Nippon Electric Glass Co., Ltd.

Key Points of the Q&A Session at the Investor Meeting for FY2023

(Tuesday, February 6, 2024; Tokyo)

Q1. You indicated that the competitive environment for the composites business has become more intense. What specifically is the situation? Please also tell us how you plan to recover profitability.

A1. Chinese glass fiber manufacturers have not reduced production despite the current global recession and continue to supply products globally at low prices. Although the Company has maintained prices until now, we think that the Company will not be able to maintain its share unless it reduces prices a little because we expect that demand will not recover until the second half of 2024 at the earliest. In order to secure profits, the Company is promoting productivity improvement projects, including all-electric melting technology. We are also planning operation periods in consideration of demand trends and capacity utilization.

Q2. For FY2024, operating profit is forecast to be higher in the second half than the first half of the year. How should this be interpreted?

A2. The demand environment is becoming better than last year. The displays business has been seeing increasing signs of recovery in demand since the beginning of this year. The inventory of TVs, IT, smartphones, etc., has decreased, and the flow of goods has become active. On the other hand, recovery in demand for the composites business is likely to take more time, but the situation in FY2024 is expected to be better than in FY2023. As we expect start-up costs for new facilities in the displays business and repair costs in the composites business to arise in the first half of the year, operating profit is expected to be higher in the second half.

Q3. The medium-term business plan EGP2028 indicates that sales in the electronics business will increase sharply. Could you tell us which products in particular are expected to see sales growth.

A3. Glass wafers for supporting semiconductors are used as carrier glass in the semiconductor manufacturing process. As we are receiving many inquiries for the product due to the flatness of the glass, the ease of designing the coefficient of thermal expansion, and the ease of peeling after the process, we are investing in the product. We estimate annual sales of about 10 billion yen in FY2026.

Glass core substrates have been a subject of research and development by multiple companies for some time, and the Company is also reinforcing development. Our development does not solely focus on glass substrates, but its scope includes drilling process for through-glass vias. In the future, we can expect annual sales of over 10 billion yen from this product.

Q4. How are you going to achieve the target operating profit of 50 billion yen in EGP2028 and how much are you likely to realize by the mid-point of FY2026?

A4. As part of process improvement, we are rolling out the all-electric melting technology to our facilities. We plan to switch 70 to 80% of them to all-electric melting furnaces. By FY2026, the technology is expected to be introduced to more than 50% of melting furnaces. Existing businesses have lowered their capacity utilization in FY2023 to match the decrease in shipments. Shipments are expected to recover in FY2025, and profit is expected to increase by around 10 billion yen as a result. New products of existing businesses are also expected to contribute to profit in and after FY2025.

Q5. Please tell us whether the expected increase in profit from the introduction of all-electric melting technology is attributable to cost reduction or higher selling prices.

A5. Due to the higher energy efficiency of all-electric melting technology than conventional methods, manufacturing costs will be lower. It is also an environmentally friendly glass melting technology as it will eliminate CO_2 emissions from gas combustion. Our earlier explanation does not include any increase in profit from higher selling prices.

Q6. What is the background for the increase in the planned amount of share repurchases from 50 billion yen to 100 billion yen and in the target dividend on equity ratio from 2% or above to 3%?

A6. In EGP2028, we have set a new target ROE of 8%. The formulation of EGP2028 started with the formation of a common understanding of the Company’s cost of equity, and we had many discussions on optimal capital structure in consideration of expected cash flows based on profit plans and future investments. As a result, from the perspectives of capital efficiency and financial stability, we decided to enhance shareholder returns to keep pace with the progress of EGP2028.

Q7. The Company has already completed share repurchases totaling 20 billion yen during the period from November 2023 to February 2024. Please tell us the implementation schedule for the remaining 80 billion yen and whether you will retire the repurchased shares.

A7. We have not yet determined when to start the remaining 80 billion yen of share repurchases, but we will implement them in good time, taking cash flow plans into consideration. As for the retirement of repurchased shares, we have not determined our plan yet. As treasury shares can also be used for M&A, incentive plans, etc., we will make appropriate decisions going forward.

Q8. Judging from the dividend forecast for FY2024, I think that the DOE will not reach 3%. Does this mean that it is not a “must-achieve” target?

A8. We estimate the DOE for FY2024 will be around 2.5%. We plan to achieve the target DOE of 3% by FY2028.

Q9. I would like to hear how confident you are about achieving the EGP2028 targets and your view on the stock price.

A9. Since I became President, I have stressed profit-conscious management and have made sure that employees understand it. While it is important to strengthen existing businesses, investment decisions are made based on strict evaluation of business profitability, among other things. As for the stock price, I have wanted for some time to increase it first to levels that the Company can achieve a PBR of 1.0. In order also to raise the stock price, we will steadily implement EGP2028.