

## **AGC Minutes of Briefings on Operating Results for 2Q FY2019**

Corporate Communications & Investor Relations Div.

### **Q1**

You have revised down the full-year operating profit forecast to JPY105.0 billion. What is the probability of achieving the forecast?

### **A1**

We are confident about achieving an operating profit of JPY105.0 billion. Market changes in the automobile industry are a concern, but we have already factored them into our forecast. Regarding the electronics segment, shipment volumes of EUV mask blanks have been increasing steadily. In addition, the impacts of the price spread improvement are appearing in the chemicals segment. Therefore, we are positive about achieving an operating profit of JPY105.0 billion.

### **Q2**

You have reduced the full-year forecast for operating profit by JPY20.0 billion. Give us a more detailed explanation of the factors that led to the revised forecast.

### **A2**

Let me explain the glass segment first. Regarding architectural glass in Europe, the cost reduction from the fall in the gas price is being offset by a weak euro. In addition, demand is declining.

The biggest factor behind the downward revision of the forecast is the automotive glass business. Productivity is improving in Japan, but we haven't used up raw glass purchased from an external source. This is because a furnace that had had a problem returned to operation earlier than expected, causing inventories of raw glass purchased from the external source to accumulate. We had expected cost improvements in Europe after the launch of the Morocco Plant, but the drop in demand coincided with the start-up of the plant, resulting in a cost increase. In North America, overall demand, particularly for sedans, is dropping. Our cost reductions are progressing, but demand is declining at a faster pace.

The electronics segment is performing roughly in line with the plan. In the display business, operation of G11 production facilities and shipments are continuing smoothly. In the electronic materials business, shipment volumes are expected to increase significantly in the second half.

In the chemicals segment, operating profit of the chlor-alkali business in the second half is expected to be in line with our expectations, but we will not be able to make up for the operating profit decline in the first half. Operating profit of the fluorochemicals and specialty chemicals business will be weaker than expected due to a decline in demand for semiconductors.

### **Q3**

Regarding the operating profit target of JPY160 billion in the mid-term management plan, you have mentioned that operating profit of the strategic businesses is outperforming the plan at this time. However, my impression is that the hurdles preventing achievement of the target for the next fiscal year are getting high. Do you think you can achieve the operating profit target of JPY160 billion by doing what you have planned, or do you need to take additional measures to achieve the target? What is your understanding of the situation?

### **A3**

We had a tough time in the first half of this year, with minor problems, etc. occurring, and we will take measures to eliminate those problems. Regarding the operating profit target, we have no intention at this time of changing the target of JPY160 billion for the next year.

### **Q4**

Regarding shareholder returns, AGC did not announce a share buy-back this quarter. Is there any change in the basic policy of maintaining the total shareholder return ratio at 50% or above?

### **A4**

We will stick to the basic policy and take measures as necessary.

## Strategic business

### **Q5**

Roughly how much of 2Q operating profit was from strategic businesses? Are you planning to revise the full-year operating profit forecast for strategic businesses?

### **A5**

We projected that operating profit from strategic businesses for the current fiscal year will be JPY28.0 billion and it is proceeding in line with our expectation. Our forecast for operating profit for the next fiscal year is JPY40.0 billion, and we will have no trouble achieving this forecast.

The breakdown of operating profit for the current period of JPY28.0 billion is approximately JPY10.0 billion for the first half and the rest for the second half.

In the life science business, we newly consolidated a synthetic pharmaceuticals active ingredient manufacturer. In addition, capacity utilization has been improving in the biopharmaceuticals business due to an increase in the number of contracts received. Our initial forecast for net sales of the life science business for fiscal 2020 was JPY60.0 billion, but we revised the forecast up to JPY65.0 billion in February this year. If things go on at this rate, we expect that net sales will exceed JPY70.0 billion in fiscal 2020. Our target is to achieve net sales of JPY100 billion or more in the life science business in 2025, but we may be able to achieve the target earlier.

In the electronics business, sales growth is strong for EUV mask blanks and CCD blue filters for smartphones.

Regarding EUV mask blanks, the order volume is growing steadily toward a net sales target of JPY40.0 billion in 2025. In addition, a CCL-related business we acquired has started contributing to the Group's earnings.

**Q6**

What net sales did the strategic businesses achieve in the first half?

**A6**

Cumulative net sales of the strategic businesses increased JPY10 billion or more year-on-year.

Net sales of the electronics-related business increased to JPY33.0-34.0 billion from a little less than JPY30.0 billion in the previous fiscal year.

Net sales of the life science business have grown from a little less than JPY20.0 billion in the first half of the previous fiscal year to JPY25.0-30.0 billion this year.

Glass

**Q7**

By how much do you expect the profitability of the glass segment to improve with the price increase for architectural glass in Japan scheduled for this October? Do you expect the profit increase from the price hike in Japan to be in the lower range of several billion yen?

**A7**

Our sales of architectural glass in Japan and Asia are approximately JPY60.0 billion over six months, and the price increase will be applicable to the Japanese market only. Therefore, the increase in sales from the price increase will not have a large impact on the profitability of the glass segment as a whole. The impact of the price increase will be less than several billion yen.

**Q8**

You have mentioned that the impact from inventories of raw glass purchased from an external source will remain in the automotive glass business in the second half. How much do you estimate the impact will be? Did you incur the same level of cost increase in the first half? Will the impact disappear after the second half?

**A8**

We cannot give you a figure.

There was a larger cost increase in the first half because of costs related to maintenance turnarounds of furnaces and cost of the raw glass purchased from an external source. The impact disappear after the second half

**Q9**

Do you need to continue working on production efficiency improvements for the automotive glass business in Japan in the second half? When do you expect the production efficiency issue to be sorted out?

**A9**

In Japan, demand for high-functionality and complex shaped products, such as glass for automotive head-up displays, is growing rapidly. Accordingly, we have been successively introducing facilities designed to accommodate the production of high-functionality products, but their capacity utilization rates have not improved. In addition, order volumes have been increasing since the second half of last year, which has required us to operate old production facilities that were planned to be replaced with new facilities at full capacity to meet the growth in demand. This has become a major cause behind the cost increase, and we expect that this factor will not be eliminated until about next year.

**Q10**

Your forecast for the operating profit margin in the glass segment in the second half is approximately 2%. Do you aim to raise the operating profit margin to 4% or above in the next year?

**A10**

The downward revision to the forecast was largely due to the profit decline in the automotive glass segment. Meanwhile, operating profit in the architectural glass business is increasing, notably in Europe. Once the issue with the automotive glass business is sorted out, increasing the operating profit margin to 4-5% is a target we should aim at.

**Chemicals****Q11**

Operating profit in the chemicals segment for the second quarter declined JPY4.9 billion from a year earlier. What is the breakdown of the profit decline between the chlor-alkali business and the performance chemicals business?

**A11**

Cumulative operating profit in the chemicals segment declined JPY7.5 billion year-on-year.

The reasons for the profit decline in the chlor-alkali business are that the prices of caustic soda and PVC were lower than we had expected. In addition, there was the impact of the continued high price of ethylene. However, this situation will be eliminated toward the second half.

Meanwhile, the fluorochemicals and specialty chemicals business was affected by the slowdown in the semiconductor and smartphone markets.

On the other hand, the electronic materials business handles products for high-end markets; therefore, it was affected little by the slowdown in the semiconductor market. But, the chemicals segment, which handles semiconductor-related products for general-purpose use, was affected by the market's slowdown. In addition, there was the impact of maintenance turnarounds for production facilities.

Meanwhile, operating profit in the life science business was higher than expected.

**Q12**

Elaborate on the change in operating profit in the chemicals segment from 1Q to 2Q. Why did operating profit decline in 2Q compared with 1Q, when AGC undertook major maintenance turnarounds for chemicals facilities in Japan? In addition, the spot price for caustic soda was higher in the Asian market in 2Q than in 1Q.

I suppose the PVC price spread was not too large in 2Q, with the ethylene price trending downward.

Were there large volumes of caustic soda shipments from Japan in 2Q that led to a deterioration in profitability?

**A12**

The operating profit decline was largely attributable to the price of caustic soda trending downward from 1Q to 2Q. The ethylene price dropped in 2Q, as you mentioned, but we cannot benefit from the price fall because we carry an inventory of ethylene. We will start benefitting from the ethylene price decline from the second half.

The impact of the caustic price fall was greater than the impact of the cost increase due to maintenance turnarounds at the Chiba Plant (a large-scale maintenance turnaround) and the Kashima Plant, resulting in operating profit declining from 1Q to 2Q. A maintenance turnaround in Indonesia, at our main caustic soda manufacturing plant, was also implemented in 2Q.

**Q13**

How much of an improvement in operating profit do you expect after completion of the maintenance turnarounds at the Kashima Plant and in Indonesia?

**A13**

We expect a profit improvement of at least JPY several billion.

**Q14**

Caustic soda market conditions tightened with the impacts of India's BIS certification requirements starting to fade from around this spring. However, the price has subsequently weakened. What is currently occurring in the market? What is your take on the outlook for caustic soda price trends?

**A14**

At this time we do not expect the caustic soda price to be strong in the second half of the year.

The impact of India's BIS certification requirements is gradually fading. On the other hand, an increase in the inflow of Chinese imports following the slowdown of the Chinese economy is weighing on the price.

Meanwhile, the PVC price has been stable. Therefore, the spread between PVC and ethylene prices will widen with the ethylene cost reduction, and we expect operating profit in the chemicals segment to improve in the second half of the year.

**Q15**

Give us details of the losses in the Group's subsidiary Ise Chemicals Corp. Do you expect that the Group's earnings

will continue to be affected by Ise Chemical's losses in 3Q and thereafter? Were there any subsidiaries besides Ise Chemicals that posted one-time losses?

**A15**

While we assume that Ise Chemicals has provided an explanation on this in its financial results announcement, an equity-method affiliate of Ise Chemicals posted extraordinary losses, which were recognized in AGC's financial statements on a consolidated basis. Ise Chemicals had already recognized the extraordinary losses in its financial statements for the previous fiscal year. However, AGC prepares financial statements using IFRS, so it recognized the extraordinary losses in the financial statements for the current period. The impact will be temporary. No other consolidated subsidiary posted extraordinary losses.

**Q16**

Do you expect operating results in the chemicals segment for the second half to be in line with the plan?

**A16**

We believe so. The ethylene price has dropped further than expected. Our initial price estimate was \$900/ton, but the price has currently dropped to below \$800/ton. The reason for the weak price is that expansion of shale gas development is weighing on the ethylene price. The market price of caustic soda is currently weaker than expected. However, with the price of ethylene being lower than expected, we expect the spread to improve and operating results to be back on track according to the plan in the second half.

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