

## AGC Inc. Minutes of Briefings on Operating Results for FY2020

Corporate Communications & Investor Relations Div.

### **[Overall company]**

**Q: As its new CEO, in what direction do you want to take AGC?**

A: Our Company was founded in 1907 and began mass production of flat glass in 1909. It was a challenging business at the time. Since then, we have provided the materials the world demands, such as those to make televisions and automobiles, but I feel that our ability to create new things has declined somewhat. It is difficult for a company to survive in a mature industry unless it constantly pursues new businesses, even while going deeper into its established businesses. Under the leadership of former CEO Shimamura, I have mainly been involved in R&D and new business creation as CTO. I believe it is my mission to create a structure in which both our core and strategic businesses can succeed.

**Q: A variety of issues have been raised in the new mid-term management plan. Of these, which do you consider to be the most pressing?**

A: During the previous mid-term management plan, we aimed for ambidextrous management, or deepening our core businesses and exploring strategic businesses. As a result, we were able to deepen some of our core businesses, but not others. During this mid-term management plan, I believe we need to deepen the core business that we left unfinished in the previous plan, while making the strategic businesses an even stouter pillar of AGC.

**Q: What advantages does AGC's DX have over that of its peers?**

A: Unlike the assembly industry, the materials industry has a lot of aspects that are analog. In this sense, it is an area that is difficult to digitalize, but AGC has made considerable strides within the materials industry, having started DX at its factories back in 2015. I believe this is our strength. We will further evolve DX to provide added value to customers by connecting the entire supply chain digitally. Specifically, AGC will digitize and optimize the processes from order reception through to factory production and shipment.

Our strength will come from doing our all to digitalize the analog parts.

**Q: The target is for net zero carbon, but will the glass business which emits considerable CO<sub>2</sub> remain in the business portfolio in 2050?**

A: Our calculations assume AGC will aim for net zero carbon by 2030 while continuing its glass business. In addition, a 50% reduction per unit of sales means that we will expand businesses with low GHG emissions. In 2050, it will be difficult to follow the same technological path as now, and innovation will be necessary. The plan will be reviewed based on the international circumstances and the situation of each country. In addition, achieving our target will also require technological innovation beyond the

confines of a single company.

**Q: With regard to the balance of operating income forecasts for 1H and 2H of fiscal 2021 disclosed in the summary financial results (tanshin), why is the difference between 1H and 2H smaller than usual, at ¥10.0 billion?**

A: These forecasts have been made a bit conservatively. When we formulated the budget, we factored in a severe impact from COVID-19, but that has yet to emerge as of late. Southeast Asian vinyl chloride spreads are also good. I think ¥100.0 billion is achievable given the current situation. Normally, there is a difference of ¥15.0 billion or ¥20.0 billion between the halves, so I don't think it would be surprising to see similar numbers.

**Q: Regarding the outlook for profits in strategic businesses, operating income in 2020 exceeded ¥44.0 billion. What are the factors behind the overshoot from 3Q? Also, why is it that sales will increase by just under ¥40.0 billion in the next fiscal year while profit growth will remain at over ¥5.0 billion?**

A: A change in the allocation of common expenses has pushed up operating income. Even without that impact, the steady expansion of Electronics and Life Science has boosted profits significantly. Especially in 4Q, demand for optoelectronics products, which usually falls due to seasonal factors, did not drop but instead increased greatly.

The reason for the small increase in operating income relative to the increase in sales for the next fiscal year is higher capital investment and an increase in depreciation expenses due to shortening of the depreciation period of semiconductor-related equipment.

**Q: Is it correct that even excluding the effects of the allocation of common expenses, there would still be an overshoot?**

A: Yes, it is. The overshoot was mainly in Electronics.

**Q: There has been no segment disclosure of assets since IFRS was adopted. Is it difficult to disclose the amount of assets by segment?**

A: We have gradually expanded the scope of our disclosure to include the breakdown of profits by chemical product sub-segment, rough estimate of ROCE in each business, and others. We cannot promise disclosure of assets, but we do want to continue enhancing our disclosure.

## **[Glass]**

**Q: After seeing the slide showing that despite strategic businesses accounting for half of operating income in 2025, ROE will not reach 10%, I get the impression once again that the core businesses are weighing down the company. Looking by business, ROCE in the architectural and automotive glass businesses are expected to fall short of 10%, even in 2023. Last year we were told that "if ROCE does not increase, we would consider shrinking our assets." Has the direction stayed the same?**

A: Commodity sales account for a high percentage of sales in both architectural and automotive glass businesses. We need to both improve the profitability and raise the added value of commodity products. Automotive glass creates high added value in the field of Mobility, which we have positioned as a strategic business. We will continue to enhance the added value of architectural glass, but it will be difficult to raise ROCE just through those efforts.

One reason why our overall ROCE does not rise is that the three glass businesses (architectural glass, automotive glass, and displays) are asset heavy. Although ROCE in displays is not high, its cash-generating power is excellent, so we regard this as an important business. There is an opportunity in functionality enhancement in automotive glass from future trends in CASE. I think it is time to change the business itself by improving functionality as part of the mid-term management plan. Structural reforms will reduce costs in architectural glass and improve profitability toward 2023. However, it is difficult to achieve ROCE of 10% or more by just continuing with the measures implemented to date. Measures will vary from region to region, since architectural glass differs from automotive glass in that it has regional characteristics. Moves such as integration with Central Glass, which has been discussed in Japan, may also be considered in other regions. Going forward, we will consider measures from an industrywide perspective and implement them with a sense of speed.

**Q: While glass sales will not increase much in 2023, you are forecasting considerable growth in operating income, to ¥33.0 billion. Other than reducing fixed costs by ¥15.0 billion, what are the factors behind the increase in profits? Also, please tell me the background to the cancellation of the integration with Central Glass.**

A: We already have a plan to reduce fixed cost in the glass segment by ¥15.0 billion versus 2019. The segment's operating income in 2019 was ¥9.3 billion, and by adding ¥15.0 billion, it would become the level of ¥24.0 billion. In addition, we believe we can achieve ¥33.0 billion by changing the sales composition to focus on products with higher added value. We will also cut capital investment in the glass business significantly. This means we will not look for profit growth through expansion of scale. Going forward, we plan to make this business one that generates profits without relying on sales expansion.

As announced, negotiations with Central Glass continued, but the two sides failed to reach an agreement on terms and conditions. Please understand that I cannot comment on the details.

**Q: Is there any possibility of closing additional furnaces?**

A: Nothing has been decided at this point.

**Q: Are there not business opportunities for AGC in EVs, such as high value-added automotive glass with heat-blocking and thermal insulation properties and environmentally friendly refrigerants?**

A: We think demand for materials will change greatly as EVs and autonomous driving advance. In addition to thermal insulation to increase energy efficiency, there is also a growing need for lighter weight. Not only materials but also processing technology are required to meet such demand. In this

respect, I think AGC can provide fresh added value. Although the automotive glass business is currently seen as challenging, the advance of CASE has increased demand for new products, creating a business opportunity for AGC. We will continue to put efforts into this area.

**Q: Is it possible to convert to all-electric glass melting for architectural glass and glass for liquid crystal displays?**

A: Existing technology can be used for small lots, but it is difficult for large volumes. We're looking at how much volume we can melt with electricity alone, and how far we can do with hybrid technologies, but we don't have an answer at this point.

## **[Electronics]**

**Q: Operating income for Electronics of ¥30.0 billion in 2021 and ¥40.0 billion in 2023 looks bearish. What are the reasons behind this?**

A: We have been expanding production facilities in Displays to meet the growing demand for LCD glass substrates in China. The increase in depreciation costs resulting from this investment will temporarily hurt profitability. Shipments of electronic materials will increase steadily, but we are also shortening the depreciation period for semiconductor-related products, which will increase the depreciation burden. Due to these factors, growth in operating income will not outpace the fundamentals.

**Q: I would like to know more about the segment earnings forecasts shown on page 19 of the mid-term management plan materials. If EUV mask blanks were to grow, wouldn't Electronics' operating income increase a little more in 2023?**

A: In the Electronics segment, we expect growth in EUV mask blanks and optoelectronics materials. However, our earnings will temporarily deteriorate as we plan to make new investments in China, our main battleground for display glass. Looking only at electronic materials, I think there is still some room for growth.

**Q: Is the reason why Electronics is not growing that growth in EUV mask blanks is below expectations?**

A: Sales are growing 50% annually. There is no change in the image of 2025 being over ¥40.0 billion. The size of the market is much larger than we expected a few years ago.

**Q: Sales of EUV mask blanks in this fiscal year are 1.5x higher than last year's, but according to the past story, sales will exceed ¥20.0 billion. Is there a downside factor?**

A: I don't think we have indicated a specific sales level, but recently demand from customers has been somewhat pushed back. All of our major customers are about to go into mass production, so we have no concerns about the outlook. Sales momentum may be a bit weak in the short term compared with the previous story, but the overall story has not changed much. I think we can steadily take advantage of market growth.

**Q: Do you mean that EUV mask blanks are being delivered to multiple customers, and that they will expand as multiple customers move into the mass production phase?**

A: That's correct. In the mass production phase, customers' requirements increase and AGC's shipment volume also increases.

## **[Chemicals]**

**Q: The plan shows the Chemicals segment investing a total of ¥300.0 billion over the three years from 2021. Do you think this investment will help you achieve your Chemicals sales and operating income targets? Other Life Science companies are making sizable investments. Is the investment in the Life Science business sufficient?**

A: There are two ways to grow the Life Science business. The first is to expand by buying other companies' businesses and facilities. The second is to increase facility capacity through in-house investment. During this mid-term management plan, we believe it is possible to expand our Life Science business by increasing our facilities' capacity through in-house investment, or the second method. That said, the Life Science industry is undergoing great change, so M&A is entirely conceivable. In that case, additional investment would be required.

**Q: The operating income forecast for 2023 is tilted toward Chemicals, but what products are expected to increase?**

A: In Chemicals, Life Science is growing. Fluoride specialty products for aircraft and automobiles have recently slowed considerably due to the COVID-19 disaster, but we anticipate they will rebound sharply in 2023. In chlor-alkali, caustic soda was affected by COVID-19 in 2020, but we expect it to recover in 2023. Vinyl chloride is also growing steadily, so we are highly likely to see an increase in profits.

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