ULVAC,Inc.

Q&A for FY2022 1H Business Results Presentation (held on Feb. 14, 2023) and Analyst Meetings

Growth Strategy and outlook for the next fiscal year and onwards

1. **Although the earnings forecast has been revised substantially, are there any changes to the existing growth strategy, policy for improving profitability by strengthening manufacturing capabilities, etc.?**

A: The revised forecast is due to a decrease in orders received for FPDs and Materials resulting from lower panel demand, delays in sales progress caused by longer delivery times for parts and materials, and higher parts and material prices, etc. However, the medium- to long-term trend of increased investment in semiconductors, electronics, etc. remains unchanged, and we believe we can continue to grow faster than the market with growth drivers such as advanced logic, power devices and various electronic devices, and batteries.

The improvement of profit margin by strengthening manufacturing capabilities has also been negatively affected by the longer delivery times of parts and materials, but we intend to make further improvements in the next mid-term management plan.

The order backlog at the end of December was ¥136.1 billion, and is expected to be around ¥150 billion at the end of this fiscal year. The profit margin will also improve as sales will increase steadily, the mix of semiconductor and electronics sales will improve, and the effect of improved profit margins will gradually become apparent as the long delivery times of parts and materials ease.

2. **What is the projected level of sales and operating profit for the next fiscal year (FY 2023)? Will they grow?**

A: The plan for the next fiscal year will be announced in August, but at this point, we expect the order backlog at the end of the fiscal year to be around ¥150 billion, and we believe that sales will increase and the mix will improve further, especially with the growth of semiconductor and electronics, and both sales and operating profit will steadily increase.

3. **The next mid-term management plan, to be announced in August 2023, calls for net sales of ¥300 billion or more, gross profit margin of 35% or more, and operating profit margin of 16% or more, but will sales and profits (margins) really grow in the next fiscal year and onwards?**

A: The medium- to long-term investment expansion trend in semiconductors, electronics, etc. remains unchanged, and we expect orders and sales to increase in the next fiscal year and onwards as we continue to grow faster than the market, especially in semiconductor and electronics.

The order backlog at the end of this fiscal year is expected to be around ¥150 billion, and profit

(margin) is expected to improve due to increased sales. Profits (margins) are also expected to improve due to the mix improvement effect from the increase in semiconductor and electronics sales. In addition, from the next fiscal year onward, the impact of longer delivery times for parts and materials will gradually ease, and the results of our efforts to strengthen manufacturing capabilities will gradually start to emerge.

Results for the first half and forecast for the full year

4. Regarding the revision of the full-year forecast, why is it that net sales are expected to fall short of the plan by ¥20 billion, while operating profit is expected to fall short by ¥10.5 billion?

A: Operating profit is expected to fall short of the plan by about ¥8 billion due to a ¥10 billion decrease in orders for FPDs, materials, etc. and delays in sales contributions caused by longer delivery times for parts and materials resulting ¥20 billion shortfall in net sales compared to the plan.
In addition, the profit margin will be depressed by lower productivity due to longer delivery times for parts and materials and the time lag between price increases for raw materials and parts and the timing until it can be passed on to customers. Despite efforts to reduce SG&A expenses, operating profit is expected to fall short of the plan by ¥10.5 billion.

5. Why is the full-year operating profit expected to fall short of the plan by ¥10.5 billion, while the net income forecast to fall short of the plan by ¥3.0 billion, which is a smaller amount?

A: Net income increased by approximately ¥3 billion due to positive foreign exchange gains and losses in the first half and a lower tax burden ratio compared to the plan. In addition, an unplanned gain of ¥2 billion on the sale of group company's real estate and a lower-than-planned tax expense of approximately ¥2 billion are expected in the second half of the fiscal year.

6. Why did sales in the first half increase by ¥5.7 billion YoY, while operating profit decreased by ¥900 million?

A: This was mainly due to a ¥2.1 billion increase in SG&A expenses, mainly related to development for future growth.

7. The gross profit margin for FY2022 is expected to improve from 30.6% in FY2021 to 30.9%. How can it be improved?

A: This is due to the mix improvement effect of higher sales of semiconductor and electronics, which have relatively high profit margins.

8. Please explain why the revised forecast calls for net sales of ¥7.2 billion, operating profit of ¥3.0 billion, and a 2-pt improvement in the operating margin in the second half of the fiscal year compared to the first half.

A: The order backlog in the first half was ¥136.1 billion. The order backlog for semiconductor and electronics, which has particularly high profit margins, is rising, and as the contribution to sales

gradually increases, the profit margin is expected to increase both in terms of sales growth and mix improvement.

9. What measures are being taken to avoid the impact of longer delivery times for parts and materials?

A: In response to the long delivery times of parts and materials, we continue to take steps for improvement, including (1) early arrangement of necessary parts, (2) delivery L/T negotiations with suppliers, (3) switching to alternative products and suppliers, and (4) monitoring, along with load status, whether there are any delays in drawings release or ordering process.

In addition, in response to the time lag in the reflection of material price hikes in selling prices, we are working to ensure that material price hikes are reflected in our quotations and selling prices as well.

Efforts to strengthen manufacturing capabilities have been negatively affected by longer delivery times for parts and materials and soaring material prices, which have reduced the effectiveness of these efforts. As we have a structural problem that made us more impactful from the fact that we have a lot of equipment that is customize, we intend to introduce a new planned production system in the equipment business in addition to the conventional make-to-order system.

10. What is the breakdown of orders and sales by application for FPDs and semiconductor and electronic devices in the first half?

A: See Appendix.

11. What is the ranking of operating profit margin in the first half of the year?

A: See Appendix.

Semiconductor and Electronics Order Trend

12. Order growth in the logic-related sector has exceeded the market, and is also above the plan, but why?

A: Although investment in advanced logic is a little behind schedule, entry into new logic processes and new customers has been realized from this fiscal year, and is expected to grow to about 1.9x YoY.

In addition to the MHM process for 5-nanometer and 3-nanometer, a new process other than the Metal Hard Mask process that uses the same TiN was launched and a metal layer process was also launched in the 2Q. There are other new processes that we are challenging to enter, and we expect to enter about 4-5 new processes by the end of this fiscal year.

In addition, we have realized entry into the U.S. legacy sector from this fiscal year, which is expected to lead to increased investment in the next fiscal year and beyond.

13. What is the impact of the memory investment slowdown? When will investment recover?

A: Memory orders are expected to fall nearly 40% short of this fiscal year's memory order plan due to a slowdown in memory investment.

We expect memory investment to recover from the second half of 2023 to the end of the year, as manufacturers are working to adjust inventories. We are also beginning to receive opportunities for entry into new processes for memory sector, and we will take advantage of these opportunities to achieve growth that exceeds the market. In addition, from 2024, cutting-edge investments to establish regional supply chains in the U.S. and other regions will become more active.

14. What is the impact of the U.S. restrictions on semiconductor exports to China?

A: The Chinese projects for which we had expected to receive orders this fiscal year was about ¥5 billion, and we see a strong possibility that these orders will fall short of our plan.

As for power devices and various electronic devices, which are expected to grow in the Chinese business, they are not subject to U.S. semiconductor regulations, and the strong electronic business is covering the decline in semiconductors.

15. Which applications and regions saw growth in orders for electronic devices?

A: In electronic device-related applications, various electronic devices including power devices and optical-devices are increasing.

In particular, orders for power devices increased 2.3 times YoY in 1H and are expected to increase 1.6 times YoY for the full year.

Orders for various electronic devices, including optical-devices such as μOLEDs for AR/VR, increased 1.6 times YoY in 1H and are expected to increase 1.3 times YoY for the full year.

16. Power devices are performing well. Please tell us about investment trends.

A: In 1Q, there was a large spot order of about ¥4 billion for SiC in China, resulting in orders for power devices of about ¥17 billion in the 1H of the year. In the 2H and onwards, we expect a high level of orders, mainly from Japan and China, and expect orders of approximately ¥27 billion for the full year.

17. What are the prospects for the second half of the electronics and the next fiscal year and beyond?

A: Power devices, optical-devices, and various electronic devices, etc. are expected to continue to perform well in the 2H of the year as investment expands in Japan and China. Annual orders for electronic devices are expected to exceed the initial plan of ¥51.0 billion to ¥59.5 billion. In the future, orders for power devices are expected to continue to grow due to the shift to green energy and EVs, China's policy of domestic production, etc. Orders for various electronic devices are also expected to continue to grow due to the shift to a smart society, digitalization, and increased use of metaverse/remote technology.

FPD Order Trend

18. The explanation of FPD orders for the next fiscal year and onwards will go from ¥70-80 billion to around ¥60 billion, but what has changed?

A: Demand and prices for displays have declined due to sluggish demand for smartphones and TVs, and major panel makers have become more cautious in their investment policies, and the timing of some investments is still unclear, so we have revised our forecast from ¥70-80 billion to around ¥60 billion for next fiscal year and beyond. We still expect to receive orders mainly for sputtering equipment for large-size OLED substrates for IT panels and roll-to-roll deposition equipment for batteries in the next fiscal year and beyond.

The decline will be compensated by the growth of semiconductor and electronics over the market.

19. The battery-related investments have been postponed. How should we expect growth for EV battery roll-to-roll deposition equipment?

A: Development of roll-to-roll deposition equipment for EV batteries is continuing toward the establishment of mass production technology, and we expect to receive a large amount of orders in the next fiscal year. In 2Q, we received an order from another EV battery-related manufacturer for a roll-to-roll deposition equipment to expand our customer base.

Continued orders are expected from Japanese and Chinese electronic device manufacturers for roll-to-roll deposition equipment for EV film capacitors.

We are still aiming for orders of ¥10 billion level in the next fiscal year for roll-to-roll deposition equipment for EV batteries and film capacitors.

Other

20. You are constructing a Technology Center in Korea at a cost of ¥6 billion. What is the purpose of this project and what do you consider the profitability of the investment?

A: Korean semiconductor manufacturers will continue to actively develop and invest in technology for both logic and memory.

By building the Technology Center near semiconductor manufacturers, we intend to further strengthen our semiconductor business by increasing opportunities for joint device verification and mass production technology development with customers, accelerating product development, and enhancing collaboration and technical support.

We have already seen an increase in joint development projects due to expectations as a second vendor, but in order to further increase and accelerate this trend, we decided that it is necessary to engage in joint development as a partner in close proximity to the client semiconductor manufacturers.

Construction is scheduled to be completed in March 2024, and the company expects to be able to get a return on investment in about two years.

Located in the same industrial park as ULVAC Korea, the relocation of the demo machine to the Technology Center is expected to increase the production capacity of the existing plant.

<Appendix>

●Breakdown for Order Received

Order Received	FY2022 1H
Semiconductor/ Electronics(¥1billion)	**52.7**
・Memory	mid-20%
・Logic	less than 20%
・Electronics Device	more than 30%
・Power Device	more than 30%
・Packaging	several%
・Others	-
FPD(¥1billion)	**23.6**
・LCD	more than 20%
（for large-sized）	(almost 100%)
・OLED	less than 70%
・Others	about 10%

●Breakdown for Net Sales

Net Sales	FY2022 1H
Semiconductor/ Electronics(¥1billion)	**36.6**
・Memory	less than 30%
・Logic	mid-10%
・Electronics Device	less than 30%
・Power Device	more than 20%
・Packaging	less than 10%
・Others	-
FPD(¥1billion)	**28.9**
・LCD	mid-40%
（for large-sized）	mid-50%
・OLED	more than 40%
・Others	more than 10%

●Operating Profit Margin Rank of FY2022 1H

Rank	Segment
1	Semiconductor and Electronics
2	Components
3	Others
4	General Industries
5	Materials
6	FPDs

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