

Ulvac, Inc.

Q&A summary for FY2020 1Q business results telephone conference (held on Nov 13,2020) and analyst meetings

[1Q Results]

① **Orders, sales, and profit margins in 1Q (July-September) were at low levels, but were they in line with the initial expectations? No changes to the annual plan?**

A : From the beginning, we expected orders to be low in the 1Q, recovering from the 2Q, and then improving in the 2H compared to the 1H. Net sales decreased in line with the decrease in orders, but we expect it to improve from 2Q with the recovery in orders.

The decline in operating margin is mainly due to the decline in sales and is expected to improve with the recovery of sales and the increase in the percentage of high-margin sales such as semiconductors, electronics and components. Also, the results of manufacturing reforms will contribute.

There is no change to the full-year plan of 180 billion yen in orders received, 165 billion yen in sales, and 15 billion yen in operating income.

② **What is the breakdown of orders and sales in the semiconductor, electronics, and FPD in 1Q?**

A : As shown in the attached Exhibit.

③ **What is the ranking of profit margin by segment in FY2019 results?**

A : As shown in the attached Exhibit.

[FPD Order Trends]

④ **What kind of projects are planned for the 2Q and the 2H of the year, and is it possible to achieve the annual FPD order plan of 47 billion yen?**

A : We expect to receive orders for sputtering equipment for small and medium-sized OLEDs in the 2Q. In addition, demand and prices for LCD panels used for PCs and TVs are rising due to the working and studying at home situation caused by the COVID-19 and expect for some additional investments in chambers to increase the panel production.

In the 2H of the year, we plan to receive orders for sputtering equipment for large TV LCDs and evaporation and sputtering equipment for small and medium-sized OLEDs. That is why we believe we can achieve our annual plan of 47 billion yen.

⑤ **The competition in sputtering equipment for small and medium-sized OLEDs is intensifying. How about the competition status and order status?**

A : Our competitors have been aggressive in terms of price. Since last year, the demand for high-definition OLEDs began to increase, and our low-particle technology has been re-evaluated, and our market share has been increasing. We plan to receive more orders this fiscal year.

⑥ **What are the prospects for FPD orders such as LCDs, small- and medium-sized OLEDs, and large-sized OLEDs in the next fiscal year and onward ?**

A : Amidst rising demand and prices, some Chinese manufacturers are reportedly considering additional investment to increase LCD production but we believe that investment in large LCDs will basically reach a plateau.

Although companies are not investing intensively in small and medium-sized OLEDs as they were previously, we believe they will continue to invest.

For large substrate OLEDs, we expect to see increased investment in the next year and onward, mainly from the two top panel manufacturers in Korea and China, and we believe we can fully demonstrate our strength in large equipment.

[Semiconductor and Electronics Order Trends]

⑦ **Why were orders for semiconductor electronics were at a low level in 1Q, and will it recover after 2Q and onward?**

A : We expected the level of orders for semiconductors to be low in 1Q due to a temporary off- season period of investment, but from 2Q, orders for both memory and logic will recover, and we expect the level of orders for the full year to be slightly higher than last year. With the new entry into the metal hard mask process associated with the use of EUVs in logic, joint development projects with foundries and memory manufacturers are increasing, and we are consolidating the basis for growth in the next fiscal year and onward.

Although investment in power semiconductors and 5G-related products in China has been active, due to travel restrictions to China, we were not able to receive orders in 1Q, but in 2Q, engineers were able to travel to China and negotiations have started in full-scale, and we expect to receive more orders in 2Q and beyond.

China is strongly promoting domestic production across the entire electronics sector, and local governments are providing a variety of support to attract companies and factories. It is expected that China's electronics related investment will continue to be brisk in the future, and we believe that the business chances are great.

⑧ What is the order expectation for this fiscal year and the growth after next fiscal year for Logic, the new entrant to the EUV market?

A : Sputtering equipment for the metal hard masking process, which involves the use of EUV, has been adopted by two foundries. In the future, as miniaturization advances further, the number of metal hard mask processes (i.e., sputtering processes) will increase along with the EUV process. By building up a track record in the metal hard mask process, we can now be expected to become a second vendor in other new processes, and we are working on joint development of the most advanced process and expect to see results in the next fiscal year or later.

⑨ What are the investment trends of PCRAM?

A : Expectations are high for PCRAMs, which combine the functions of NAND, which retains its memory even when the power is turned off, and the functions of DRAM, which is capable of speed processing, as well as achieving low power consumption. Full-scale investment by leading-edge logic manufacturers is expected to be realized in the next fiscal year or later. In the meantime, other memory manufacturers are working on mass production development to be capable of supplying the PCRAM market when it emerges, and the business opportunities are expanding. This fiscal year, we plan to receive orders for such mass production development equipment.

⑩ What are the investment trends in electronics, including power semiconductors? How about the Electronics-related investment trends in the Chinese market?

A : Power devices are becoming more active in both Japan and China. In the 2Q, several management level engineers went to China to pioneer the Chinese market, and we are seeing a lot of investment opportunities in a wide range of electronics related fields and regions, such as 5G-related communications and sensors, in addition to power semiconductors. Business negotiations are actively taking place, and we expect orders to increase.

【Component Order Trends】

⑪ Components orders in 1Q were low, but will it recover after 2Q?

A: In the 1Q, component orders were low due to the postponement of capital investment in the automotive industry and the small number of FPD-related cryopump projects. We expect a gradual recovery of vacuum pumps and other products due to the recovery of related capital investment.

【Profit margin】

⑫ Why is the vacuum application business experiencing an operating loss, and will it recover after 2Q?

A: In 1Q, in addition to the decline in sales, orders with high profit margins related mainly to materials, temporarily declined, resulting in an operating loss. It is expected to return to profitability due to sales recovery after 2Q.

⑬ The gross margin in 1Q was low, but will the annual plan be achieved?

A: In the 1Q, gross margin was 25.7%, largely due to the low level of sales. From 2Q onwards, profit margins are expected to improve due to (1) improvement in profit margins associated with sales recovery, (2) increase in the sales ratio of high-margin semiconductors, electronics, and components (mix improvement), and (3) improvement in profit margins through manufacturing reforms (gradual realization).

<Exhibit>

● Breakdown for Order Received

Order Received	FY2020 1Q Results
FPD	¥5.4 billion
•LCD (for large-sized)	more than 40% (Mostly for large-sized)
•OLED	around 40%
•Others	less than 20%
Semiconductor/ Electronics	¥8.7 billion
•Memory	mid-20%
•Logic	less than 10%
•Electronics Device	more than 40%
•Power Device	less than 20%
•Packaging	less than 10%

● Breakdown for Net Sales

Net Sales	FY2020 1Q Results
FPD	¥12.1 billion
•LCD (for large-sized)	mid-20% (80% for large-sized)
•OLED	more than 50%
•Others	more than 20%
Semiconductor/ Electronics	¥7.8 billion
•Memory	more than 40%
•Logic	mid-single digit
•Electronics Device	more than 20%
•Power Device	more than 20%
•Packaging	around 10%

● Operating Profit Margin Rank of FY2020 1Q

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

Overall average is between
3) FPD and
4) Semiconductor and Electronics