

AGC Inc. Minutes of Briefings on Operating Results for 2Q FY2018

Corporate Communications & Investor Relations Div.

[Overall company]

Q1

You have revised up ¥5 billion to your full-year operating profit forecast, which of the results were above your expectation in the first half, but did not revise the second half forecast. Do you foresee any risks in the second half for not revising the operating profit forecast?

A1

The first half upside was mainly supported by the price increase in Chlor-Alkali business, and most of other businesses have been in line with the projections. So we observed no special factor either to push up or down to change the operating profit forecast of ¥75 billion. We do not foresee any particular risks and so far things are going in line.

Q2

Please explain the seasonality of your operating profit. At the first quarter conference call, I think you said that your profit structure will increase from the first quarter towards the second quarter, and first half towards the second half. But looking at the results for the first quarter and second quarter, it seems different this year. What are the reasons, and what are the difference from your expectation?

A2

Relatively speaking, usually our operating profit is higher in the second half, compared to the first half. The second half profit could be higher by JPY 10 billion at minimum, sometimes as much as JPY 20 billion or more than the first half. Usually the difference between the first and second quarters is not that large. On a year-on-year comparison, several special factors occurred at the same period of last year. In 2017, from the first to second quarter, profit increased by JPY4.8 billion. This is due to three following reasons. First, Fluorochemicals and Life Science grew drastically from the first quarter to the second quarter. Second, we recorded acquisition expenses of JPY 1.3 billion in the first quarter last year, but none in the second quarter. Third, shipments of LCD glass substrate increased drastically from the first quarter to the second quarter.

This year, Fluorochemicals and Life Science continues to be strong, but the quarter-on-quarter growth was not as strong as last year. This year, R&D expenses are expanding mainly for *strategic businesses*. In addition, there were increase in advertising expenses in relation to the company name change, which accordingly lead to an increase in general administrative expenses. And as for

the LCD glass substrate, shipments did not increase in the second quarter as much as last year. In addition, furnace maintenance expenses pushed down the profit. So as a total, profit declined for these reasons, quarter-on-quarter, but it is still on track.

Q3

Depreciation forecast for 2018 have not been changed, which is JPY 135 billion. During the first half, depreciation was USD 61 billion, less than the same period of last year. Is this indicating that depreciation is going to increase in the second half? Could you elaborate on your forecast for CAPEX and depreciation?

A3

This year we are projecting high level of CAPEX at JPY 220 billion. Our capital investment is proceeding as the original forecast. By aggressive investments, depreciation will increase towards the yearend.

Q4

In 2017, the *strategic businesses* accounted for approximately 10% in terms of operating profit. What was the contribution for the first half? You mentioned the sales for *life science* is making a progress earlier than expected, but how is the progress of the other *strategic business*?

A4

I cannot disclose you the details for now, but sales are growing steadily for the first half about 25% increase year-on-year. And in terms of operating profit, they now account for around 13% of the total. So they are making steady progress towards the target of 25% in 2020. As for the main contributors, in absolute value, *electronics* are the largest followed by *life science*, which is making a steady progress. Growth of *mobility* is still limited and we are targeting about 5 to 10 years ahead. In terms of *electronics*, electronic materials for smartphones were sluggish for the first half, including the factor that it was a low demand season, but electronic materials for semiconductors is making a steady progress. We can expect acceleration once the demand for electronic materials for smartphones returns in the second half.

Q5

One month has passed since the change of the company name into AGC, what has been the response and what has changed within the company?

A5

This time, we aggressively aired TV commercials. We do feel that these commercials attracted great attention to the change of the company name. The company's commercials being seen so often by their family and the relatives, I think they lifted the motivations of the employees very much. The character of the actor Takahashi Issey san represents "sincerity", and I think this fits our company image as well. As a starting point to build the worldwide unified brand image, I think we made a very good start.

[Glass]**Q6**

In the mid-term plan you said that profit target for glass business in 2020 is USD 45 billion, and it still seems to me that it is a challenging target for now. Please explain on your progress of improving productivity of the architectural and automotive glass business, including the improvement towards reducing logistic cost for automotive glass.

A6

Currently, business situation in Japan for architectural glass is not doing well at this moment, but the effect of price increase will contribute in the second half of the year. The recent price of clear float in Europe is rather high, so it will be difficult to raise the price further more. While in the case of high value added products, such as glass for mirror and decorative purposes, there is still more room for increasing price. Shift to functional products are proceeding as well. In Americas and Asia, we have made rather substantial investment to produce high value added products, so we are expecting to start harvesting the fruits from next year.

In terms of automotive glass, we should be able to earn more profit. Last year in Europe, we were not able to catch up with the increasing orders, and had to deliver from other regions outside Europe. Therefore, we lost profitability. This year, we recovered to some extent in terms of productivity, have to wait until the launch of the new production site in Morocco, which is planned to start at the beginning of next year, to have a good balance of demand and production. It may not make contribution right after the start up, but next year and onward throughout 2020, it would be contributing.

The target of JPY 45 billion of operating profit for the glass segment in 2020 is challenging, but so far we are proceeding as our target.

Q7

In addition to Morocco, you also have plans to launch new facilities in Indonesia and Brazil. Are you prepared to gain profit with a sizable depreciation?

A7

Yes, we are.

[Electronics]**Q8**

For Electronics segment on a year-on-year comparison of 2Q, operating profit decreased. Is this because electronic materials were steady, and covered the decrease in display, which had an impact from the maintenance of the furnace, am I correct?

A8

Yes.

[Chemicals]

Q9

According to your news release regarding revision to the full-year forecast for FY2018, you are mentioning the higher caustic soda price exceeding the company's expectation as the reason for increase in profits. However, since June, market price of caustic soda in Asia has fallen to latter half of USD 300. Could you comment on the forecast of the caustic soda market?

A9

For Chlor-Alkali business, we are not looking only on caustic soda price, but also looking at PVC spread, which ranges with the ethylene price, the raw material of PVC. For the second half of FY2018, we expect the total profit of the Chlor-Alkali business to settle in line with our assumptions made at the beginning of this fiscal year. The caustic soda price has come down recently, but the supply and demand balance remains tight, so we believe that it would go up eventually.

Q10

Do you think the recent drop in caustic soda price is only temporary, and will come back eventually?

A10

The spot price of US\$650/MT to US\$700/MT from last year's second half to this year's first half were rather too high, but the supply and demand balance is still tight, and I would not be surprised to see the price returning.

Q11

Do you expect the caustic soda price to be around US\$500/MT for the second half?

A11

Caustic soda alone would not determine the Chlor-Alkali business, but US\$500/MT is not a bad price for us.

Q12

What do you think of the impact of the low price of ethylene produced in the U.S.?

A12

When shale-based ethylene crackers start operations, having great cost competitiveness, we assume that ethylene in other regions will be dull. We expect the ethylene cost to drop, and we think this is positive for us.

Q13

I would like to ask about the *strategic business of life science*, on page 9. What is the reason for your tenfold increase of the capacity for synthetic drug production at Chiba plant? You have also announced to increase capacity for the biopharmaceutical, but do you have any guaranty on

capacity utilization?

A13

The synthetic pharmaceutical and agrochemical is our original strong area. We have been controlling capacity and focusing on development stage drugs. Due to the amendment of the Pharmaceutical Affairs Act, and due to the recent trend to contract out the production process to a third party, many companies have been requesting AGC, with solid track record, to produce commercial drugs as well. We have sufficient pipelines to fill the new capacity of tenfold.

The situation for biopharmaceutical is the same. To grow this business, it is necessary to have adequate capacity at any time, in order to take in new pipelines.

Q14

My question is regarding *life science*, which is one of your *strategic business*. Is my understanding correct, that your *life science* business does not have influence from the approval given to the drug by the authority? And that AGC can stably grow sales by contracted manufacture and development business?

A14

We are a contracted development and manufacturing organization, CDMO, therefore the approval of the drug will not directly have impact on our business. However, there could be cancellations in some cases, so what is important for us is to have many pipelines, so as to constantly fill the capacity.

End of the file