2024.2.7

Minutes of Briefings on Operating Results for FY2023

Corporate Communications & Investor Relations Div.

[Overall]

Q: What is the upside potential and downside risk, if any, in the FY2024 earnings forecast?

A: There is upside potential for Automotive, semiconductor-related products, and Performance chemicals, where demand is strong. On the other hand, there is downside potential for overseas chlor-alkali if the vinyl chloride and caustic soda markets remain sluggish, and for displays if the yen weakens more than expected or demand remains weak.

Q: Why is there no forecast for FY2024, which is divided into strategic and core businesses, in your presentation material? Is this because you will change the classification in the new medium-term management plan?

A: We plan to explain at the presentation of the new medium-term management plan.

Q: Is the 150 billion yen operating income forecast for this fiscal year conservative, or is it a realistic figure that incorporates some degree of risk? There is a difference between the first-half and second-half figures but is this due to seasonality or is there some degree of expectation factored in?

A: The forecast for this fiscal year is not necessarily conservative. We consider it a realistic figure with both upside and downside. For FY2024, we estimate that profits will increase by 30 billion yen in the second half of the year relative to the first half. The difference between the first and second half of the year is larger than usual, as profits in the second half of the year are usually about 15 billion yen higher than in the first half. In FY2024, we expect a slight recovery in market conditions, but we also expect to see a recovery in earnings in the second half of the year in such problematic businesses as Display and biopharmaceutical CDMOs.

Q: What is your forecast for operating income by segment in the first and second half of FY2024?

A: We do not disclose the first half and second half separately by segment. For Architectural Glass, there is usually no difference between the first and second half of the year. Automotive is usually stronger in the first half of the year because shipments increase in March. Electronics is strong in the second half of the year for both Display and Electronic Materials. Among Chemicals, Essential Chemicals usually doesn't have seasonality, while Performance Chemicals are strong in the second half of the year. Among Life Sciences, synthetic pharmaceuticals and agrochemicals CDMOs tend to be strong in the second half of the year.

Q: The change in dividend policy is quantitative and easy to understand. On the other hand, how would the share buyback policy change? Will it be more aggressive, more cautious, or remain largely unchanged?

A: Same as before. Will be determined from time to time.

[Architectural Glass]

Q: What is the breakdown of the expected decrease in profits in Architectural Glass in FY2024?

A: Europe is slightly weak due to the economic slowdown, but there are no major concerns and we do not expect it to change much from FY2023.

[Electronics]

Q: Regarding EUV mask blanks, Intel plans to launch two CPU products (3nm) for data centers and 1.8nm PC CPUs this year and introduced the first high-NA EUV lithography system at the end of last year. Demand for EUV mask blanks is expected to increase dramatically in 2024. How much growth do you expect in shipments of AGC?

A: The market, including for semiconductor memory, is larger than we initially expected. 2023 sales were 1.5 times greater than the previous year, and we expect sales to grow at a similar pace in 2024.

Q: Intel has outsourced production except CPUs to TSMC. Are AGC's EUV mask blanks used in this outsourced production?

A: Our customer base is steadily expanding. I will refrain from giving specific details.

Q: What is the composition of operating income in each of the sub-segments of Electronics in FY2024 and what is the operating profit margin compared to the previous year?

A: For Displays, the worst is over and prices and shipments will gradually recover. For Electronic Materials, we expect a fairly strong year for semiconductor-related demand. We expect optoelectronics materials to remain firm, although the smartphone market is not expected to grow as much as before. The composition of operating income in FY2024 will be mainly dominated by profits from Electronic Materials.

Q: I think the display is still in the red, so I would like an explanation of the path toward profitability. Where do you see it turning profitable in FY2024? What is the assumption that the operating margin will reach at the end of the year?

A: Current demand for displays is weak, and there will not be a rapid recovery. The display business has always been strong in the second half of the year, so performance will gradually improve over the second half of the year. Our target for Display is not to return to profitability, but to achieve a 10% ROCE. Toward that goal, we will steadily promote structural reforms and price optimization.

Q: What are the trends in Display volume and prices? It seems that competitors are assuming a mid-single-digit% decline in volume in the January-March period compared to the October-December period, but how about from AGC's point of view? Also, what is visibility on whether panel makers' utilization rates will return in the April-June period and beyond? As for prices, it seems that the competitors have passed double-digit % price increases in the second half of 2023, can we assume that AGC is following a similar trend?

A: In terms of volume, our shipments are expected to increase in 1Q compared to 4Q 2023, while overall demand for display glass is expected to slightly decrease. Panel makers made considerable inventory adjustments in the latter half of 3Q 2023. We expect a gradual recovery in the first half of this year. Prices were up single-digit % in 4Q compared to 3Q 2023. Compared to 2Q, 4Q was up single-digit back half %, the same trend as other companies. Compared to other companies in the industry, there are some differences in customers.

Q: Regarding EUV mask blanks, how do you assess the threat of new entrants, and do you see any potential for AGC's market share to increase or decrease?

A: The competitive environment is not intensifying at this time.

[Chemicals]

Q: Could you give us an image of the composition of operating income for each sub-segment of Chemicals in FY2024? How do you expect margins for Essential Chemicals to change from the previous year? I believe Performance Chemicals is also moving forward with some price revisions, but do you expect to see an improvement in profitability?

A: In FY2023, the operating income composition of Essential Chemicals and Performance Chemicals was 50/50; in FY2024, the proportion of Performance Chemicals will be larger. There is upside potential due to stronger demand for semiconductor and transportation equipment applications. We also expect improvement in profitability.

Q: Could you tell us about the outlook for the chlor-alkali market, which has been stagnant throughout the year 2023, but AGC is preparing to significantly increase capacity starting in 2025, and we are concerned that fixed costs will increase as demand does not return?

A: We do not expect market conditions in Southeast Asia to improve significantly in 2024 as the economic slump in China continues. New lines in Thailand will start operating in 2025. Currently, the situation remains that products made in the region can be sold in the region, and full operation is underway, generating a profit of nearly 10%. Although the new line will increase the scale of operations, we are not concerned at this point, as we expect that full operation will continue.

Q: Operating income for FY2024 for Chemicals is 60 billion yen, down 4.8 billion yen from the previous year. What do you see as the increase or decrease in profits for Essential Chemicals and Performance Chemicals, respectively?

A: Essential Chemicals will see lower earnings due to adverse effects from overseas chlor-alkali market conditions, while Performance Chemicals will move toward higher earnings.

[Life Science]

Q: FY2024 sales for Life Sciences are equivalent to 4x FY2023 4Q sales, which appears to be an assumption with no growth from FY2023. With the contribution of the new plant and signs of improvement in the bio-venture, is this a conservative projection?

A: In FY2023 4Q, among Life Sciences, sales of synthetic pharmaceuticals and agrochemicals CDMOs were large due to seasonality. Biopharmaceutical CDMO will gradually recover, but sales are conservative because the company is just now on the verge of restarting operations in Boulder and bio-venture activity is not strong.

Q: Regarding the new Boulder plant, you mentioned that the start-up would normalize at the end of last year, what progress has been made since then? I would like to reiterate that you have already acquired the orders for full operation and that you are likely to aim for full operation around the end of this year and that these are commercial production. The new Boulder plant probably accounts for about 30% of AGC's biopharmaceutical CDMO capacity, so we expect the effect of increased sales and profit from this plant's steady progress toward full operation to be quite significant.

A: Progress is on schedule. We are on track to restart operations. Full-scale production will now begin and operations will be ramped up toward the end of the year, but we do not expect to see the effects of full production in 2024. The new Boulder plant will not reach full production until 2025.

Q: With regard to the issue of funding for bio ventures, CDMO companies have prominently explained that demand continues to be stagnant, but there are signs that the situation has bottomed out. How do you view the comments of CDMOs?

A: I think it is fair to say that the companies see a gradual recovery starting in 2024.

Q: It seems that some pharmaceutical manufacturers are looking for contract manufacturing partners in Europe for Alzheimer's disease drugs, so there is a possibility that CDMO capacity will become tighter, especially in Europe. What is the impact on AGC, which has a well-developed base in Europe, and what is the positive impact on the potential for AGC to be contracted and on the tightening of CDMO capacity in the region?

A: We will refrain from commenting on individual cases.

Q: While FY2023 4Q sales in Life Science increased by 10 billion yen from 3Q, the improvement in operating profit was less than 4 billion yen, and the increase in profit appears insufficient in light of the high marginal profit margin. The increase in fixed costs may be a factor, but it is disconcerting because there should have been one-time costs for repairs and renovations in Europe and Seattle in the 3Q as well. I would like to hear more details.

A: Various processes are involved in FY2023 4Q due to fiscal year end, and there are also changes in operating conditions, so simple marginal profit is difficult to explain.

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