

AGC Inc. Minutes of Briefings on Operating Results for 1Q FY2019

Corporate Communications & Investor Relations Div.

[Overall company]

Q1

Were AGC's operating results for the first quarter in line with the company's projections? Looking at the 1Q results, AGC needs to achieve a significant increase in 2Q operating profit over 1Q to achieve the earnings forecast. Is there any possibility of revising the forecast?

A1

Our 2Q operating profit normally increases over 1Q by approximately JPY5.0-7.0 billion due to seasonal factors.

The factor behind the weak 1Q operating profit was that we had large depreciation expenses following the startup of new production facilities in China, with still low shipments of G11 LCD glass substrates. This is in line with our initial projections. We also expected operating profit from chemicals to be weak due to biannual maintenance turnarounds. Therefore, the 1Q operating profit result was close to the company's projections, except that it took longer than expected to complete the maintenance turnaround of the automotive raw glass production furnace.

Q2

You have just mentioned that 2Q operating profit is expected to grow over 1Q. In which segment do you expect profit to increase?

A2

We project a profit increase in all segments. As for the glass segment, operating profit for architectural glass is expected to increase due to seasonal factors. The automotive glass business normally turns in a large profit in March, but this year we expect that its profit will grow from 2Q because the problem in 1Q of the delay in completing the maintenance turnaround of the production furnace will be solved. As for the electronics segment, operating profit for displays is projected to increase due to the improved capacity utilization of G11 production facilities. Operating profit in the chemicals segment is expected to increase following completion of large-scale maintenance turnarounds in 1Q.

Q3

You project 2Q operating profit to increase by JPY8.0 billion over 1Q. Which segment will drive operating profit growth?

A3

We need to post a 2Q operating profit of roughly JPY29.0 billion, and we expect a large profit increase of JPY5.0-6.0 billion from seasonal factors, as well as a profit increase from the improved capacity utilization of the G11 production site in the electronics segment and the automotive glass production plant in Morocco.

Q4

Are you assuming an improvement in the external environment toward the second half?

What is your take on the improvements in trends of the automotive in Europe, optoelectronics-related, and caustic soda markets?

A4

The European automotive market is currently soft and automobile production has dropped 5-6% year on year, which has an impact on our automotive glass business. However, the degree of impact is small because the profit contribution of this business is not large. Shipments of smartphone-related materials are currently weak, but we expect that shipments will increase significantly with a shift to dual-camera smartphones toward the second half and etc. In the electronics segment, we project profit growth due to a production increase for EUV mask blanks. Looking at market conditions for chemicals, the price of ethylene is currently very weak. Our assumption for the price of ethylene in the current fiscal year is USD900, and the price is hovering around that level. The price of caustic soda is currently slightly weaker than expected. However, with caustic soda manufacturers gradually obtaining India's BIS Certification, we expect that the price is currently at bottom and will turn upward.

Q5

AGC has started disclosing the full-year earnings forecast by segment from this year. Aren't you going to disclose earnings forecast by segment for the first half?

A5

The profit contribution of each business segment for the first half is not very different from that for the full year, but is subject to seasonal factors. Operating profit in the electronics segment is weighed toward the second half; operating profit in the glass segment as a whole

is evenly distributed throughout the year, with operating profit in the automotive glass business weighed slightly toward the first half and that in the architectural glass business toward the second half; and, operating profit in the chemicals segment is weighed slightly toward the second half. Taking these factors into account, an estimate of the breakdown of operating profit can be worked out.

Q6

Is there any change in the basic policy of maintaining the total shareholder return ratio at 50% or above? Will AGC also carry out a buy-back of its own shares?

A6

We will stick to the policy of maintaining the total shareholder return ratio at 50% or above, with dividend payments maintained at the current level or higher.

Q7

What are the details of expenses for restructuring programs of JPY1.2 billion incurred in 1Q?

A7

Expenses for restructuring programs are associated with the consolidation of production sites of electronic materials-related subsidiaries. This will lead to an improvement in production efficiency.

Q8

Is it correct to understand that the profit contribution of the two newly consolidated subsidiaries is limited?

A8

As you said, the operating profit contribution of the two newly consolidated subsidiaries is limited.

Q9

Regarding your crude oil price assumptions, your price assumption for the current fiscal year is USD60/bbl., but the price is currently USD70/bbl. How does the difference impact your operating results? How does the high price of crude oil impact the chemicals segment?

A9

Our earnings sensitivity to the Dubai crude oil price is that a price increase of USD1/bbl. would reduce operating profit by JPY300 million per year. The Dubai crude oil price is currently 10 dollars higher than our assumed price, which will impact the glass and chemicals segments. On the other hand, natural gas prices in Europe surged last year due to unfavorable weather conditions, but prices have calmed and are currently below the assumed price levels. Taking into account positive factors, you can estimate that the higher-than-assumed price of crude oil will reduce operating profit by around JPY3.0 billion annually. We believe that the ethylene price is trending downward due to the start-up of shale gas-based ethylene crackers in North America. We expect that the ethylene price increase caused by crude oil price increase will be limited.

Q10

How much was the impact of the oil hedging gains?

A10

About JPY 1.0 billion.

[Strategic business]

Q11

Please tell us about trends in strategic businesses. How much net sales growth did the strategic businesses achieve compared to the same period in the previous fiscal year?

A11

Strategic businesses are growing steadily. Their contribution ratio for the full-year fiscal 2018 was 17%, but the contribution ratio is increasing quarter after quarter, with a significant growth in profits. Profit growth is particularly high for the life science business. The electronics business saw firm sales of EUV mask blanks, but was affected by a decrease in shipment volumes of optical filters. The contribution ratio of the mobility business is still low. Net sales of the strategic businesses have grown 20% year on year.

[Glass]

Q12

When do you expect the operating profit margin in the glass segment to return to the previous level?

A12

The architectural glass business is performing solidly. The problem is the automotive glass business. However, we expect that we can bring the automotive glass business back to normal from the second half.

Q13

Can you give us details about the maintenance turnaround of the automotive raw glass production furnace?

Please also tell us about the current situation with the deterioration of automotive glass production efficiency in Japan.

You have mentioned that the problem will be sorted out in the second half, but based on what assumptions?

A13

The maintenance turnaround of the automotive raw glass production furnace lasted longer than scheduled, which caused a shortage of raw glass. As a result, we were required to purchase raw glass from other company, which led to a significant cost increase. However, this is only a temporary factor, and the automotive raw glass production furnace will return to normal operations in the second half.

The reason for the deterioration in the production efficiency of automotive glass is that, as we have explained before, we made capital investments to produce complex shaped products, but had difficulties with the vertical start-up. The situation is currently improving, and we expect the furnace will be in normal operation in the second half.

Q14

What was the cost incurred for the maintenance turnaround of this raw glass production furnace?

A14

We cannot give you a specific figure, but the cost was fairly large.

Q15

Regarding automotive glass, have you already sorted out the maintenance problem with the raw glass production furnace?

A15

The problem has already been solved. There will be some impacts in 2Q, but the problem has been settled.

Q16

I think you will be required to produce other complex shaped automotive glass products. Is AGC capable of accommodating the production of such products?

A16

We introduced production facilities to accommodate production of complex shaped products, but had difficulty in starting up the facilities. However, production is becoming normal, and we expect production efficiency to be restored to its original state.

Q17

Regarding the issue of the prolonged maintenance turnaround of the automotive raw glass production furnace, was the problem caused by failure to start up the furnace smoothly after cold repairs or hot repairs? Or did the maintenance turnaround take longer than scheduled?

A17

The maintenance turnaround took longer than scheduled.

[Electronics]

Q18

Operating profit in the electronics segment decreased JPY3.2 billion compared to the same period in the previous fiscal year. What were factors behind the profit decline?

A18

The profit decline in the electronics segment was mostly attributable to the display business. Specifically, depreciation expenses increased JPY7.0 billion annually with the startup of the G11 production plant. In addition, there was an impact from the price decline of LCD glass substrates.

Q19

Did profit in the electronic materials business increase?

A19

Operating profit in the electronic materials business as a whole remained at the same level as the previous fiscal year. Weak profits for smartphone-related materials were offset by strong profits for semiconductor-related materials. Because profit in the electronic materials business is weighed toward the second half, we project its operating profit to grow.

Q20

What is the estimate for the shipment volume of LCD glass substrates in 2Q?

A20

LCD panel manufacturers are performing well with strong sales of televisions. Considering this, we project shipment volume will grow by a mid-single digit percentage from the previous quarter.

Q21

You had expected that annual sales of EUV mask blanks would double from the previous fiscal year. What was the progress in 1Q?

A21

The progress was in line with our expectations.

[Chemicals]

Q22

What are the factors behind the operating profit decline of JPY2.6 billion in the chemicals segment compared to the same period in the previous fiscal year?

A22

The profit decline was largely due to large-scale maintenance turnarounds in Japan. There was a profit decline for chlor-alkali and fluorochemicals & specialty chemicals businesses. An increase in electricity expenses in Japan was another fact that caused the cost increase in 1Q.

Profit in the life science business came on strong, but was unable to offset the factors behind the profit decline.

Q23

What are the cost and scale of maintenance turnarounds of domestic production facilities?

A23

We cannot give you the specifics, but the cost of maintenance turnarounds has a large impact. But it is a temporary cost.

Q24

The caustic soda markets overseas are currently soft. Does this have impact on its domestic sales price?

A24

The price of caustic soda in Southeast Asia is not linked to its domestic price.

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