

Minutes of Briefings on Operating Results for FY2024.3Q

Corporate Communications & Investor Relations Div.

[Overall]

Q: Please explain ups and downs of 3Q results by segment and the direction of 4Q operating profit by segment .

A: First, I would like to explain the difference between the 3Q results and our expectations. In Architectural Glass, both net sales and operating profit were below expectations. The main reason was lower-than-expected volumes and prices in Europe. In Automotive, net sales were in line with expectations, but operating profit was lower than expected. The main factor was higher costs due to production and shipping issues in the U.S. In Electronics, both net sales and operating profit were higher than expected. In Display, shipments were slightly below expectations, but operating profit was in line with expectations due to improved productivity. In Electronic Materials, shipments of optoelectronic materials were brought forward to the 3Q, and both net sales and operating profit were higher. In Chemicals, net sales of Essential Chemicals and Performance Chemicals were down, but operating profit was in line with expectations. Life Science had higher-than-expected net sales and operating profit due to one-off revenues.

Next, I will discuss company-wide operating profit for the 4Q. In past years, 4Q profits have been on par with or slightly higher than 3Q, but in this fiscal year, there is a sense of uncertainty, and there is a possibility of some weakness. In Automotive, losses due to issues in the U.S. are expected to improve, but optoelectronics materials are expected to see a reactionary decline from the strong 3Q, making the outlook difficult. The current difficult environment for Architectural Glass will continue especially in Europe. In Electronics, shipments of glass substrates for LCDs are expected to decline somewhat due to panel makers' capacity utilization adjustments. In Electronic Materials, shipments are expected to increase in semiconductor-related products and decrease in optoelectronic materials. In Chemicals, product market conditions in Essential Chemicals will remain low, and in Performance Chemicals, shipments will be firm but may be affected by the product mix. In Life Science, Biopharmaceuticals CDMO business expects increased operations in Denmark, but expects to see a drop in the one-time revenues in 3Q.

[Architectural Glass]

Q: What is the situation in Europe for Architectural Glass? What is the outlook for volumes, prices and profitability? Are there any additional production stoppages and/or personnel reductions?

A: Performance has been sluggish, especially in Germany. It will probably be some time before business performance improves. AGC has stopped two furnaces for cold repair since 2Q. Supply and demand have been adjusted. We have been raising prices since June this year, but the impact on business performance has been limited. We are planning to reduce the workforce in Belgium, which is expected to contribute to earnings from next year onward.

[Automotive]

Q: Operating profit of Automotive fell sharply in QoQ. Please provide details of the production and shipping issues and the extent of cost increase in QoQ. Have the production and shipping issues been resolved? What is the progress of the business performance compared to the company's plan excluding the trouble in the U.S.?

A: U.S. suffered a cyber attack at the end of last year and production was temporarily halted. In order to prevent any impact on customer production, we continued to supply products through unreasonable operations, which caused confusion at the manufacturing site and increased costs due to production and shipping problems. In addition, transportation costs also increased due to shipping glass from other sites to the U.S., and profits deteriorated rapidly. Although 4Q is expected to improve, it will still take some time for production and shipping to stabilize. Excluding this, we were close to our original plan.

[Electronics]

Q: Regarding the price of display glass, Corning is aiming for a double-digit% price increase in the second half of this fiscal year. Is AGC also aiming for a similar level of price increase? Do you expect further price revisions over the next fiscal year? Are you considering introducing a formula that takes foreign exchange rates into account?

A: I cannot answer specifically about future prices. We have been asking customers to pay fair prices for some time, and we will continue to review prices. It is difficult for us to change the business practice of yen-denominated transactions on our own initiative.

Q: Was there a decrease in profit for Display QoQ? Please provide a breakdown of the increase/decrease in profits QoQ, with reference to positive and negative factors.

A: Operating profit by sub-segment is not disclosed. QoQ profit for Display was lower due to a decrease in shipments.

Q: How much did net sales of EUV mask blanks grow in YoY? Is there any difference in growth depending on the customer? Also, it appears that one of the competitors will be adding production lines in the second half of the year, and we would like to know how AGC plans to progress its future capacity expansion.

A: We have been saying for some time that net sales would be more than 1.5 times vs. last year's level and that there is a possibility of achieving annual net sales of 40 billion yen. The 3Q results were in line with that line. We are continuing to increase capacity according to customer demand.

Q: Regarding EUV mask blanks, the performance of the major North American semiconductor manufacturer is sluggish, although their R&D activities remain vigorous. In addition, Taiwanese foundries and DRAM makers appear to be more cautious about introducing EUV than in the past. The growth rate in net sales of EUV mask blanks business should slow down after 2025 compared to 2024. What growth rate do you think will be likely?

A: EUV usage is increasing in cutting-edge semiconductor memory devices in addition to logic devices, and the market itself is expected to expand beyond 2024. As AGC's EUV mask blanks business is growing significantly in 2024, the growth rate will probably decline in 2025, but the business itself is expected to expand.

Q: What is the annual volume forecast for infrared cut filters for major smartphone customers compared to your assumption at the beginning of the fiscal year? Have there been any advancements in shipments from the second half of the year to the first half?

A: I don't think there will be any change in our annual volume assumptions from the beginning of the fiscal year.

Rather than advancement from the second half to the first half, shipments are expected to be stronger in the 3Q than in the 4Q, which is usually vice versa.

Q: It appears that some semiconductor manufacturers are adjusting their operations of their general-purpose CMP slurries. What is the QoQ momentum for CMP slurries and what are your expectations for next year?

A: AGC's CMP slurries are focused on high-end products and are not affected much by general-purpose products. Demand for CMP slurries is strong, driven by AI demand. We expect demand to remain strong in 2025, as it was in 2024.

Q: We would like to ask about 3Q prices and volumes for Display. Competitors are showing bullish figures on prices but how does AGC view this?

A: QoQ, price increased slightly. Volume was down by mid-single digit %. We'll continue to work on pricing policy.

Q: What are the trends in semiconductor materials?

A: Recovery of mature products such as PCs and smartphones has been slow, but high-end products such as AI are booming and driving the market. We expect the market to recover in the future.

Q: Although EUV mask blanks are performing well at the moment, there are concerns about how they will perform from next year onwards. Regarding the performance of EUV mask blanks, is it safe to assume that "there will be some slowdown in growth, but the growth trend will be maintained"?

A: There is no change in the outlook for EUV mask blanks at this time. We will continue to monitor developments in the semiconductor industry and take appropriate measures.

[Chemicals]

Q: Regarding Essential Chemicals, please tell us your thinking on the expectations for volume growth in conjunction with the capacity expansion next year, whether it will have any adverse effect on market conditions, and whether the operating profit margin can be maintained at about a high single-digit percentage even after the expansion. I would also like to hear AGC's thinking on the impact of China's economic stimulus measures on the chlor-alkali market.

A: The large-scale expansion in Thailand is progressing smoothly. In the Southeast Asian market, more than 10% of both caustic soda and PVC are imported, and we expect the supply-demand situation to remain tight even after the expansion of our facilities. The expanded facilities are scheduled to start operation in the first half of next year, and we expect the operation to gradually increase in 2025, with a full-scale contribution to profits from 2026 onward. The company is currently generating an operating profit margin of slightly less than 10%, but we expect the scale to increase at this operating profit margin level.

[Life Science]

Q: What is behind the better-than-expected performance of Life Science?

A: Operating profit improved by over 5 billion yen from 2Q. In addition to the effect of cost reductions, one-time revenues in North America had a significant impact. One-time revenues include the posting of cancellation fees due to the cancellation of a scheduled operation for reasons attributable to customers.

Q: It is stated in the financial results presentation that "net sales increased due to one-off revenues associated with the settlement of contracted projects, etc." Could you please provide details? How much of a boost was it?

A: About half of the increase in Life Science's QoQ operating profit is attributable to this one-off revenues.

Q: Please highlight the changes in Life Science over the past three months. Were the freeze at the Longmont site, the FDA approval at the Seattle site, the start of operations in Copenhagen, and the appointment of Alberto Santagostino as CEO the main changes? In addition, I would like to know about the possibility of additional measures in the future, including whether the current personnel and production site structure is appropriate. What are your expectations for Mr. Santagostino, including his experience at consulting firms and Lonza, and his knowledge of gene-cell therapy?

A: In the past three months, the Longmont site was frozen, the Seattle site received FDA approvals, the Copenhagen site began operations, and the Boulder site continued a smooth operation with its large SUS equipment. The current number of personnel is suitable for operating the current capacity.

Q: In Life Science, you mentioned that the amount of proposal value to customers are on an increasing trend. Is there any change in the contract rate? Is there a tendency to bring forward proposal value in anticipation of improved inflows of funds due to lower interest rates? Is it possible that proposal value to customers are more active than the improvement in orders because of this reason? If possible, please mention trends in order value.

A: There has been no significant change in the contract rate. The amount of proposal value to customers has genuinely increased. We do not believe that proposal value to customers are more active than the improvement in orders.

Q: In relation to Biosecure Act in the U.S., one of the top global peers in the SUB (single-use bag) industry has explained that their customers are becoming more cautious about placing new orders. On the other hand, some global CDMOs have commented that they are beginning to receive more inquiries in response to the draft of the Biosecure Act. Is there likely to be any benefit for AGC?

A: The U.S. House of Representatives has passed the draft of the Biosecure Act, but it is difficult to predict how it will go through in the Senate. The draft also provides a grace period until 2032. At this point, we are sensing an increase in procurement from countries other than China, and AGC is also working to receive orders as an alternative supplier. We believe the act will have a beneficial effect.

Q: What is the status of the start-up of the large SUS at the Boulder site? I understand that the problem has been largely resolved, but what is the utilization rate now? Also, I am aware that despite the delay in start-up, customers did not flow to other companies as they did at the Denmark site. Is there any difference in contracts or any technical differentiating factor?

A: The Boulder plant struggled, but with the cooperation of our customers, the problems have been resolved and we are now at the point where we can start full-scale production after trial runs. The tight supply-demand situation for large SUS was a factor, but we were also supported by the relationship of trust we have built with our customers through our proven track record as a Bio-CDMO. Changing contract manufacturers is a burden

for customers. We appreciate our customers being patient for a long time.

Q: Is it correct to understand that the impact of the one-off revenues from Life Science is half of the increase in Life Science from 2Q to 3Q? Please explain the timing of the cancellations from customers and the background behind the cancellations.

A: About half of the increase in profit over 2Q was due to one-off revenues including cancellation fees. Cancellations were for reasons attributable to customers.

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