2022 will be larger than in 1Q. You said that the effects of the pricing measures will become apparent in 2H and beyond, but to what extent do you expect profits to improve in 2H versus 1H? Also, what is your sense about price negotiations.

A : It is difficult to give specific figures, but as you pointed out, I think 2Q was the bottom. Since the current situation is slightly improving, we expect a significant recovery toward 2H. Operating profit for the Glass segment is projected to be ¥30 billion for the full year, ¥11.4 billion in 1H and ¥18.6 billion in 2H, with a significant portion of this improvement expected to come from the automotive glass business.

Q : Regarding pricing policy, some blast furnace steelmakers and auto parts makers are planning aggressive price hikes. Please explain how this differs from previous price negotiations. Also, what level of ROCE do you hope to achieve through price pass-throughs in the medium term?

A : First of all, the automotive glass business is currently in the red, a situation we have never experienced before. This is an unusual situation, although factors such as a shortage of semiconductors, soaring fuel and input prices, and supply chain disruptions are contributing factors. In response to this extraordinary situation, we are asking for price revisions with an unprecedented attitude to achieve a quick recovery. We are aiming for a ROCE of at least 10% in 2025, but as shown in the materials, the contribution of higher functionality until 2025 will be small because that effect is expected to be significant from 2025. Therefore, what is needed to achieve a 10% ROCE as we head toward 2025 is to raise prices to an appropriate level and to improve the cost structure through structural reforms. It is difficult to say how much each of these will contribute to a 10% ROCE, but we believe that we have a solid plan in place, and if we can execute this plan, we can achieve a 10% ROCE by 2025.

[Electronics]

Q : LCD panel makers are currently adjusting utilization rates. How are you factoring in that risk in 2H? Also, how long do you expect these utilization adjustments to continue?

A : Customers are now adjusting their utilization rates, which is creating a tough situation for the display glass business. Therefore, we expect our shipments for FY2022 to decrease by about a low single-digit percentage

from the previous year. On the other hand, we believe it is reasonable to assume that this adjustment will be largely completed by year-end and that FY2023 will see a mid-single-digit percentage increase over FY2022.

Q : The display business is in a very challenging situation. There was earlier talk of improving profitability in the medium term by investing in G11 lines, but will that really be enough to achieve a recovery? Since this is a business with high GHG emissions, is it not a business that could be considered to be sold? What are your medium- to long-term plans for the display business?

A : The display business is in a very challenging situation at the moment. One aspect is that customers have been making production adjustments and the production volume has fallen. We believe this correction to the bringing forward of stay-at-home demand under the pandemic. Therefore, as Miyaji answered earlier, we believe that the company will return to its original trajectory in FY2023.

In the medium to long term, we believe that panel area growth will continue at more than 3% per year, and the market itself is growing, with the focus shifting from G8 to G11. What are we doing this is context? Currently, G11 glass is being produced using G8 lines, which is very inefficient and increases costs. However, our policy of increasing lines ready for G11 to solve this problem has not changed from what we have noted previously.

Q : Based on the operating profit composition ratio, it appears that profits from not only displays but also electronic materials fell in 2Q compared to 1Q. What is the outlook for electronic materials in 2H?

A : In disclosure of segment profit, the breakdown of profit in the Electronics segment has significantly changed. This breakdown is disclosed as a simplified calculation of the profit contribution for each business at the gross level before charging corporate charges, headquarters expenses, and other shared expenses. Therefore, simply segment profit x the relevant component percentage is not the individual profit of each business. Although a simple multiplication of the figures makes it look as if profits from electronic materials operations have plummeted, the actual situation of the gross profit has not decreased to that extent.

Intrinsically, electronic materials operations are tilted toward 2H. Although profits in 2Q was slightly lower than in 1Q due to inventory adjustments in some industries in the first half, they are expected to increase considerably in 2H. The company has disclosed its full-year forecast for segment profit, and it expects profits in the Electronics segment to increase considerably in 2H compared to 1H, and this is mainly due to electronic materials operations.

Q : North American logic manufacturers' earnings are not strong. What was the growth rate of EUV mask blanks sales in 1H? Are you revising your demand forecast for 2H and beyond and into 2023?

A : I cannot mention the part that concerns our customers, but at the beginning of the fiscal year, we originally expected sales of EUV mask blanks for FY2022 to be about 1.4x higher than the previous year. However, at this point, we believe that sales growth will be lower than expected for FY2022 due to the impact of inventory adjustments at customers. Of course, we believe that after next year, the situation will return to normal. We are not concerned about this business over the long term because, as we have explained in the past, the market itself is growing much faster than expected. We have no intention to change sales forecast of ¥40 billion for 2025. For FY2022, the market is slightly weaker than expected due to various circumstances of our customers.

Q : What is the background behind the upward revision of the sales and operating profit plan for strategic businesses? In Electronics, what's your view on the expansion of EUV mask blanks and optoelectronics customers?

A : I explained earlier that EUV mask blanks are slightly behind plan, but other areas are doing very well. Some products have surpassed our expectations. Semiconductor-related businesses have also been very strong, except for EUV mask blanks, so we are not concerned at all about the overall situation. The forecast was revised to reflect the fact that the company will basically continue to do well. In addition to this, the weaker yen, especially for electronic materials, which are dollar-denominated, will also provide a tailwind. Therefore, we revised our forecast for sales and profit growth in the strategic business segment.

[Chemicals]

Q : The full-year operating profit plan for the Chemicals business for 2022 was increased by ¥37 billion from ¥130 billion yen to ¥167 billion. How much did you increase the plan for Chlor-alkali, Fluorochemicals, and Life Science, respectively?

A : I will explain the contents, although we don't disclose breakdowns by individual product. The chlor-alkali was the biggest part of the increase because it had a pretty good showing in 1H. Fluorochemicals suffered from the pandemic at the time when they implemented a large-scale facility expansion, but they came back quite strongly in 2H of last year, which was more than expected. Life Science is in line with expectations and there is no particular concern there.

Q : Regarding the 2H plan for Chemicals, how much of a decrease in profit is expected for chlor-alkali versus 1H? I would like to know your outlook for the PVC and caustic soda markets, as well as your assumptions for facility utilization rates in 2H and actuals for 1H.

A : In the Chemicals segment, we are assume ¥167.0 billion for the full year and ¥92.6 billion in operating profit for 1H, so if we deduct the amount, it would be ¥74.4 billion for 2H. Although profits will decrease by ¥18.2 billion between 1H and 2H, fluorochemicals & specialties and Life Science are firm and are tilted toward 2H. From this, it should be understood that chlor-alkali s looking at a roughly ¥20 billion decline in profit. As we have said in the past, supply continues to be tight in Southeast Asia and facilities have been operating at full capacity for a long time, except for the impact of scheduled maintenance, etc. We expect that to continue in 2H. Production in 1H is usually higher than in 2H due to Ramadan and scheduled maintenance in Japan.

Q : I would like to reconfirm the outlook for the chlor-alkali business in 2H and the medium term. I think the most recent Asian market price for PVC is down to about \$900. I believe that this is due to weak demand in China and the fact that coal prices in China have been suppressed, making the carbide method more cost competitive. I also wonder if US products are flowing out of the region. How do you see the impact in that area? Based on the sensitivity, I would guess that the PVC assumption for 2H would be around \$1,100 or \$1,150, but I would like to know the market assumptions as well as your thoughts on the future supply/demand balance.

A : The main reason for the current weakness in PVC is the lockdown in China. Demand is declining and coal is also flowing into the acetylene carbide process. Whether the current situation in China will continue for long depends on the pandemic and its national policies, so no one knows for sure. However, if the current situation continues, China will not be able to keep up, and in theory, market conditions should be approaching bottom

levels and will rebound. If the impact of the pandemic worsens and China continues to lock down further, the situation may be different, but common sense suggests that the situation should turn around soon. As explained earlier, we are taking a reasonably cautious view of the price situation in 2H and have factored the decline into our earnings to some extent.

Q : Regarding the profitability of Life Sciences, although last year was probably an anomaly, the operating margin for 1H FY2022 remains somewhat unsatisfactory at just over 10%. Will the profit margin improve in 2H and beyond? Or will margins remain at this level for a while due to the expenses invested in business expansion?

A : Profitability will certainly increase. A simple calculation based on the profit composition ratio might make it look like a margin of around 10%, but it is actually a bit higher. We made a fairly large capital investment, and that portion of the facility is still underutilized. In addition, the M&A deals in the US are also at the stage of preparation for mass production, so expenses are running ahead of revenues at this point. These factors have compressed our margins. However, as explained by the business divisions at IR briefings and other events, we are not worried about the profit margin, which is at least 20% as a minimum, and from there we can aim even higher. Although costs are currently ahead of revenues, profit margins will improve as capacity utilization increases.

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