2024.8.1

Minutes of Briefings on Operating Results for FY2024.2Q

Corporate Communications & Investor Relations Div.

[Overall]

Q: Is the 130 billion yen full-year operating profit plan presented this time a level that you can commit to? Is there still a risk of a downward swing?

A: The full-year operating profit plan presented here is a conservative estimate; the initial forecast announced in February was 60 billion yen for the first half and 90 billion yen for the second half, and the actual results for the first half were 56.7 billion yen, 3.3 billion yen less than the initial forecast. The company lowered its full-year operating profit forecast for the second half to 73.3 billion yen, 16.7 billion yen lower than its initial forecast. Risks have been factored in, and the likelihood of achieving the forecast is high.

Q: What is the upside potential and downside risk in the earnings forecast you have presented?

A: Upside potential exists in Electronic Materials, Performance Chemicals, and Essential Chemicals. There is upside potential for Electronic Materials, depending on the situation. Performance Chemicals could see an upward swing, as we are increasing capacity amid strong inquiries. Essential Chemicals could be a plus since we do not think market conditions will drop to a lower level than they are now. The downside risk is in the Biopharmaceuticals CDMO business. Although we have factored in quite a bit of risk, we continue to be cautious about the situation in the U.S.

Q: What is the strength or weakness of each segment in the second half forecast when comparing the initial forecast with the current forecast?

A: Compared to the forecast at the beginning of the term, we expect an upward swing in the Electronics and Automotive segments and a downward swing in the Life Science and Other segments.

[Architectural Glass]

Q: What is the outlook for demand trends and margins for Architectural Glass by region? AGC expects sales and profits to increase in the second half of the year compared to the first half, but are there any risk factors?

A: In Asia, Japan, which was weak in the first half of the year, is on a recovery trend, and sales and profits will increase due to demand attributable to subsidies. In Europe, there is the impact of the sale of the Russian business, but we will work to improve profitability through pricing policies and adjustments in the operation of some facilities.

[Automotive]

Q: Automotive production volume is weaker than you assumed at the beginning of the fiscal year, but why did you leave the full-year forecast for Automotive unchanged? Have you revised volume and price assumptions of Automotive?

A: We have not revised our volume and price assumptions. In the first half, volume was lower than expected due to customers' quality problems, but for the full year, customer production volume will recover and we expect to land in line with our initial forecast. We have been implementing structural reforms in conjunction with our pricing policy, and the effects of these reforms will be realized.

[Electronics]

Q: What is the progress and outlook for structural reform of the Display business? Prices are currently "yen-based," but is there any possibility of a revision?

A: Structural reforms are progressing well, and capacity reductions are underway. Productivity of facilities has improved and costs are decreasing. As for transactions in yen, it is an industry practice and transactions of other glass companies are also "yen-based. It is difficult for us to take the lead in changing this.

Q: Regarding the Display business, what was the utilization ratio of panel manufacturers in the 2Q compared to the 1Q? Also, what is the outlook for the second half of the year? With panel prices beginning to fall, what is the response to further price revisions?

A: In terms of overall demand for display glass, it increased late single-digit % in 2Q compared to 1Q, and is projected to decrease by a low single-digit % in 3Q compared to 2Q. Other manufacturers are also working on price revisions, and we will also continue to be proactive in price revisions.

Q: How do you see operating profit in the second half of Display business compared to the first half? Also, what are the sales volume and price trends for Display in 2Q?

A: We expect operating profit in the second half to be at the same level as in the first half. Although the yen continues to depreciate, we will compensate for this by improving productivity and structural improvements. 2Q volume increased by a late single-digit percentage compared to 1Q.. 2Q prices decreased slightly due to the product mix in the quarter, but we have not lowered prices.

Q: What was the QoQ and YoY volume growth of EUV mask blanks in 2Q?

A: I cannot talk about specifics. Sales are expected to increase more than 1.5 times in 2024 compared to 2023. There is a high possibility that sales will surpass 40 billion yen, and we are making steady progress in line with that.

Q: With the semiconductor market in a recovery phase, it was a bit surprising that 2Q sales of Electronic Materials were flat compared to 1Q. 1Q sales of EUV mask blanks were a bit stronger? Could you explain the QoQ movement by major products in Electronic Materials and the outlook for the second half?

A: Semiconductor-related products have continued to be strong. 2Q was a period of low demand for optoelectronics, and sales of Electronic Materials were flat compared to 1Q. As for the outlook for the second half of the fiscal year, sales and profits will increase compared to the first half because Electronic Materials are strong in the second-half.

Q: What is the feasibility of achieving annual sales of more than 40 billion yen for EUV mask blanks this fiscal year?

A: We cannot make a commitment at this midpoint of the fiscal year, but shipments are on an increasing trend, so the probability of achieving this goal has increased considerably.

Q: Did you see any movement in 2Q, particularly in optoelectronics, such as an advance in demand for major smartphone-related products? Unlike normal seasonality, we often hear that "demand for older models is strong," etc. How about AGC?

A: We have not heard of any particular advance in demand. We expect shipments to increase in the second half of the year. In the past, there was a considerable concentration of shipments in October and November for the Christmas shopping season and Chinese New Year. Compared to the past, shipments are no longer concentrated, but our shipments are still expected to increase in the second half of the year.

Q: EUV mask blanks may reach 40 billion yen in sales this fiscal year, but what is the composition ratio of logic foundries and DRAM, and is AGC's technology at the same level as TOP manufacturers? What is the progress of glass core substrates?

A: In terms of the ratio of logic and DRAM, logic is by far the larger component at the moment. Our technology is at the same level as that of the TOP manufacturers. We believe that we have TOP-level technology, although the customer evaluation points are different. As for glass core substrates, as a glass manufacturer, we have substrates and processing technology, and have high expectations for the future. It is not a business that will generate profits in this medium-term business plan, but rather a business that will flourish in the 2030s.

Q: What was the reason for the sharp increase in 2Q margins in the Electronics segment?

A: Cost improvements in Displays were very effective. In addition to an increase in sales volume, the effects of structural improvements and productivity improvements were largely realized in 2Q. In Electronic Materials, semiconductor-related sales were firm, but optoelectronics sales were flat compared to 1Q due to a period of low demand.

[Chemicals]

Q: Regarding the chlor-alkali market, I believe there was limited supply from China to India in 2Q , but what was the impact of that?. Also, is the BIS certification mandate in India a positive or negative factor for AGC?

A: There has been no major impact. In terms of market conditions, the high ethylene price at the beginning of the year has been resolved, and there are some positive factors such as the shortage of containers, which will raise the price of PVC, but it is not a major shift, and we think the current situation will continue. The BIS certification mandate in India will also have no major impact.

[Life Science]

Q: What is the reason for assuming that the second half operating income plan for Life Science will improve by about 4 billion yen compared to the first half?

A: The operational issues are being resolved, and the demand situation is showing signs of improvement.. In the second half of the fiscal year, the improved utilization of the U.S. Boulder plant and the start of operations at the new facility in Denmark, which had been delayed, will contribute to the improvement.

Q: What is the current status of the biopharmaceuticals CDMO business and what are your plans for the next fiscal year and beyond? Also, how much restructuring margin will be generated in the next fiscal year

and beyond as a result of the impairment loss incurred this time?
A: Although there will not be a sharp recovery in the next fiscal year, inquiries are increasing. The Life Science's current state shows that it is in a position to return to profitability in 2026 and can aim to achieve operating profit of 30 billion yen as early as possible in the next mid-term plan. The impairment loss is largely due to goodwill. Goodwill is not amortized and has no impact on operating profit. Therefore, the decrease in depreciation and amortization expenses resulting from the impairment loss is expected to be in the low double-digit hundred million yen per year. The restructuring effect of the current headcount reduction is approximately 1 billion yen for this year. Next fiscal year, the restructuring will take effect for the full year, so the effect will be a little larger. We believe that we will be able to return to a profit growth trend from the next fiscal year onward.

Q: In the financial results of Lonza and others, they emphasize that there are signs of a recovery in demand for early stage. Based on the inquiries and orders received for AGC's biopharmaceuticals CDMO business, please explain the business environment for the second half of the year and beyond.
A: Orders and inquiries for development products have decreased due to a decrease in the inflow of funds to biotech ventures as a result of high interest rates in the US. Since the beginning of this year, orders for development products, which had stopped, have recovered. We presume that this is due to the fact that development of new drugs cannot remain halted and that the move is in anticipation of a change in U.S. interest rate policy in the second half of this year. We believe that this move will lead to an increase in sales in one or two years' later. As for the second half of this year, the Boulder plant in the U.S. will start full-scale operations. In addition, the new facility in Denmark will begin operations, which will contribute to improved earnings.

Q: Will the biopharmaceuticals CDMO business really be profitable when demand returns? What is your awareness of the problems with the current cost structure and what measures are you considering to improve the break-even sales? Please explain, including the contents of page 41 of the financial results presentation.
A: As stated on page 39 of the financial results presentation, profitability is determined by whether or not the fixed costs of manufacturing can be covered by sales. The structure is such that if sales return to normal, profits are sure to be generated. Since the profitability of the business is not low by nature, we can make a profit as long as we can obtain a certain level of orders.

Q: Is the delay in the construction of the Denmark expansion mentioned on page 27 of the financial results presentation a new topic that has come up recently? When were the dates originally scheduled, and to when were they pushed back? Also, when you say delays in contracted projects, there may be a variety of delays, but are you mainly referring to the new line in Boulder, U.S? If so, please let me confirm the extent of the delay and whether it is a problem on AGC's side or a customer factor.
A: As stated on page 39 of the financial results presentation, the expansion facility for animal cells in Denmark was scheduled to go into operation in mid-2023, but due to personnel shortages in construction and other factors, it was delayed by about one year. In Boulder, U.S., the projects for which orders have already been received will surely generate sales and profits if we can manufacture, but the start-up was delayed. In Seattle, the company narrowed down orders last year because of improvements in its facilities, but suffered from the inability to win new projects. In Denmark, sales declined due to the loss of orders from customers that were originally scheduled due

to delays in capacity expansion. While some of the delays are due to customer factors, a significant portion is due to problems with our facilities and operations.

Q: Regarding the impairment of Biopharmaceuticals CDMOs, in the U.S., in addition to "goodwill," "tangible fixed assets and intangible assets other than goodwill" were also subject to such impairment. Was this due to the deterioration of future order prospects for Boulder in the U.S.?

A: Compared to the two European sites, the U.S. site has a much more difficult future outlook and current conditions, so the impairment went beyond "goodwill". The impairment in the U.S. was mainly in Longmont for gene cell therapy and in Seattle, where the company is mainly entrusted with animal cell development projects, and was very limited in Boulder, where commercial projects are handled.

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