

ULVAC, Inc.

Q&A for FY2020 3Q business results presentation
(held on May 14, 2021) and Analyst meetings

[Full year earnings forecast]

① **With regard to the upward revision of the full-year earnings forecast, why is the operating profit margin expected to improve limitedly compared to the ¥15 billion increase in sales which was revised to ¥180 billion from the initial sales plan of ¥165 billion?**

A: The gross profit margin for the full year is expected to exceed the previous year's 27.3% by about 2 percentage points. Although it is taking longer to improve than the initial plan of 31.2%, our efforts to improve the profit margin through manufacturing reforms are steadily progressing and achieving outcomes. We will continue to make steady improvements in the future.

② **The operating profit margin in 2H is expected to improve from 7.0% in 1H to 11.1%, but how much is the gross profit margin expected to improve from 27.8% in 1H? Please explain the reasons for the improvement by dividing them into (1) the effect of improved profit margin, (2) the effect of improved product mix, and (3) the negative effect of decreased sales.**

A: The gross profit margin in 2H is expected to increase by more than 2 percentage points from 27.8% in 1H. (1) The increase in sales from ¥83.8 billion to ¥96.2 billion will have a significant effect on the profit margin, followed by (2) an improvement in the profit margin and (3) an improvement in the mix of semiconductors and electronics, which expected to account for about mid-30% of sales, up from 27% in 1H.

③ **What was the breakdown of orders and sales of FPDs and semiconductor electronic devices by application in the 3Q?**

A: As per Exhibit 1.

④ **How about the 3Q operating profit margin rank by segment?**

A: As per Exhibit 1.

⑤ **What is the breakdown of orders and sales of FPDs and semiconductor electronic devices by application for full year forecast?**

A: As per Exhibit 2.

[Semiconductor and electronic device]

- ⑥ **With regard to the business environment for semiconductor equipment, since the beginning of this year, semiconductor manufacturers have been revising their capital investment plans upward, what is the current increase in orders and what are the prospects for the next fiscal year and onward?**

A: We expect orders for semiconductors, both memory and logic, to increase by about 30% YoY for the full year. Of the ¥60 billion in revised orders expected for semiconductors and electronics for the full year, about ¥25 billion is expected to be semiconductor-related orders, an increase of about 20% from the initial plan.

The main reason for the increase compared to the previous year and to the initial plan is the growth in memory.

Orders for semiconductors in 2H are expected to increase by about 40% compared to 1H due to active investment in DRAM and NAND.

We will explain our plans for the next fiscal year when we disclose our full-year results in August, but given the current situation, we expect NAND and DRAM orders to grow by another 30% from the current fiscal year.

The logic metal hard mask process is expected to grow significantly from the next fiscal year to the year after as the generation of advanced node devices expands. We are also taking up the challenge of processes other than the logic metal hard mask process and believe that we will be aiming for an overall growth of more than 30% in logic.

For semiconductors as a whole, we expect to increase orders in the next fiscal year also by more than 30% compared to the current fiscal year. Regarding the specific figures, we will explain in August.

- ⑦ **How will orders for PCRAM grow in the next fiscal year and onward? The U.S. memory maker has announced that it will withdraw from the market and sell its manufacturing plant. Will the U.S. logic manufacturers continue? What are the trends of other companies? What is your forecast for the next fiscal year?**

A: As for the announcement of the sale of the plant by the U.S. memory manufacturer, I cannot talk about the impact of the sale because we do not know who will purchase the manufacturing plant. Since the end of last year, the U.S. logic manufacturer has been aggressively explaining on its website and other media that its customized PCRAM proposals have been well received by customers, and we understand that they are steadily developing the market. Although the timing of investment is not yet clear, we believe that a reasonable amount of investment can be expected during the mid-term management plan period.

Even if we do not expect PCRAMs, we currently believe that orders for semiconductors in the next fiscal year will increase by about 30% over the current fiscal year.

As for the trends of other semiconductor manufacturers, they are basically competing with the DRAM and NAND products, and each of them are preparing the mass production development for PCRAM so that they can immediately respond to mass production when the market accepts the products of the leading manufacturers. Therefore, they are adopting our sputtering equipment.

⑧ Orders for semiconductors and electronics have increased year on year in both 1Q to 3Q cumulative results and the full-year forecast. What is the growth in the electronic devices related? What is the growth by application?

A: The 1Q to 3Q cumulative results increased by about 10% YoY, and the full-year forecast is expected to increase by about 40% for the electronic devices related.

Power devices grew by 20% YoY, mainly for IGBTs in Japan and SiC in China. In addition, sales of communication devices for SAW and BAW filters, and optical devices for μ OLEDs, automotive AR films, and 3D sensors are growing both YoY and compared to the initial plan. By region, both Japanese and Chinese markets are growing.

⑨ According to quarterly orders for semiconductors and electronics, orders dropped in the 3Q due to the impact of orders brought forward in the 2Q and are expected to increase substantially in the 4Q. Please explain what will grow in the 4Q.

A: As explained at the disclosure of 1H financial results, orders for electronic (optical device) related products of approximately ¥3 billion, which were scheduled to be received in 3Q, were brought forward in 2H and grew significantly. In 4Q, we expect orders for power devices, communication devices such as for SAW filters, and automotive AR films to continue to increase in the electronics-related business, mainly in Japan and China, and orders for memory to increase in the semiconductor-related business.

⑩ How do you expect electronics-related business to grow in the next fiscal year?

A: We believe that investments will continue, especially in power devices, optical devices, and communication devices, and we expect further growth.

[FPD]

⑪ According to the breakdown of orders in the revised forecast, FPD/PV orders are expected to decrease to ¥41.5 billion from ¥47.0 billion in the initial plan. What is the decrease? When are you planning to receive orders for the two OLED deposition lines for smartphones?

A: When the plan was formulated at the beginning of the fiscal year, we expected to receive orders for a large amount of additional investment in LCDs for large TVs in 1H and two OLED deposition lines for smartphones in 2H. We have now revised downward order

forecast for the current fiscal year due to the possibility that orders for the two OLED deposition lines will be delayed to the next fiscal year.

On the other hand, due to the staying-at-home demand caused by the new coronavirus, LCD investment projects for IT applications such as tablets and PCs as well as for large TVs increased (by about ¥6 billion). In addition, orders for sputtering equipment for backplanes of OLEDs for smartphones, which were expected to be low in the initial plan due to competition, were received (about ¥5.0 billion) due to the high evaluation of the equipment's ability to produce fewer particles (microscopic dust) for higher resolution. Therefore, even with the possibility of a postponement of OLED evaporation equipment orders to the next fiscal year, the forecast for orders is ¥41.5 billion.

Although there is still a possibility that orders for the two evaporation equipment lines will be received during the current fiscal year, at this point we forecast that orders will be received in 1H of the next fiscal year.

⑫ **Orders for FPDs are expected to be down from the initial plan, but what do you think of the investment environment for LCDs and OLEDs for the next fiscal year? To how much are orders and sales expected to increase in the next fiscal year?**

A: In addition to the continued investment in LCD panels for IT applications such as tablets and PCs in response to staying-at-home demand, additional investment in LCDs for large TVs is expected in the next fiscal year, and we believe that LCD-related investment may exceed the current fiscal year.

We also expect to receive orders for sputtering equipment for backplanes and other products as many manufacturers continue to invest in OLEDs for smartphones. In the case of evaporation equipment, we expect to have the two lines in the next fiscal year. In addition, mass production development of OLEDs with large substrates is underway, and we believe that business opportunities will expand in the next fiscal year and onward.

We will explain our plans for the next fiscal year in August, so we cannot provide specific figures at this stage, but we believe that if the two evaporation lines are moved to the next fiscal year, we will receive orders much larger than the current fiscal year.

[Others]

⑬ **How will the new coronavirus affect business as emergency declaration extended?**

A: In the semiconductor, electronics, FPD, and other industries, demand for IT and large TV panels is increasing worldwide due to staying-at-home demand, and there is an insufficiency in semiconductors market. Although there are some restrictions on travel, systems have been established to compensate for this situation through remote handling of on-site support and business negotiations.

⑭ **As semiconductor-related investment becomes more active, we hear that manufacturers of manufacturing equipment are experiencing longer delivery lead times for parts and materials. Is ULVAC also experiencing tighter procurement? What measures are you taking?**

A: In addition to the increase in demand for semiconductor-related capital investment, the cold wave and power outages in Texas, U.S., combined with material shortages of various materials, have resulted in longer delivery lead times for some products.

We are taking measures such as placing orders ahead of schedule as necessary while checking the lead times of our suppliers. So far, there has been no major impact on production. We will continue to take appropriate measures.

<Exhibit 1>

● Breakdown for Order Received

Order Received	FY2020 3Q
Semiconductor/ Electronics(1billion¥)	12.1
•Memory	more than 40%
•Logic	more than 10%
•Electronics Device	less than 20%
•Power Device	more than 10%
•Packaging	mid-10%
FPD(1billion¥)	8.3
•LCD	mid- 50%
(for large-sized)	(more than 60%)
•OLED	more than 20%
•Others	around 20%

● Breakdown for Net Sales

Net Sales	FY2020 3Q
Semiconductor/ Electronics(1billion¥)	16.2
•Memory	less than 40%
•Logic	less than 10%
•Electronics Device	around 30%
•Power Device	less than 20%
•Packaging	less than 10%
FPD(1billion¥)	10.3
•LCD	less than 30%
(for large-sized)	(mid-60%)
•OLED	around 60%
•Others	more than 10%

● Operating Profit Margin Rank of FY2020 3Q

Rank	Segment
1	Semiconductor and Electronics
2	Component
3	Others
4	Materials
5	FPD
6	General Industries

Overall average is between
1) Component and 2) Others

<Exhibit 2>

● Breakdown for Order Received

Order Received	FY2020 Forecast
Semiconductor/ Electronics(1billion¥)	60.0
•Memory	more than 30%
•Logic	more than 10%
•Electronics Device	more than 30%
•Power Device	less than 20%
•Packaging	less than 10%
FPD(1billion¥)	41.5
•LCD	mid-50%
(for large-sized)	(mid-70%)
•OLED	mid-30%
•Others	less than 10%

● Breakdown for Net Sales

Net Sales	FY2020 Forecast
Semiconductor/ Electronics(1billion¥)	56.5
•Memory	less than 40%
•Logic	less than 10%
•Electronics Device	more than 30%
•Power Device	less than 20%
•Packaging	less than 10%
FPD(1billion¥)	45.0
•LCD	mid- 30%
(for large-sized)	(more than 80%)
•OLED	around 50%
•Others	mid-10%