

## AGC Inc. Minutes of Briefings on Operating Results for 3Q FY2019

Corporate Communications & Investor Relations Div.

### **[Overall company]**

Q1

Operating profit for 3Q looks better than expected. How did you interpret it within the company? Did it exceed the company's projections? Was 3Q operating profit affected by any special factors?

A1

There were no special factors involved. The first half of this year started out slowly due to an increase in manufacturing costs following the start-up of large production facilities. Our initial projections were that earnings would improve in the second half with an increase in the capacity utilization of production facilities, and our interpretation is that things are going as expected. We assume that analysts and investors had expected operating profit to rebound from 3Q after bottoming out in 2Q, and things turned out as you had expected.

Q2

What is the reason for forecasting consolidated operating profit would decrease from 3Q to 4Q?

A2

Our operating profit tends to be weighed toward 4Q, assuming that normal seasonal factors are at play. However, taking into account uncertainties prevailing in the economic climate this year, we cannot expect the same level of profit increase as in a normal year in the glass business and the chemicals business. At this point in time, we expect operating profit in 4Q to be at the same level as in 3Q.

Q3

You have revised down the forecast for the operating profit of strategic businesses. What is the reason for you not revising the operating profit forecast for this year?

In addition, you have mentioned that you would not revise next year's sales target for EUV mask blanks, which caused the downward revision of operating profit of the strategic businesses. Do you expect operating profit to be in line with your projections for the next year?

A3

We have revised down our operating profit forecast for strategic businesses by 4.0 billion yen, but maintained the operating profit forecast at 105.0 billion yen. The reason is that some of the core businesses overachieved our projections to make up for the underachievement in strategic businesses on the whole. Regarding strategic businesses, we are confident that sales will grow to 175.0 billion yen in 2020 with the effects of newly consolidated subsidiaries. Meanwhile, we think it is necessary to closely examine the

operating profit forecast of 40.0 billion yen, because strategic businesses have both high profit businesses and newly started businesses that are yet to become profitable. Please wait until February next year for the release of next year's earnings forecast for strategic businesses.

Q4

What is the other core business that achieved a greater operating profit than initially projected?

A4

That is the display business. Although manufacturing costs increased following the start-up of large production facilities in the first half, capacity utilization has subsequently risen steadily, yielding higher profits than initially projected.

Q5

According to your operating profit forecast for 4Q, operating profit in the glass segment is projected to increase sharply to 4.8 billion yen from 2.3 billion yen for 3Q. On the other hand, operating profit in the electronics segment is projected to decline sharply to 6.1 billion yen for 4Q from 10.9 billion yen for 3Q. What is the background to this forecast?

A5

We started to disclose a full-year earnings forecast by segment from this year. In view of the current situation, we see the forecast for the glass segment as too bullish, while that for the electronics segment as too bearish. Meanwhile, we expect earnings in the chemicals segment to be in line with the earnings forecast.

Q6

What is the outlook for next year's earnings?

A6

Please wait until the announcement of the financial results next February for our next year's earnings forecast. We cannot talk about the outlook at this time.

To achieve this year's operating profit target of 105.0 billion yen, we need to deliver an operating profit of 63.5 billion yen in the second half. Achieving our projections for the second half will lead to momentum gathering for the next year. As an upside factor, we expect strategic businesses to grow further. Meanwhile, it is difficult to predict the outlook for the glass and other businesses given the current economic climate.

Q7

Do you see a recognition of an impairment loss on the automotive glass business in North America and productivity improvement in the domestic automotive glass business as positive factors for the next year?

A7

Yes, they will serve as positive factors. In the automotive glass business in North America, depreciation

expenses will decrease about 1.0 billion yen in 4Q due to the recognition of an impairment loss, which will translate into a profit increase of nearly 4.0 billion yen annually. Another thing is that the domestic automotive glass business had problems this year. With these problems resolved, we can expect profit growth in the domestic automotive glass business.

Moreover, manufacturing costs increased in the first half of this year due to the start-up of large production facilities for display glass, but the situation has changed following the improvement in capacity utilization from the second half. We believe this will be a big positive factor that affects our projections for next year's earnings.

Q8

AGC has set a policy aiming at a total consolidated shareholder return of 50% or more. Taking into account the recognition of an impairment loss, total shareholder return will be 50% or more from the dividend payment alone this year. Can I assume that there will be no acquisition of treasury shares this year?

A8

Our policy is to aim at a total consolidated shareholder return of 50% or more, so your understanding is correct.

[Glass]

Q9

The year-on-year decrease in operating profit narrowed in 3Q. Would you provide us with the reasons separately for the automotive glass business and the architectural glass business?

You have mentioned that AGC has reduced capacity utilization and is experiencing price falls in the architectural glass business in all regions except for the Asia/Japan region. Please give us details.

A9

The automotive glass business struggled and performed very badly in the first half of this year.

The productivity of automotive glass is improving compared to the same period of the previous year. Meanwhile, we are concerned that the automotive glass business will continue to struggle in 4Q with demand being weak in Europe and China.

The architectural glass business experienced growth in profit until the first half of this year. However, demand has recently weakened, so we have reduced capacity utilization. In addition, prices of architectural glass are on a downward trend in Europe and the US, and the business is performing weaker than in the same period of the previous year.

Q10

By how much have you cut back production of architectural glass?

A10

Glass manufacturers across the industry have reduced supply capacities in Europe, so we don't see a

need for such a sharp production cutback as we did before.

We have reduced capacity utilization by about 10%.

[Electronics]

Q11

LCD manufacturers have cut production sharply. Is this impacting AGC's LCD glass substrate business? Also, there are concerns about falling prices of LCD glass substrates due to a deterioration of LCD manufacturers' earnings. What is your take on this?

A11

Customer's situations vary from region to region. In line with LCD manufacturers' shift in focus to China, AGC has also shifted production of LCD glass substrates to China. We have made investments and established long-term relationships with customers, so the business has not been impacted beyond our expectations so far.

We assume LCD manufacturers are suffering weak performance, but we have faced a similar situation in the past. We are under strong pressure from customers to reduce prices. However, as the link between LCD manufacturers' performance and glass prices is weakening, our view is that things will progress according to our expectations.

Q12

Operating profit in the electronics segment in 3Q was 10.9 billion yen, an increase of 7.9 billion yen from 2Q. What are the factors behind the profit increase by product?

A12

Operating profit in the electronics segment is weighed toward the second half in a normal year, because customers raise capacity utilization in the second half of the year.

This seasonal factor has had a greater impact in the electronic materials business this year than in a normal year. Operating profit in the display business also increased following the improvement in the capacity utilization of large production facilities. However, the electronic materials business made a greater contribution to operating profit growth.

Q13

Electronic materials include materials for optoelectronics and semiconductor-related products. Which product contributed most?

A13

Both materials for optoelectronics and semiconductor-related products contributed to operating profit growth.

Q14

Regarding 3Q operating profit in the electronics segment, what are the reasons for the higher shipment volume of filters for smartphones than in a normal year?

Did EUV mask blanks have any problems such as a delay in the start-up of production facilities at the customer's side?

A14

The increased number of cameras per smartphone is driving the shipment volume increase of filters for smartphones.

Meanwhile, shipment volume of EUV mask blanks did not increase as we had expected in the course of the customer's preparations for mass production. The volume of mask blanks used per EUV exposure system was lower than our initial projections. However, we are not concerned about the long-term prospects for EUV mask blanks, and continue to see great prospects for this business toward 2025.

Q15

Isn't there any possibility of increasing competition or a risk of the price of EUV mask blanks falling?

A15

We don't see any at this time.

Q16

You have mentioned that sales of EUV mask blanks are forecast to fall short of the target for this year. What is the progress through 3Q?

Do you expect to achieve the sales target of 20.0 billion yen for the next year?

A16

We are not concerned about its long-term prospects, but shipment volumes are currently weaker than we initially expected due to the impacts of customer's moves and other factors.

With our customer launching mass production, as reported in the media, our shipment volumes are expected to increase. Meanwhile, when looking at things over the span of a quarterly or six-month period, there are times when shipment volumes do not increase as much as we expect due to the impacts of customer's moves, etc.

Q17

You have mentioned that sales of EUV mask blanks are expected to fall below the target for this year. Aren't you going to revise the sales target for next year?

A17

EUV mask blanks sales are likely to fall short of this year's target, but we don't think it's necessary to revise next year's target.

[Chemicals]

Q18

The price of caustic soda is on a downward trend. Did this affect earnings in 3Q? What is the time lag between changes in market conditions and AGC's earnings?

A18

We consider the price of caustic soda to be at a considerably low level.

Meanwhile, the total spread for caustic soda, PVC, and ethylene is important when assessing earnings of the chemicals segment. The ethylene price was low in 3Q, which had a positive impact on our earnings.

As for time lags, there is a lag of about two to three months before the impacts of an ethylene price decrease emerge because of in-process inventory. The price of caustic soda is not directly linked to the spot price, but its price change affects our earnings earlier than the price change of ethylene.

Q19

What is your outlook for caustic soda market conditions going forward?

A19

Our initial assumption was that demand for caustic soda will increase once the impacts of India's BIS certification requirements are mitigated, causing the price to rebound. In reality, however, prices have remained weak due to the impacts of a slowdown in China's economy and other factors, and we cannot take a bullish outlook. The outlook for caustic price trends in Southeast Asia is not clear.

Q20

Operating profit in the life science business in the chemicals segment increases from 2Q to 3Q in a normal year, but not this year. Why is that?

A20

In a normal year both revenue and operating profit in the life science business exhibit an upward trend toward 4Q. However, its performance fluctuates according to order volume, and there is nothing special about this year.

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