

Key Points of the Q&A Session for the Year Ended December 31, 2018

(February 6, 2019 (Wednesday); Tokyo)

- Q1. Could you please explain about the factors that affected operating profit in fiscal 2018 on a year-on-year basis?
- A1. In the display glass business, operating profit increased slightly due to our efforts to improve profitability. However, operating profit as a whole decreased from the previous year, mainly due to poor productivity in the US glass fiber business and rising raw material and fuel prices.
- Q2. The Company forecasts operating profit for fiscal 2019 to be 25.0 billion yen: 10.0 billion yen for the first half and 15.0 billion for the second half. Could you please explain why operating profit for the first half will be lower than the second half?
- A2. Demand for glass fiber in Europe and China has decreased. We estimate that shipments in the display glass business will decrease by a mid to high single-digit % in the first quarter of fiscal 2019. Therefore, we expect the business situation to continue to be tough until this spring.
- Q3. Could you please explain more about the profitability of the US glass fiber business?
- A3. In fiscal 2018, the Company's entire operating profit decreased by around 7.0 billion yen from fiscal 2017. Nearly half of the decrease was attributable to poor performance of the US glass fiber business. Specifically, there was a delay in improving productivity and a power failure caused by a hurricane prevented us from manufacturing products with stable quality.
- Q4. Could you please explain the prospect for improvement in earnings of the US glass fiber business in the future?
- A4. We plan to reduce the loss by nearly 50% in fiscal 2019 and bring the business to break even after amortizing goodwill in fiscal 2020. We aim to return the US glass fiber business to profitability in fiscal 2021, the final year of the new medium-term business plan.
- Q5. According to the Company's new medium-term business plan, the Company aims to expand the glass fiber business by 5.0% or more annually. Is the Company confident that it can maintain the growth in three years under the severe external environment?
- A5. Yes, we are confident that we can achieve our target. We are not optimistic about the current environment. However, on a medium-and long-term basis, we expect that the widespread use of lightweight and electric vehicles will accelerate the adoption of plastic components. We also believe that plastics will be used more for automotive batteries and structural materials. Furthermore, the use of plastic is likely to increase in the area of housing and electronic devices.

- Q6. Could you please explain more about profitability of the Europe glass fiber business?
- A6. In fiscal 2018, the Europe glass fiber business posted a small operating loss. In fiscal 2019, we forecast that the business will return to profitability at the end of the year due to our efforts to save labor and improve productivity, although expenses will be incurred for launching of a new furnace in the Netherlands.
- Q7. How significantly will Brexit affect the Company's business?
- A7. As most of the glass fiber for wind turbine blades manufactured in the UK plant are shipped to customers in continental Europe, we forecast that custom duties on these products will push up costs. However, our business also depends on the movement of the British pound. To prepare for a possible delay in customs clearance after the Brexit, we stock inventories equivalent to one to two months' demand in continental Europe.
- Q8. Prices of display glass substrates declined drastically when demand decreased in the past. Does the Company think there is a possibility that glass substrate prices will plunge again if demand decreases in the future because of production adjustment by the panel manufacturers?
- A8. For the time being, we feel that the inventory of LCD panels is sufficient to meet demand, but the supply/demand of glass substrates is considerably tight. Therefore, we think there is little possibility that glass substrate prices will decline sharply.
- Q9. Regarding the Company's target for operating margin (10.0%) under the new medium-term business plan, could you please give us the target by main product?
- A9. In the Electronics and Information Technology segment, we assume that operating margin for display glass substrates will be a little less than 10.0%. As we estimate that profitability of glass for optical and electronic devices will be higher than display glass substrates, we assume that the segment operating margin will be around 10.0%. In the Performance Materials and Others segment, the glass fiber business in Europe and the United States put downward pressure on profitability. If we streamline their business, we think operating margin in the glass fiber business will exceed 10.0%. Although products in the area of pharmaceutical and medical, heat resistance, and building applications are almost at the break-even point for the moment, we would like to raise their operating margin to around 10.0% by improving productivity.
- Q10. I got impression that the Company's target for operating profit (35.0 billion yen) under the new medium-term business plan is conservative. Could you please explain how confident the Company is about achieving operating profit of 35.0 billion yen?
- A10. We think operating profit of 35.0 billion is neither optimistic nor conservative. We will try harder in each business segment. We will be happy if we achieve our target, a 10% operating margin, as the result of our efforts.

- Q11. You explained to us that the Company will expand earnings by strengthening R&D. Could you please name promising products and interesting R&D related to “5G” in the area of optical and electronic devices, if any?
- A11. With regard to “5G,” we think glass is an advantageous material in that it allows radio waves to pass through. We are investigating closely what kind of materials will be necessary for the launch of “5G.” There are some newly developed products that we have already encouraged several companies to adopt.
- Q12. In fiscal 2018, the Company repurchased its own shares worth 10.0 billion yen. Could you please explain why the Company decided to set the total repurchase amount at 10.0 billion yen?
- A12. In fiscal 2018, we had free cash flow of around 30.0 billion yen. Therefore, we allocated this amount to dividend payment, repurchasing of own shares, and repayment of borrowing. In the future, we would like to decide the repurchase amount by monitoring the generation of free cash flow over three years under the new medium-term business plan.
- Q13. The Company doesn’t mention the target of ROE in the new medium-term business plan. Could you please explain the Company’s view on ROE?
- A13. We would like to operate our business with ROE in mind. However, realistically, it is difficult for us to raise ROE to the 8.0% level that is expected by our stakeholders, since our shareholders’ equity exceeds 500.0 billion yen and our sales only 300.0 billion yen. Therefore, we are cautious about announcing a numerical target for ROE. First of all, we would like to focus on increasing sales and operating profit to improve ROE.
- Q14. Doesn’t the Company have any plan to lower its shareholders’ equity ratio to raise its asset efficiency?
- A14. At the moment, we don’t consider increasing borrowings with an aim to lower our shareholders’ equity ratio.
- Q15. In its new medium-term business plan, the Company mentions that it will reduce financial assets to improve its asset efficiency. Could you please explain the Company’s view on its cross-shareholding?
- A15. We have been examining the reduction of cross-held shares by reviewing their necessity in a timely manner. We will sell cross-held shares if they don’t provide us with any synergic effect.

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