

ULVAC, Inc.

Q&A for FY2021 1H Web Conference
(held on Feb 15, 2022) and Analyst meetings

[1Q Results & Full-year Forecast]

1. The full-year orders forecast has been revised from ¥230 billion to ¥245 billion, but orders received in 1H was ¥144.6 billion, which means the orders received in 2H would be ¥100.4 billion, ¥40 billion lower than 1H but why?

A: It's largely due to the fact that FPD projects were brought forward by about ¥20 billion from 2H to 1H. Orders for the full year are also expected to increase by ¥15 billion versus the plan, and all segments are expected to exceed the previous year's level. In the next fiscal year and onward, we believe that investment expansion will continue, especially in the semiconductor and electronics sectors.

2. Why didn't you revise the full-year sales and operating profit forecast upwardly despite the upturn in 1H?

A: In 1H, despite the impact of longer delivery times for parts, sales were higher than planned due to an increase in orders, and operating profit was also higher than planned. We expect cautiously in 2H that the sales would remain at the same level as 1H since the impact of longer delivery time for parts is becoming more severe currently and there is a possibility that the impact would be stronger.

3. The gross profit margin in the 2Q was 32.4%, the highest level since you were listed on the stock exchange, but can we consider this to be an actual value? Which businesses improved mostly? Is the impact of the product mix contributing?

A: The improvement in the gross profit margin in 2Q was due to the steady results of our efforts to strengthen our manufacturing capabilities. In the 2Q, the impact of the product mix was minimal. In 2H, we expect to see a continuous improvement as the results of our efforts to strengthen our manufacturing capabilities are gradually reflected.

4. What was the breakdown of orders and sales of FPDs and semiconductor electronic devices by application in 1H?

A: As per the Appendix.

5. How about the rank in terms of operating profit margin in 1H?

A: As per the Appendix.

【Outlook for the next FY】

6. Will sales and profit (ratio) of the next fiscal year and onward exceed those of this fiscal year?

A: We will disclose our plans for the next fiscal year in August, so it is difficult to say at this stage, but we believe that we can foresee the further growth as capital investment, especially in semiconductors and electronics, are becoming more active.

As for the profit margin, we will continue to work on improving the profit margin by strengthening our manufacturing capabilities and strive to achieve the profit margin target of the next fiscal year.

【Orders Trends of Semiconductors and Electronic Device production equipment】

7. Are the Logic, Memory-related products growing in line with the market growth? How do you expect Logic, Memory to grow in the future? Has there been any changes in your perception of capital investment trends since last August?

A: In the logic market, the Metal Hard Mask (MHM) process, an essential process for cutting-edge EUV which we have entered in 2018, is expected to grow faster than the growth in the logic market investment. As business opportunities in other processes are expanding due to the high reputation of MHM, we expect 1.9 times YoY growth in 1H and 2.2 times YoY growth for the full year. In the memory business, we expect the growth being at the same rate as the market for the time being, and expect 1.6 times in 1H and 1.3 times for the full year.

Although there is no significant difference in recognition from the perception as of August last year, we feel that semiconductor manufacturers are becoming more aggressive to invest.

8. Which applications and regions grew in orders for electronic devices?

A: For electronic device-related applications, orders increased mainly for power devices, communication devices, and sensors.

In particular, orders for power devices in 1H were 1.4 times YoY, and are expected to be 1.5 times YoY for the full year.

In terms of regions, the investment in China is very active and orders in 1H are expected to be 2.4 times YoY and 2.5 times YoY for the full year.

9. We have high expectations for power devices. What is the status of investment trends in Japan and China? Will they continue to grow?

A: We have a high market share in Japan, mainly for sputtering equipment for IGBT back electrodes, and a high market share of more than 70% in China, mainly for SiC ion implanter. The Investment in power devices are very active with the development of green energy and EVs. In addition, the equipment for low-voltage, low-current Si-MOSFET deposition in China is robust which is manufactured locally. Power devices are becoming a growth engine for the electronic devices-related business.

10. We have heard that China is aiming for domestic production of equipment (Made in China), but what is the status of competition with domestic Chinese equipment manufacturers?

A: Although Chinese equipment manufacturers are increasing their market share for general-purpose device manufacturing equipment, there are many device manufacturers that are engaged in the development and manufacture of cutting-edge devices, and many of them want to purchase equipment from ULVAC, which has a proven track record with Japanese electronic device manufacturers. There is still a large difference in equipment performance between ULVAC and Chinese manufacturers, so the influence is limited concerning the current competition. In response to the threats posed by Chinese equipment manufacturers, we will secure our position in the Chinese market by providing solid support for mass production development and productivity improvement with the companies with which we are currently doing business, and constantly work to differentiate ourselves and develop cutting-edge technologies.

[Orders Trends of FPDs production equipment]

11. LCD panel prices are declining and the stay-at-home demand have been showing signs of pausing, but why is LCD investment continuing?

A: Due to two reasons, one is that Korean manufacturers have decided to close their LCD factories and the supply-demand balance is expected to ease in the future, and the other one is that the trend in TV size is toward larger screens and a production capacity shortage is expected on a panel area basis. To fill this shortage, Chinese and Taiwanese manufacturers are investing to improve their production capacity. In addition, LCD-related investment continues at a high level due to the need to meet the demand for higher resolution and wider viewing angles in IT panels for tablets and PCs.

12. What is the status of the investment for large OLED substrates? When can we expect the investment?

A: In addition to mobile devices, there is a growing demand to shift to OLED panels for tablets, PCs, and IT panels for medical, automotive, and game applications, and there is a growing trend to develop mass production of OLEDs with large substrates for efficient chamfering.

In particular, as Chinese panel manufacturers with government support continue to launch LCD factories with G10.5 large substrates, Korean manufacturers, which have been leading the display industry, have announced a policy to withdrawal from LCD panel production and are trying to differentiate themselves by shifting to OLED. On the other hand, major panel manufacturers in China are also stepping up their efforts to produce leading-edge OLEDs, and the interests in OLEDs with larger substrates are increasing. We expect continuous investment in the next fiscal year and onward.

13. We are looking forward to the battery business, but when do you expect it to grow?

A: We are developing a roll-to roll deposition system for EV batteries to realize miniaturization, high capacity and safety improvement, and we believe it will contribute to orders and sales from FY2023 onwards, which is in the next mid-term management plan.

【Procurement of parts and materials】

14. How long has the lead time of equipment been extended due to longer delivery times for parts?

A: For example, for semiconductor and electronics, although it varies depending on the equipment, the lead time, extended to 10 to 12 months even with further efforts due to the longer delivery time of materials which has previously 4 to 7 months. We are constantly confirming and negotiating with customers and suppliers on delivery dates to minimize the impact.

15. What parts or materials are in short supply due to long delivery times? What measures are being taken?

A: Mainly due to the shortage of semiconductor and resin related products, and the longer delivery time for controllers, servo motors, connectors, LM guides, ball screws, and valves, etc. The delivery time for parts manufacturing suppliers has also become longer in general due to the tight supply and demand. As a countermeasure, we are working to secure parts and materials at an early stage by making advance arrangements, and preparing standardized units for production, etc. We are also cooperating with manufacturers to bring delivery dates closer to the required deadlines through regular meetings. Meanwhile, we are working to secure parts on a global basis in cooperation with overseas group companies. In addition, we share information on parts that are difficult to obtain with our suppliers and also to some of our customers and cooperate together to secure parts.

【Mid-term Management Plan】

16. Has the Strengthening of Manufacturing Capabilities in the Mid-Term Management Plan progressed mainly in FPD? What about semiconductors and electronics? Is there much room for improvement in the future?

A: With regard to the strengthening of manufacturing capabilities, in addition to the improvement in the FPD business, the semiconductor and electronics businesses are also improving. Improvements have been made across the board, leading to the current improvement in profit margin. Improvements from the design stage are beginning to lead to improvements in procurement and manufacturing processes. We will continue to improve the profit margin by further spreading the activities to strengthen our manufacturing capabilities throughout the group companies.

<Appendix>

● Breakdown for Order Received

Order Received	FY2021 1H
Semiconductor/ Electronics(¥1billion)	39.0
•Memory	more than 30%
•Logic	mid-10%
•Electronics Device	less than 30%
•Power Device	less than 20%
•Packaging	several%
•Others	mid-single digit%
FPD(¥1billion)	55.9
•LCD	less than 50%
(for large-sized)	(almost 100%)
•OLED	mid-40%
•Others	less than 10%

● Breakdown for Net Sales

Net Sales	FY2021 1H
Semiconductor/ Electronics(¥1billion)	34.8
•Memory	more than 30%
•Logic	more than 10%
•Electronics Device	more than 30%
•Power Device	less than 20%
•Packaging	mid-single digit%
•Others	several%
FPD(¥1billion)	30.2
•LCD	mid-30%
(for large-sized)	(mid-60%)
•OLED	less than 60%
•Others	mid-single digit%

● Operating Profit Margin Rank of FY2021 1H

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

Overall average is between
4) General Industries and
5) FPD