

Minutes of Briefings on Operating Results for 3Q FY2023

Corporate Communications & Investor Relations Div.

[Overall]

Q: What is the progress against the annual forecast at the time of the 2Q announcement in August?

A: Progress has been slow. In August, the company projected annual operating income of 150 billion yen and operating income of 85.7 billion yen for the second half of the year. In contrast, operating income in the 3Q was 31.2 billion yen, which, when subtracted, means that operating income in the 4Q will need to be 54.5 billion yen. Since 4Q is the period of highest operating income, we expect earnings to improve in 4Q, but we think we will be slightly short. The operating income forecast for each segment has not changed, but an upward swing is expected for Automotive. On the other hand, progress in Chemicals & Life Sciences has not been good, and we believe there is a downside risk considering the current trend.

Q: The progress toward the full-year operating income forecast through 3Q appears weak at 64%, but we would like to ask again about the background to the company keeping the full-year forecast and the roadmap to achieving the forecast. Where does the company expect to see a large improvement in earnings in the 4Q compared to the 3Q?

A: Although we have not changed our full-year operating income forecast from 150.0 billion yen, we feel that it will be difficult considering the cumulative results through 3Q. We have not revised our 4Q forecast because the market for chlor-alkali and other factors are still uncertain and difficult to forecast. By segment, the Automotive business will probably see an upward swing, but the outlook for other segments is difficult. In Chemicals & Life Science, it will be difficult to achieve the plan considering the cumulative results up to 3Q. We expect such an improvement since profits are usually highest in the 4Q, but we do not anticipate any unexpectedly large positive effects or profit improvement measures in the 4Q.

Q: I feel there is a high risk of a downturn in earnings. Is there any risk of a dividend cut?

A: The Company has always declared stable dividends, and at this point, the Company's policy is to maintain a stable consolidated dividend payout ratio of approximately 40%, so there is no plan to reduce the dividend at this time.

Q: What is the outlook for each business in FY2024?

A: It is difficult to provide a detailed forecast for 2024 at this time. At this point, we can say that we do not expect much change in Architectural glass, although there are some concerns about economic trends by region. In Automotive, we expect further improvement in performance due to progress in pricing and structural reforms. In the Display, the current year was quite difficult, but we expect a recovery through the pricing policy and other measures currently underway. In Electronic materials, EUV is growing and we expect to see more growth in the next year. Essential Chemicals should be considered cautiously as the chlor-alkali situation is unreadable, but prices are quite low at the moment, so we do not expect further deterioration. Performance Chemicals is also expected to grow steadily. In Life Sciences, it remains unclear when the problem of reduced inflows of funds to biotech ventures will recover. However, we believe that the delay in the start-up of new facilities and unexpected facility renovations that occurred this year can be recovered through its own efforts.

Q: What are your thoughts on P/B ratios below 1x? At the beginning of the year, the company already announced a record 50 billion yen share buyback, but what are your thoughts on capital going forward?

A: The reason why our P/B ratio is low is that there is a very strong correlation between P/B ratio and ROE, and it is essential to improve ROE. ROE equity is 1.6 trillion yen, and even if we buy back our own shares, it will only amount to 50 billion yen, so we think it will be difficult to improve ROE by reducing equity itself. Our current thinking is that increasing "R" is the key to improving ROE.

[Architectural Glass]

Q: Regarding Architectural glass, I would like an update on market conditions in Europe. By how much has demand fallen YoY (3 months)? And are you seeing a bottoming out of demand?

A: In the 3Q (3 months), shipment volume has fallen a little. The economy in Europe is weak and will continue to be in a period of low demand through the end of the year. The European economy is also uncertain and difficult to predict.

Q: Has Architectural glass reached the point where it is necessary to in Europe?

A: Although economic conditions are not favorable, there is firm demand for energy-saving products, and at this point, there is no situation for major capacity utilization adjustments.

Q: How does the company view the demand trends for architectural glass in the coming year, by region?

A: Japan will continue to see good pricing conditions, partly due to continued demand stimulation for energy-efficient glass. Subsidies for high-performance windows are also expected to continue into next year and beyond. There are no major changes in Asia. Europe is very uncertain and difficult to foresee. Even if the situation is similar to that of 2023, there is a certain level of profit, but it is difficult to expect a strong recovery in demand. South America is also expected to remain similar to the 2023 level.

[Automotive]

Q: Do you expect the increase in Automotive sales prices to continue in the 4Q and the first half of next year?

A: Although we cannot give individual specifics, we have set and are promoting a price policy target and will continue to make progress over the 4Q. We would like to continue our efforts to achieve reasonable prices next year and beyond.

[Electronics]

Q: 3Q operating income in the electronics segment improved by 5.8 billion yen in QoQ, of which how was it for Display?

A: The improvement in operating income in the electronics segment was almost entirely due to electronic materials. Electronic materials benefited from seasonality. Display operating income decreased due to a drop in capacity utilization caused by lower volume in QoQ, as well as the negative impact of the yen's depreciation.

Q: Regarding Display, the competitor is aiming for a double-digit % price increase in the second half of the year, but we would like a more in-depth update on the status of your price measures. Also, your competitor is expecting a recovery in demand in the first half of next year, what is the company's view on this?

A: Of course we are also pursuing a pricing policy and would like to respond. We will not mention future prices, but we will do our best. I mentioned that the current decrease in glass substrate volume is due to the fact that panel manufacturers, our customers, have been reducing their inventories by adjusting their operations. Once the inventory reduction measures are completed, they will start production again, so at this point we think it is reasonable to expect a recovery in demand in the first half of 2024. We are aware that major panel manufacturers in the industry are currently adjusting their operations.

Q: Among semiconductor-related products, is EUV mask blanks on-track against the forecast of +40% YoY in the current term? We believe that your peers are also pointing to a sense of recovery in EUV mask blanks, but do you expect growth next year to be similar to that of this year?

A: While sales are expected to grow 40% YoY, the company has shown even higher growth as of the 3Q. We expect even higher growth in the next year and beyond.

Q: I believe there are new players entering the market with EUV mask blanks, but what is the impact?

A: It is difficult to answer about the situation of other companies, but we have not seen any significant impact on our company at this time.

Q: Are there any signs of recovery in demand for CMP slurries for semiconductors?

A: Our CMP slurries are for high-end applications and have not been significantly affected by the semiconductor adjustment and are performing well. We are not worried about the semiconductor industry, as it will continue to grow over the long term.

Q: There seems to be a growing trend among semiconductor manufacturers to adopt glass substrates. What are the business opportunities for the company? Please tell us to the extent possible about the competitive situation and the time frame for contribution to performance.

A: Recently, a semiconductor manufacturer made a major announcement, and as disclosed on our website, we have been conducting research and development on this technology for some time. We do not know what will happen in the future, but there is a possibility of a great business opportunity, and we will continue to work on it.

[Chemicals]

Q: I would like to request an update on PFAS regulations. In Europe, public comments have been closed and I think the direction is becoming clearer. What are the company's current views on the impact of the regulations, including the situation in the U.S., and how customers are switching away from PFAS?

A: In our company, we have never produced PFOS, including for fire-extinguishing applications, which are currently

a matter of concern. We have also completely phased out PFOA use and sales ahead of regulations, thereby limiting our risk. AGC's remaining fluorine-related products are primarily resins or for industrial applications that the general consumer does not come into contact with, and that do not enter the human body, so we do not believe there is considerable risk at this time. Of course, we have established a specialized team within our company to respond appropriately to the PFAS issue.

Public consultation has been closed, and we recognize that European Chemicals Agency has received an astonishing number of public comments not only from Japan but also from Germany, which proposed the regulatory bill. At present, we do not think the regulation proposal will pass as is. It would be a huge blow to all industries, including semiconductors, so we believe that will probably not happen. In Europe, there has been a separate regulatory discussion about certain fluorinated chemicals (PFHxA), and there is a movement to transition to substitutes other than fluorine. However, this is currently limited to discussions about regulations for general consumer applications, so the impact on our company is also limited. We will continue to respond cautiously, but there has been no significant change from the risk that we previously disclosed.

Q: What is the company's outlook for the PVC and caustic soda market?

A: Very uncertain. One of the major factors affecting our company is the demand for PVC and caustic soda in China. The Chinese economy, especially construction and infrastructure demand trends, will be important. If this demand is weak, PVC will flow from China to Southeast Asia at about the price of cash cost, which will have an impact. Market conditions for caustic soda are also related to various industries, and when the economy is weak, market conditions for caustic soda are also weak. Weak construction demand in China will lead to lower demand for aluminum and other materials for China, which will weaken the caustic soda market. The major focus will be on trends in Chinese construction and infrastructure demand and what economic measures will be taken in response. Another focus is how the Chinese government will act in the future, as environmental regulations within China are more relaxed than before at this time.

[Life Science]

Q: 3Q operating income of Life Science has fallen sharply in QoQ, please explain the factors.

A: There is no significant change in the performance of synthetic pharmaceutical and agrochemical CDMOs. For biopharmaceutical CDMOs, there is no significant change in Japan. The factors behind the decrease in profits are in Europe and the US. There were two factors. The first was the delay in the start-up of the new plant in Boulder, which was in operation until the middle of the 2Q but was completely shut down in the 3Q. The further negative impact was the impact of the operation adjustment in Seattle due to the implementation of a major renovation to improve the facilities there. The Seattle operation modifications was completed in the 3Q, so it will not affect the 4Q. We also implemented an annual planned maintenance in 3Q in Europe, this also had an impact in QonQ. In a sense, the 3Q was a bottom due to a combination of various factors.

Q: Is the problem of starting up a new facility in Life Science with one line of SUS 20,000 liter tanks or both lines? Is it safe to assume that the same problem is unlikely to occur if you intend to start up another SUS line in the future?

A: Of the two lines of Boulder, both are not working at this time. The company has experience with small tanks at SUS and has no problem with them, but struggled with large tanks of 20,000 liters. We have absorbed know-

how through this start-up, and we believe that we will be able to handle a tank of 20,000 liters or more if we need to start up a tank of 20,000 liters or more in the future.

Q: Regarding the impact of the reduced inflow of funds to biotech ventures, to what extent has this impacted the decline in life science revenues? Will this impact accelerate in the future?

A: Although it depends on the definition of a bio-venture, we have about 25% of our sales from small biotech ventures, and this part of our business was considerably affected. Since there are a considerable number of biotech ventures not only in the U.S. but also in Europe, biotech ventures in Europe and the U.S. were greatly affected, and our number of projects decreased considerably. We do not expect this impact to further accelerate, but we also feel that a rapid recovery from the current situation will be difficult.

Q: Regarding Life Sciences, were the 3Q repairs in Seattle, the complete shutdown in Boulder, and the planned repairs in Europe included in the company plan? What are the reasons for the poor progress against the 2H plan? Is the business environment becoming even worse?

A: As for Seattle and Boulder, they were not included in the original plan. The 20,000-liter tank in Boulder was expected to be a major contributor to this year's results, but it is still not moving as of this date. This was not part of the plan. Seattle is operating, but in the 3Q, the company reduced orders and made drastic improvements to its facilities. Various factors impacted the performance in 3Q, but the bottom has been reached and the business is expected to gradually recover.

Q: Regarding Life Science, you mentioned that demand from small and medium-sized clients is decreasing, is competition for orders becoming more intense? I believe that contracting capacity continues to increase, but I would like to know about the company's approach to maintaining margins on contracted projects.

A: The number of biotech venture contracts is clearly decreasing. In our case, our strength in SUB and our ability to take on small biotech venture projects had been a differentiating factor, but this is now having a slightly negative effect. As for how to maintain margins, the key point is capacity utilization. In the Life Science, orders do not come in suddenly, and to some extent the number of contracts and the pipeline can be seen in a planned manner. As I mentioned earlier, we are currently off the bottom, and there is no doubt that the number of contracts will increase next year. The key point is how to increase the number of contracts.

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