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Minutes of Briefings on FY2024 Financial Results

Corporate Communications & Investor Relations Div.

Q1: I would like to ask about the operating profit outlook for strategic businesses toward 2026. Operating profit in the Life Sciences is expected to improve due to the effects of structural reforms, while operating profit growth in the Electronics and Performance Chemicals is expected to be weak. How do you see the market growing for EUV mask blanks and fluorochemicals?

A1: Life Science is expected to improve by about 10 billion yen from 2024 to 2025. In Electronics, we expect growth in semiconductor-related materials, but slightly weaker growth in optoelectronics materials. In the Performance Chemicals, although the plants that have been expanded will be in operation, operating profit is expected to be weaker than expected. We expect 10 billion yen improvement in Life Sciences from 2025 to 2026. We expect to see an improvement of another 10 billion yen, thanks to contributions from both growth in Electronics and higher facility utilization in Performance Chemicals.

Q2: Amid the economic stagnation centered in Europe, there is the impression that your businesses are greatly affected by the macro environment. Are you considering any major changes in your business portfolio beyond this medium-term management plan, looking ahead to 2030?

A2: The fact that the European economy is already very bad is a major concern. Both the automotive and construction industries are not doing well. There are problems with the Ukraine conflict and energy, and there is no indication that the situation will improve. China's economy is in the doldrums, and real estate sector is particularly bad. No one knows what the impact of the Trump administration will be. We see the situation as a cascade of bad things between huge regions. We are basing our operating profit forecast on the assumption that both Architectural Glass and Automotive will be sluggish due to the European economy. For Essential Chemicals, it is expected that the Chinese economy will continue to be sluggish, and that market conditions, especially for PVC, will not pick up until 2026. The axis that strategic businesses are growth businesses has not changed. In Life Sciences, the number of products being developed by venture companies has fallen, but we expect this to pick up again as interest rates decline. Electronics, Performance Chemicals, and Life Sciences are different from core businesses because the markets themselves will grow. As has been our strategy to date, we will grow our strategic businesses while raising the profitability of our core businesses as the overall earnings base.

Q3: Is the 150 billion yen operating profit forecast for this fiscal year the result of a conservative view, or is it a result of considering the uncertain business environment? Is there any risk of falling below 150 billion yen? Do you think of this as a minimum line and are you thinking of improving it?

A3: Life Sciences is expected to increase profit by 10 billion yen compared to 2024. Last year, extra costs were incurred in Automotive in North America and Essential Chemicals in Japan. Combined with the increase in operating profit from Life Sciences, we expect to improve approximately 20 billion yen compared to 2024. If businesses progress normally, that will bring the total above 145 billion yen. There may be some who point out that the operating profit plan for 2025 is lower than the consensus, but the impact of foreign exchange rates is greater than before. If all currencies move 1% against the yen, it will have an impact of 700 million yen, so it is a cause for concern. The operating profit plan for this year is neutral. We have repeatedly revised our earnings forecasts downward, so we are conscious of avoiding that. The 150 billion yen operating profit plan is a figure that we are fully capable of achieving.

Q4: In the part of "Group-wide initiatives", there is a description of the pricing policy, " Implement Value-based Pricing Group-wide". Is this an idea for strategic businesses, or does it also apply to commodities such as chlor-alkali? Chemicals are highly volatile, but will performance stabilize at a high level if price corrections can be made?

A4: We are already working on pricing policies in Automotive and Display. It was industry practice for material suppliers to lower their prices every year. Display lowered their prices every year after 2020. Automotive also had a practice of lowering prices every year after a new car model was launched. Going through the Covid-19 pandemic, when prices went rough and volumes went rough, we have changed our approach to asking customers to pay prices that are commensurate with the value we provide. More and more customers have understood and accepted the price increase. We believe that measures need to be taken for Architectural Glass and Essential Chemicals which are so-called commodities. In the past, Architectural Glass was in the red due to deteriorating market conditions, but we have raised prices in Japan over the past few years, and performance has stabilized compared to the past. In the Architectural Glass, we would like to raise the value of our products a little more to increase profit margins. In Essential Chemicals in Southeast Asia, we are currently examining whether pricing can be adjusted to better match the value of the products. Essential Chemicals is not in the red at all, but its performance fluctuates widely. We are studying how to make the most of our high market share to increase the average value and reduce the fluctuation range of our business performance.

Q5: Please tell us about the 4Q performance of Display and Electronic Materials. Q on Q sales of Electronic Materials dropped due to shipments of optoelectronic materials moving up to 3Q, but operating profit in the Electronics segment increased. Is this due to the considerable improvement in profits from Display? Please comment on the shipment volume and price of LCD glass substrates in the 4Q.

A5: The increase in Q on Q operating profit was largely due to the contribution from Display. The shipment volume increased as did the price. The Chinese government's economic stimulus package, which subsidizes TVs and smartphones, provided some tailwind, and volume was stronger than expected. We expect volume to remain strong to a certain degree in the current fiscal year. We feel more secure in volume than before. Costs are falling due to the focus on G11. The pricing policy has been working, and volume has also been increasing. Volume was up mid-single digit % and price was up low-single digit % Q on Q. We will continue to work on pricing policy.

Q6: According to P40 of the presentation material, Display's profit appears to increase at the 10 billion yen level going forward. Production capacity has already dropped 20%, but operating assets are still heavy. What do you have in mind to further reduce operating assets?

A6: Display's operating assets are large, so there will be a large lift in operating profit in 2025 and 2026 toward 10% ROCE. The path to achieving the target is becoming clear. The operating assets will decrease speedily since the depreciation period is short. Capacity depends on shipment volume. Currently, shipment volume is expected to be high, so further reduction of capacity would not be a good idea.

Q7: There is a 20 billion yen difference between 1H and 2H in the operating profit forecast for 2025. How do you see the ups and downs in each segment between 1H and 2H of the year? Will Life Sciences turn profitable in any quarter in 2025?

A7: The 20 billion yen difference between 1H and 2H of the year is due to seasonality. Currently, Architectural Glass in Europe is weak. 1H of the year will be weak, and 2H of the year will be better. Automotive would be flat between 1H and 2H. Electronics is strong in 2H. In Chemicals, Performance Chemicals are stronger in 2H. In Life Sciences, profit fluctuates depending on how orders are received. It may largely improve in 1H and continue so in 2H, or could stay as 1H. It will be difficult to turn to profit in any quarter of 2025.

Q8: In Biopharmaceutical CDMO, orders received in 2024 will probably lead to sales, but the business does not seem to be profitable in 2026. In P42 of the presentation material, it is stated that the utilization of the Boulder, U.S. facility will gradually increase and is expected to be profitable from 2027. What is the background for not becoming profitable in 2025 and 2026?

A8: Although the proposal amount to customers in 2024 reached the same level as in 2020, the total capacity in 2024 and 2020 are different. The increase in utilization is not sufficient to match the increase in capacity. We are moving in the right direction, but it will still take time to achieve the 30 billion yen operating profit or 20% ROCE that we initially stated. The Boulder facility has been remodeled and commercial production has begun. We expect the capacity to be gradually filled up in 2025 and 2026, returning to profit in 2027. The customers are there, but we are carefully taking time in equipment adjustments. It is taking longer than originally planned to reach full capacity.

Q9: The strategic allowance in the capital allocation plan increases from 100 billion yen in 2024-26 to 200 billion yen in 2025-27. Please tell us your thoughts on this strategic allowance.

A9: Overall, we will narrow down investment, and operating profit will rise, and therefore, strategic allowance will increase to 200 billion yen. We have not yet decided how to use that allowance. We have various options to consider.

Q10: In Architectural Glass, there has been a noticeable number of shutdowns by other companies in the industry. Is there a possibility for AGC to make additional production adjustments?

A10: Demand for Architectural Glass is very weak in Europe. We also adjusted production by putting one furnace in cold repair and reduced personnel. The current approach is to get through by adjusting operations and increasing prices. We will need to consider additional measures if the situation further deteriorates.

Q11: Could you update us on the status of the Automotive's production issues in 2024?

A11: In Automotive in North America, it was the shipping costs rather than the production problems, that gave a significant impact on our business performance in 2024. The amount of the extra costs was in the high double-digit billions of yen, which will mostly be eliminated this year.

Q12: Please explain the growth rate and sales amount of EUV mask blanks in 2024, and the forecast growth

rate in 2025. Please also explain about your market share.

A12: Sales grew significantly from 2023 to 2024. We do not expect the same growth rate, but it will grow. We do not disclose market share, but we have a feeling that it has risen at a good pace.

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