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# Structural Business Reform Plan Announcement

**ULVAC, Inc.**  
**26<sup>th</sup> April 2012**

## Introduction

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Since the 2005 introduction of our “Post-FPD Strategy,” we have invested heavily, targeting sales of ¥400bn and 10% OPM by 2015. However, with macro environment deterioration and rising fixed costs, we expect a large drop in OP for FY6/12.

Today, along with lowering FY6/12 guidance, **we announce the first major restructuring since our company’s founding** based on 3 principles:

- 1) Refocus:** select future core growth areas with high margin potential
- 2) Slim:** slash fixed costs; reallocate remaining resources to growth areas
- 3) Strengthen:** further improve competitiveness and total corporate quality

Ulvac is determined to make sweeping internal changes to our business, organization, and way of thinking, with no exceptions for “sacred cows.”

I have strong conviction that executing this plan will increase our profitability and our corporate value as “Ulvac reborn”.

**President Hidenori Suwa**

# Agenda

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## Structural Business Reform Plan: Key Topics

- ▶ Revision down to FY6/2012 earnings estimates
- ▶ How we got here
- ▶ Future business strategy
- ▶ Structural reform outline
- ▶ Summary

# Implementing Restructuring Will Result in FY6/12 ¥51.6bn Net Loss

【¥bn】

|                             | FY6/2012       |          |        |          |                 | FY6/2011 |
|-----------------------------|----------------|----------|--------|----------|-----------------|----------|
|                             | H1 Result      | H2 Est.  |        | FY Est.  |                 |          |
|                             |                | Previous | New    | Previous | New             |          |
| Bookings                    | 82.2<br>(-20%) | 97.8     | 82.8   | 180.0    | 165.0<br>(-43%) | 235.9    |
| Backlog                     | 75.6           |          |        | 69.1     | 61.1            | 110.9    |
| Sales                       | 115.7<br>(-3%) | 104.3    | 97.3   | 220.0    | 213.0<br>(-9%)  | 232.0    |
| Operating Profit            | 2.8<br>(+178%) | -0.8     | -10.2  | 1.9      | -7.4<br>(-)     | 1.9      |
| OPM                         | 2.4%           | -0.8%    | -10.4% | 0.9%     | -3.5%           | 0.8%     |
| Recurring Profit            | 3.4<br>(+319%) | -1.5     | -10.8  | 1.9      | -7.5<br>(-)     | 1.4      |
| RPM                         | 2.9%           | -1.4%    | -11.1% | 0.9%     | -3.5%           | 0.6%     |
| XO Profit                   |                |          |        |          | 0.2             | 0.2      |
| XO Loss                     |                |          |        |          | 28.0            | 10.9     |
| Tax etc                     |                |          |        |          | 15.6            |          |
| Minority interests and loss |                |          |        |          | 0.6             |          |
| Net Profit                  | 0.3<br>(-)     | -2.1     | -51.9  | -1.8     | -51.6<br>(-)    | -8.7     |

## Summary

- ◆ Extraordinary loss of ¥28.0bn due to restructuring charges
- ◆ As a result, we estimate a net loss of ¥51.6bn for FY6/12

Operating loss -¥7.4bn

OLED equip. related -¥2.6bn

Industrial equip related -¥3.0bn

Other evaluation loss etc. -¥2.0bn

Extraordinary loss ¥28.0bn

Business restructuring costs ¥4.9bn

Inventory disposal loss ¥8.5bn

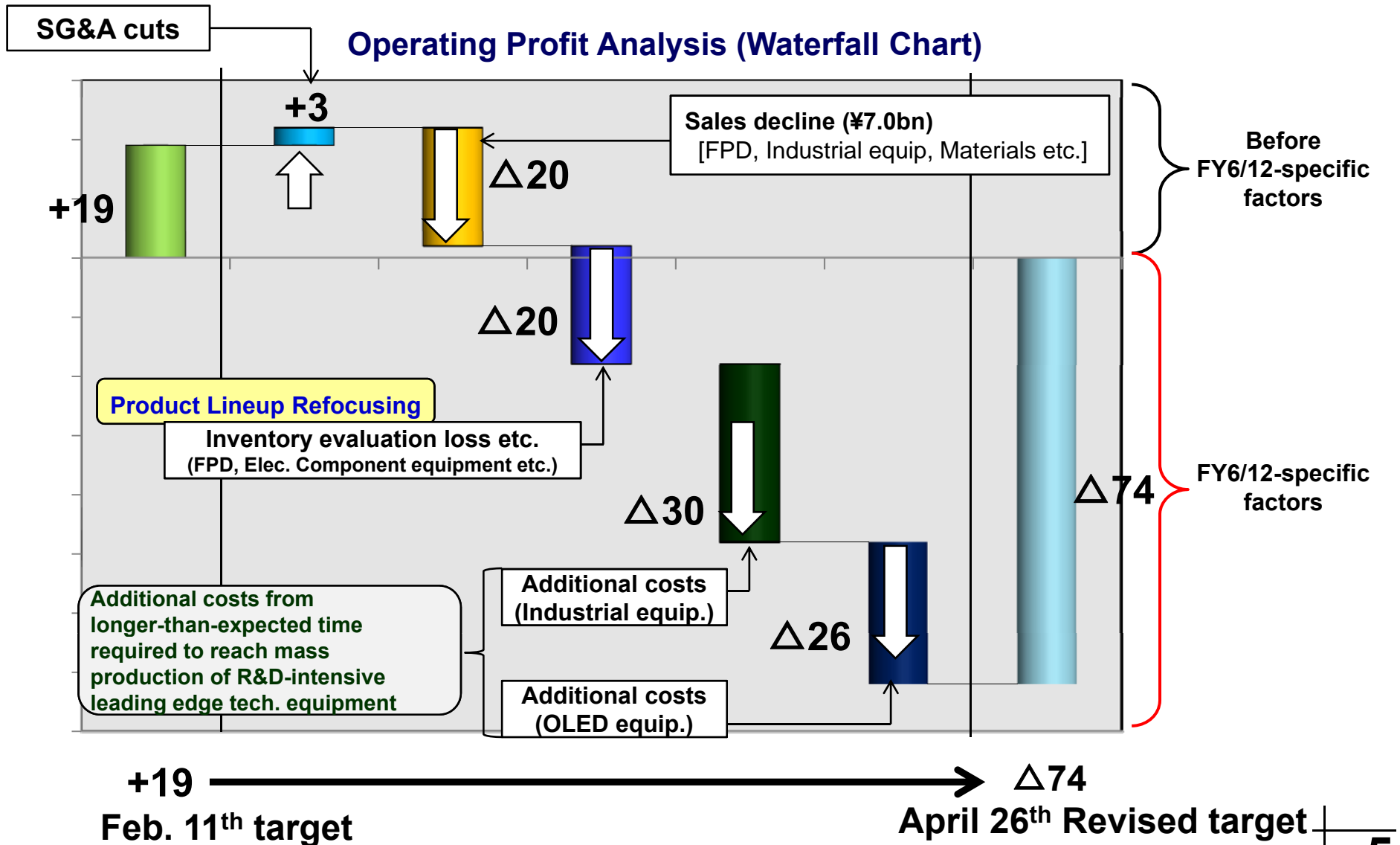
Fixed asset disposal loss ¥6.9bn

Fixed asset impairment ¥3.6bn

Other ¥4.1bn

Deferred tax asset reversal -¥13.5bn

# FY6/12-Specific Extra Costs Cause OP Loss of ¥7.4bn



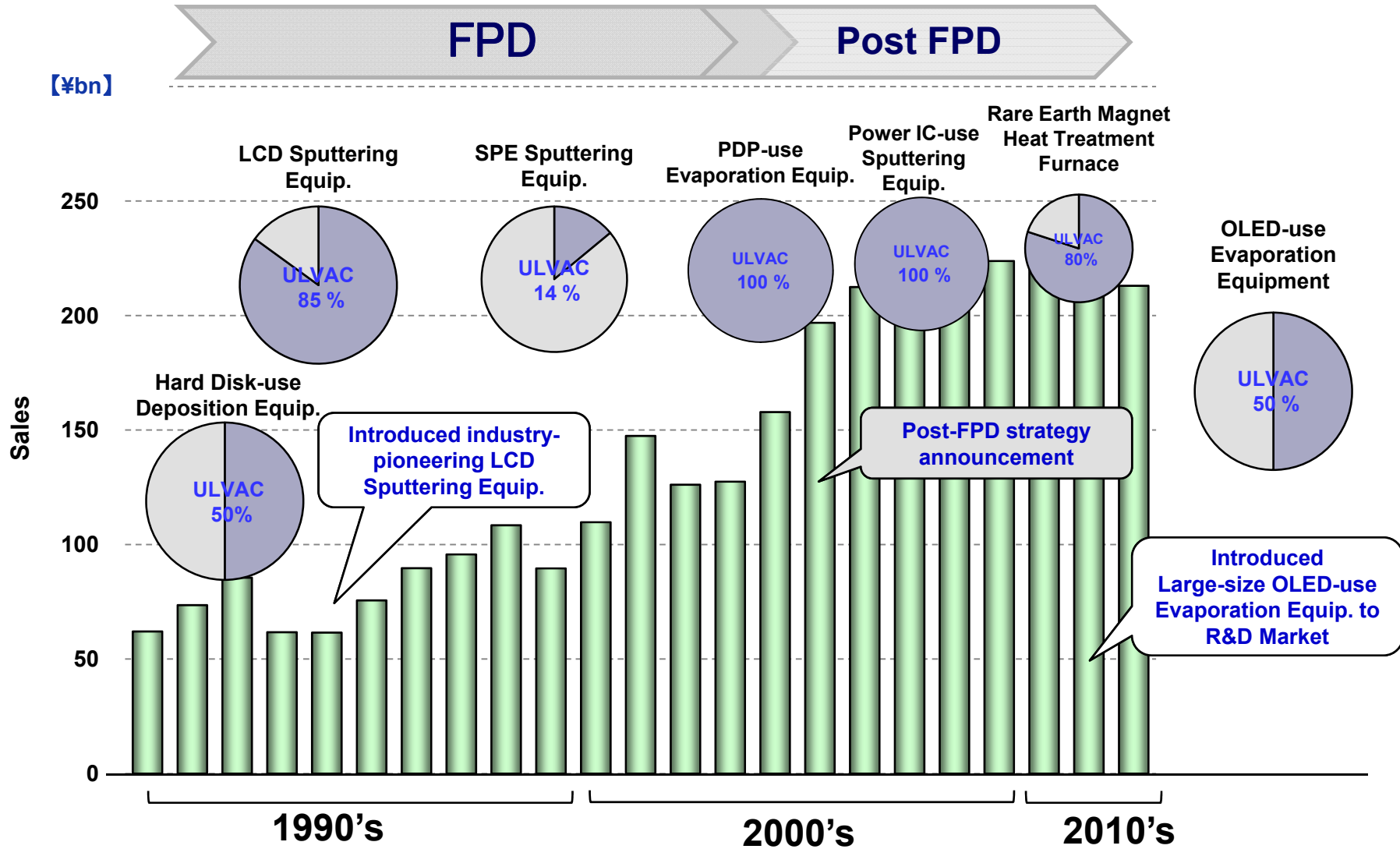
# Agenda

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## Structural Business Reform Plan: Key Topics

- ▶
- ▶ How we got here
- ▶
- ▶
- ▶

# We Grew High-Share Products Ahead of Key Tech Trends



Note: All market share numbers are Ulvac estimates

## Aggressive capex led to rising fixed costs and high BEP

■ **Aggressive investment drove significant rise in fixed costs**

From the time we announced our “Post-FPD Strategy” in FY6/05, we have invested heavily in the equipment, people, and R&D necessary to meet our ¥400bn sales target. This caused a large rise in fixed costs.

|                 | FY6/05   |   | FY6/12<br>(Est) | vs. FY6/05         |
|-----------------|----------|---|-----------------|--------------------|
| Fixed costs     | ¥61.2bn  | → | ¥92.6bn         | +¥31.4bn<br>(+51%) |
| Breakeven Point | ¥157.5bn | → | ¥231.4bn        | +¥73.9bn           |

◆ Rising fixed costs is expected to drive our estimated breakeven point to ¥231.4bn in FY6/12.



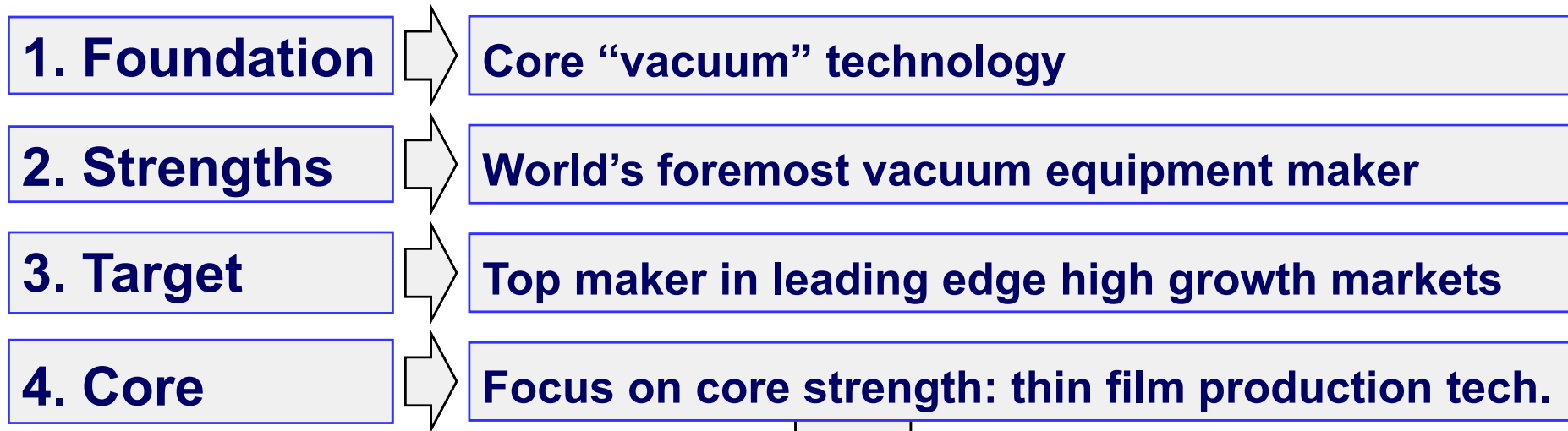
# Agenda

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## Structural Business Reform Plan: Key Topics

- ▶
- ▶
- ▶ **Future business strategy**
- ▶
- ▶

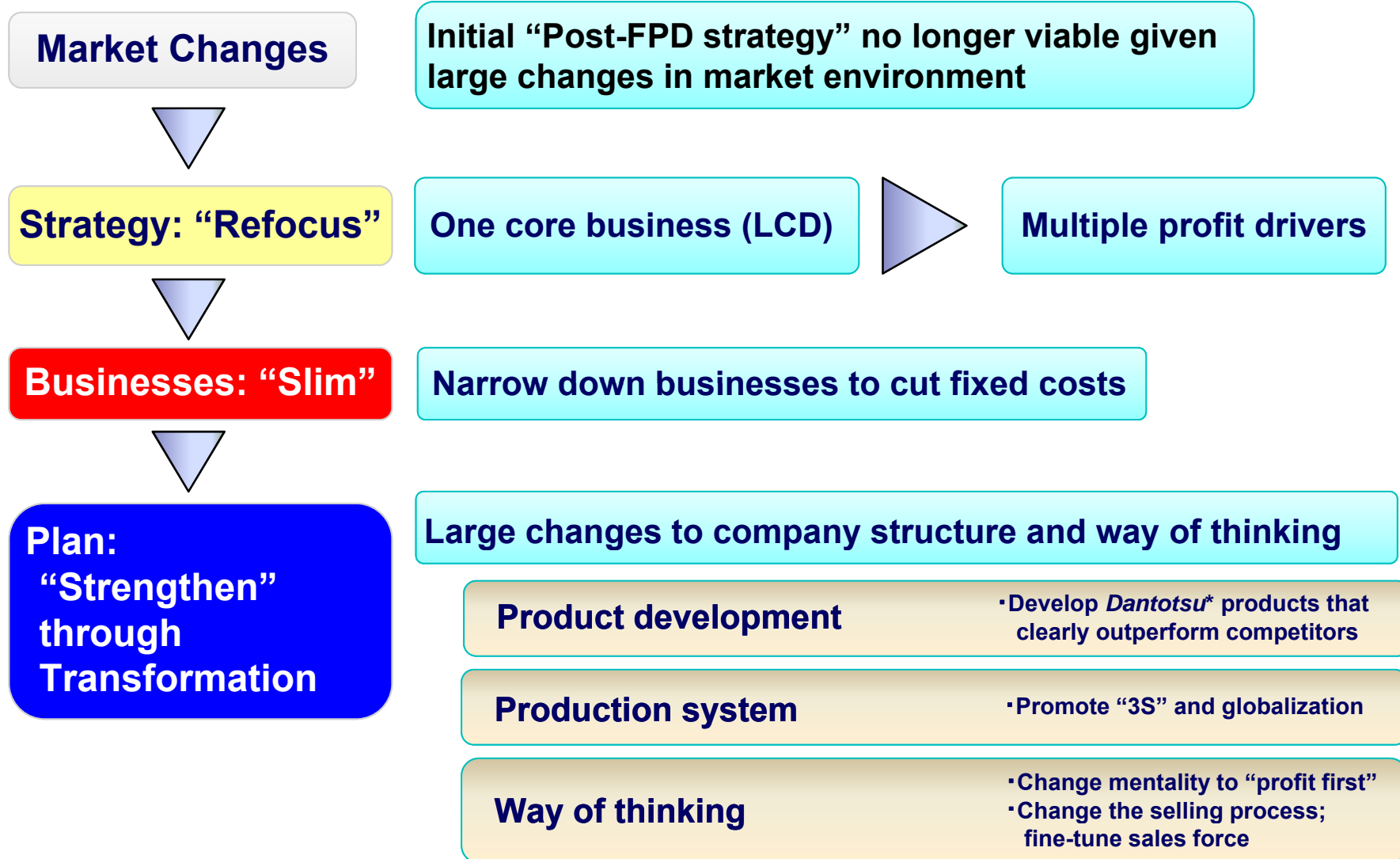
# Ulvac as a Leading Vacuum Equipment Company



## Thin Film Production Technology (Sputtering, Evaporation, CVD, etc.)

- OLED (mobile, TV, general lighting)
- Non-volatile memory
- Power ICs
- High brightness LEDs
- IGZO (oxide semiconductor)
- High-efficiency solar cells

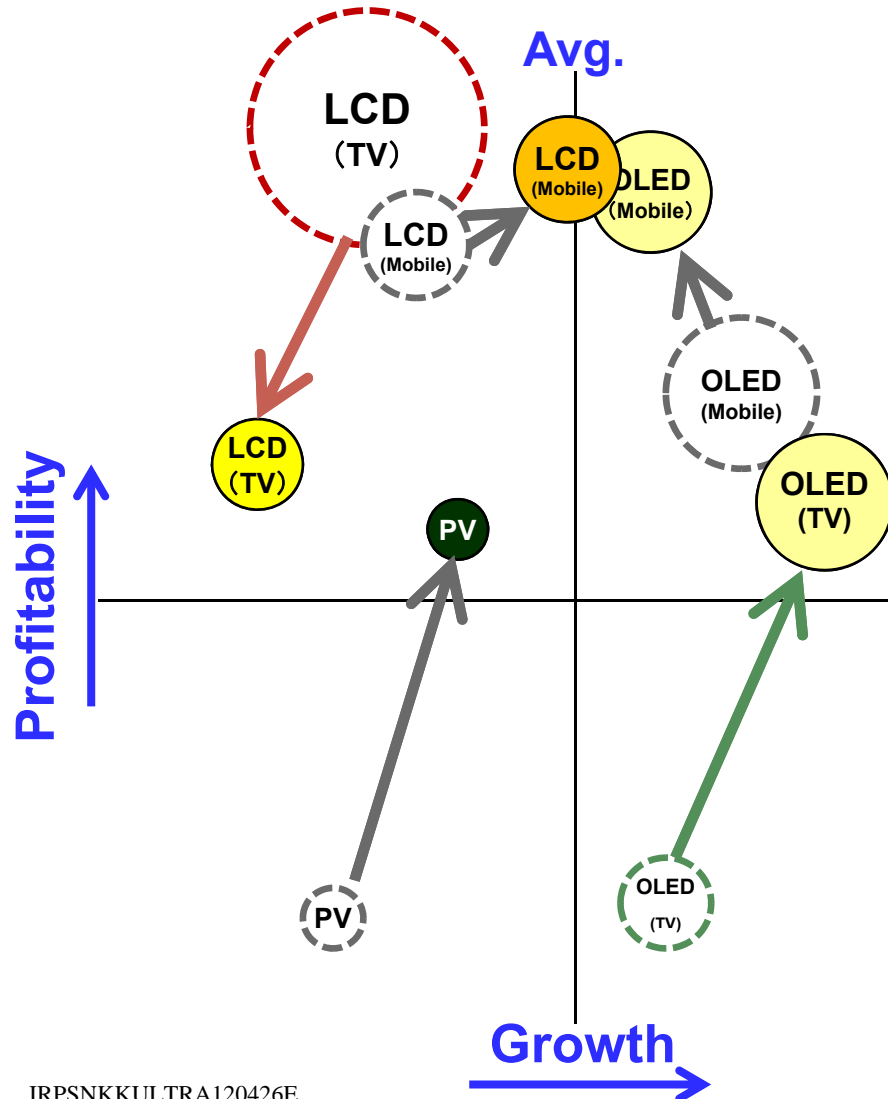
# Business Model Transformation



(\*) *Dantotsu* = Dominant “only one” products that stand alone atop the competition. See slide 20 for specifics

# Shifting to New Profit Drivers (1)

## Business portfolio image (FY6/2012 → FY6/2015)



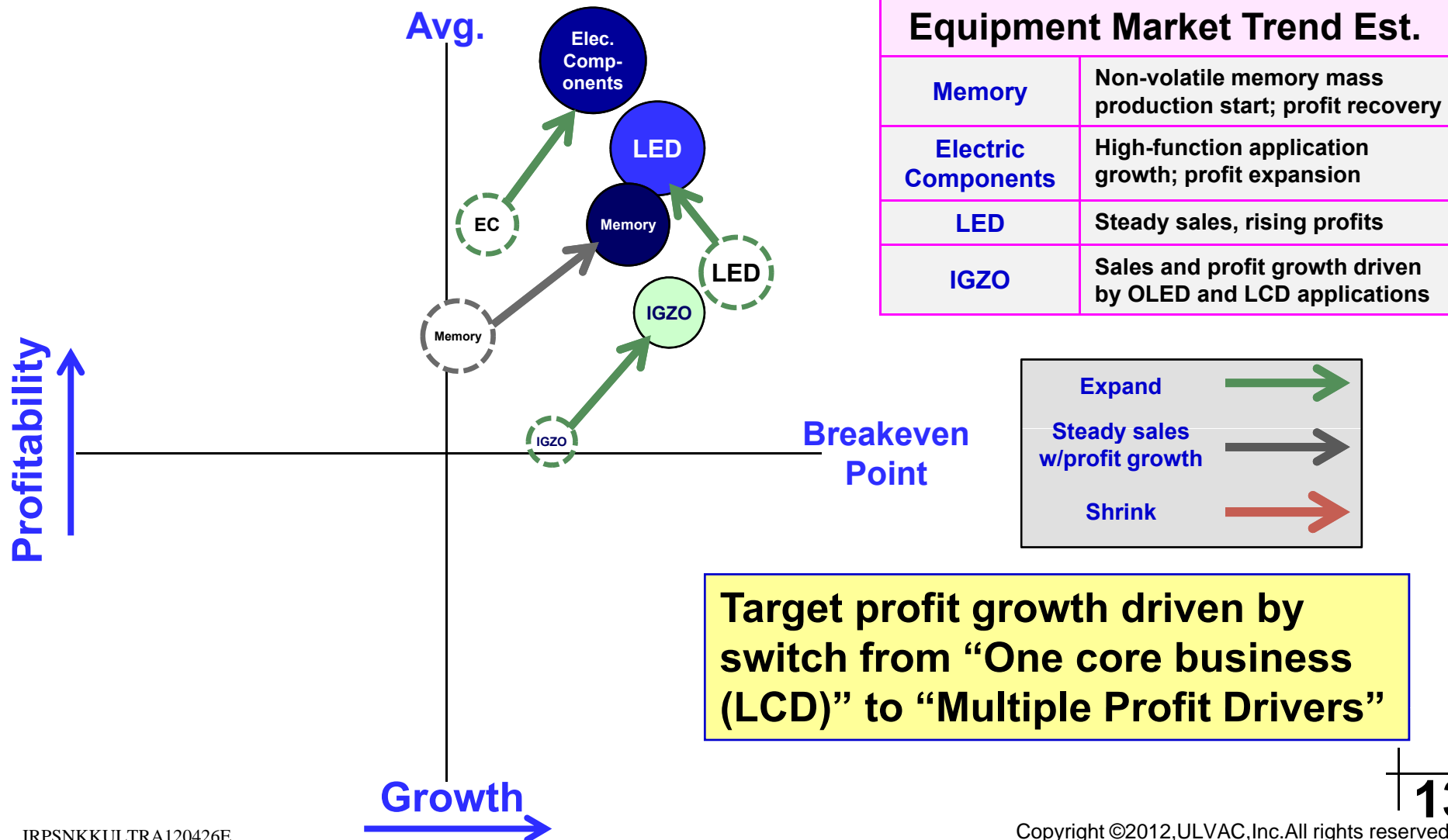
| Equipment Market Trend Est. |  |
|-----------------------------|--|
| LCD (small-med size)        | Steady growth, can secure reliable profits   |
| OLED (small-med size)       |  |
| OLED(TV)                    | Increasing capex at a certain size. Still unclear if rapid growth will materialize |
| PV                          | Narrow business scope to CIGS & high-efficiency c-SI PV; return to black           |



Target profit growth driven by switch from “One core business (LCD)” to “Multiple Profit Drivers”

# Shifting to New Profit Drivers (2)

■ Business portfolio image (FY6/2012 → FY6/2015)



# Agenda

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## Structural Business Reform Plan: Key Topics

- ▶
- ▶
- ▶
- ▶ **Structural reform outline**
- ▶

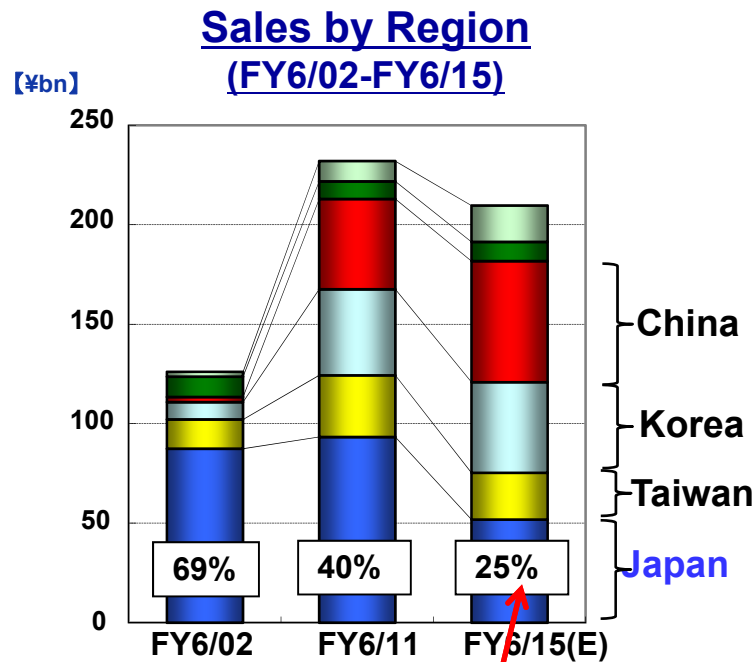
## “Ulvac reborn” through structural reforms

- We are restructuring our organization in three decisive steps: 1) Refocus; 2) Slim; 3) Strengthen

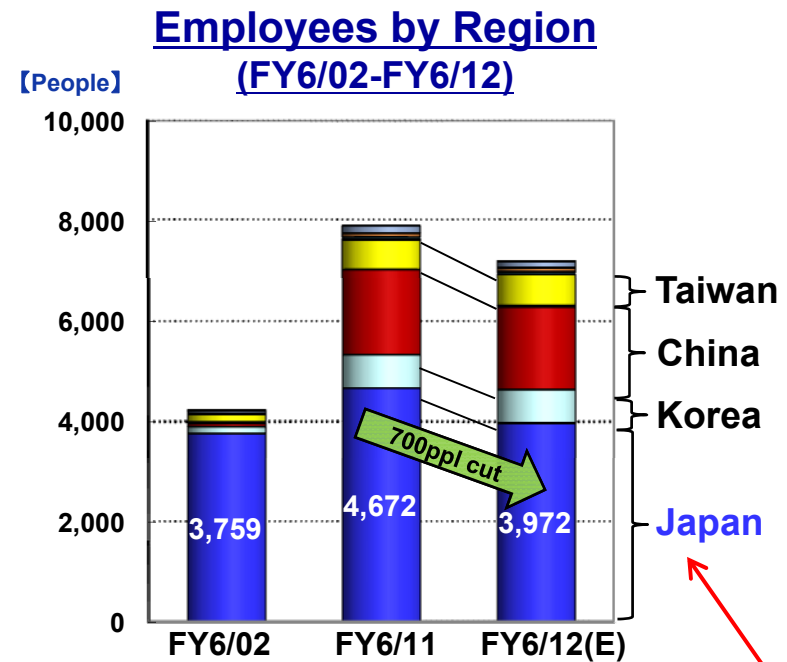


# Shift resources from Japan to overseas

- The shrinking Japanese, and growing overseas demand trend will continue. Accordingly with this plan, we are shrinking Japan-based resources and shifting to a heavier overseas balance.



Japan sales to fall to 25% of total (FY6/15 image)



After restructuring, domestic headcount to be reduced by 700 people (-16% YoY)



# OLED, LED, components to drive growth

- Focus resources on highest growth drivers: OLED, LED, and components. Narrow down LCD, SPE, PV to high margin products only.

| Segment             | Strategy   | Comment  |
|---------------------|------------|--|
| LCD                 | Slim       | Narrow down to products with superior competitiveness and high margins                                   |
| OLED                | Strengthen | Growth in mobile, TV, and general lighting; leverage strength in deposition & evaporation equipment etc. |
| SPE                 | Slim       | Narrow down to NAND and other high growth areas like next-gen memory (3D, non-volatile, etc.)            |
| LED                 | Strengthen | Strong growth and competitiveness in deposition and etching equipment                                    |
| Electric components | Strengthen | High growth driven by mobile-use high-functional devices   |
| PV                  | Slim       | Concentrate on CIGS and high-efficiency crystalline Si products  |
| IGZO                | Strengthen | Strong growth from shift to oxide semiconductors, competitive strength in equipment and materials        |

- Our restructuring will concentrate resources in high growth areas. For non-growth businesses, we are slashing fixed costs (by ¥15.5bn) with fixed asset disposals, business divestitures, and employee reductions.

### FY6/12 Estimate

|                       |         |
|-----------------------|---------|
| • Annual fixed costs: | ¥92.6bn |
| • Depreciation        | ¥10.9bn |
| • Personnel costs     | ¥46.4bn |
| • Expenses            | ¥35.3bn |

### FY6/13 Estimate

|                       |         |
|-----------------------|---------|
| • Annual fixed costs: | ¥77.1bn |
| • Depreciation        | ¥8.3bn  |
| • Personnel costs     | ¥40.7bn |
| • Expenses            | ¥28.1bn |

### Key actions

#### Major planned restructuring actions to be taken by end-June 2012

- ◆ Fixed asset disposal, sale                      Total ¥6.2bn
- ◆ Group company reduction                      60 → 57 (Cut 2 domestic, 1 overseas co.)
- ◆ Employee reduction                              4,672 → 3,972 (Japan full time employees)

# Increase profit margins through higher competitiveness

- “Refocus” and “Slim” measures are re-allocating resources to future growth areas while cutting fixed costs.
- “Strengthen” measures target gross profit and sales growth by further improving product and cost competitiveness.

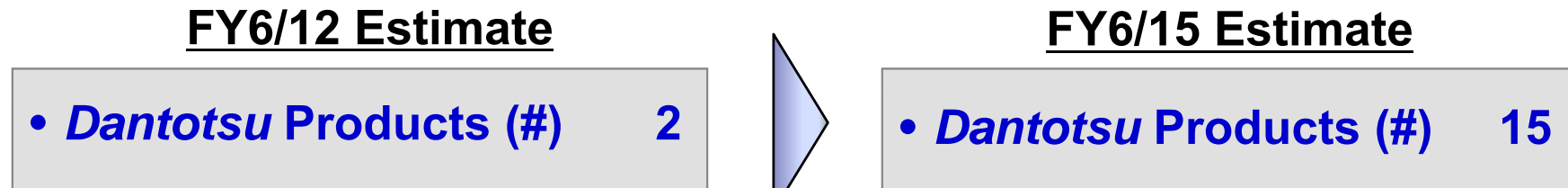


(\*) *Dantotsu* = Dominant “only one” differentiated products that stand alone atop the competition

## ■ *Dantotsu* product development

In our 3 year plan, we are not including any *Dantotsu* product contribution. We target 15 new *Dantotsu* products by FY6/15, however, and any sales and profit we are able to generate from those will be upside to our plan.

(*Dantotsu* definition: #1-2 top industry share; gross margin target over 35%)



### Key actions

- ◆ Implement an internal structure around generating *Dantotsu* products (including internal company contests)
- ◆ Develop differentiated, superior performing products
- ◆ Continue to innovate well ahead of the competition
- ◆ Change organizational structure of sales force to speed up ability to respond to and incorporated client needs into new product development

## FY6/12 Estimate

|                       |          |
|-----------------------|----------|
| • Fixed costs         | ¥92.6bn  |
| • Variable cost ratio | 60%      |
| • Breakeven point     | ¥231.4bn |



## FY6/13 Estimate

|                       |          |
|-----------------------|----------|
| • Fixed costs         | ¥77.1bn  |
| • Variable cost ratio | 53%      |
| • Breakeven point     | ¥164.7bn |



### Key actions

- ◆ Target raising overseas production ratio from 20% to 50%+ over the next 3 years
- ◆ Set up three company-wide HQs which will oversee all product lines: 1) Cost Cutting Promotion HQ; 2) Global Production Promotion HQ; 3) “3S” Policy Promotion HQ

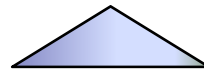
Current (Pre-reforms)

- Low margins from low and inconsistent product pricing
- Imprecise profit forecasting
- Challenge on technology and then cost down
- Aware of ROIC's uses as an invest go/no go metric



Future (Post-reforms)

- Secure profit from initial pricing and negotiation stage
- "No miss" planning management
- Challenge on technology and profit together
- Thorough infusion of ROIC into all major investment decisions



**Key actions**

- ◆ Restructure sales organization to be able to rapidly respond to client needs
- ◆ Change internal sales reporting to focus on profits
- ◆ Implement thorough investigation of reasons for earnings forecast misses, raise precision of future forecasts.

# Agenda

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## Structural Business Reform Plan: Key Topics



▶ **Summary**

# Medium Term Earnings Image

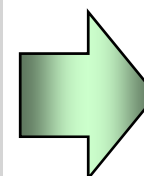
**Pre-restructuring**

[¥bn]

| <b>FY6/2012 Est (as of 4/26)</b> |       |
|----------------------------------|-------|
| Orders                           | 165.0 |
| Sales                            | 213.0 |
| Gross Profit                     | 30.0  |
| GPM                              | 14%   |
| Operating Profit                 | -7.4  |
| OPM                              | -3%   |
| Capex                            | 13.6  |
| Depreciation                     | 10.9  |
| R&D                              | 7.4   |
| Personnel Costs                  | 46.4  |
| Shareholders' Equity Ratio       | 14%   |

**Post-restructuring**

| <b>FY6/2013 Estimate</b>   |       |
|----------------------------|-------|
| Orders                     | 196.0 |
| Sales                      | 178.0 |
| Gross Profit               | 40.0  |
| GP Margin                  | 22%   |
| Operating Profit           | 6.3   |
| OP Margin                  | 3%    |
| Capex                      | 7.0   |
| Depreciation               | 8.3   |
| R&D                        | 7.0   |
| Personnel Costs            | 40.7  |
| Shareholders' Equity Ratio | 15%   |



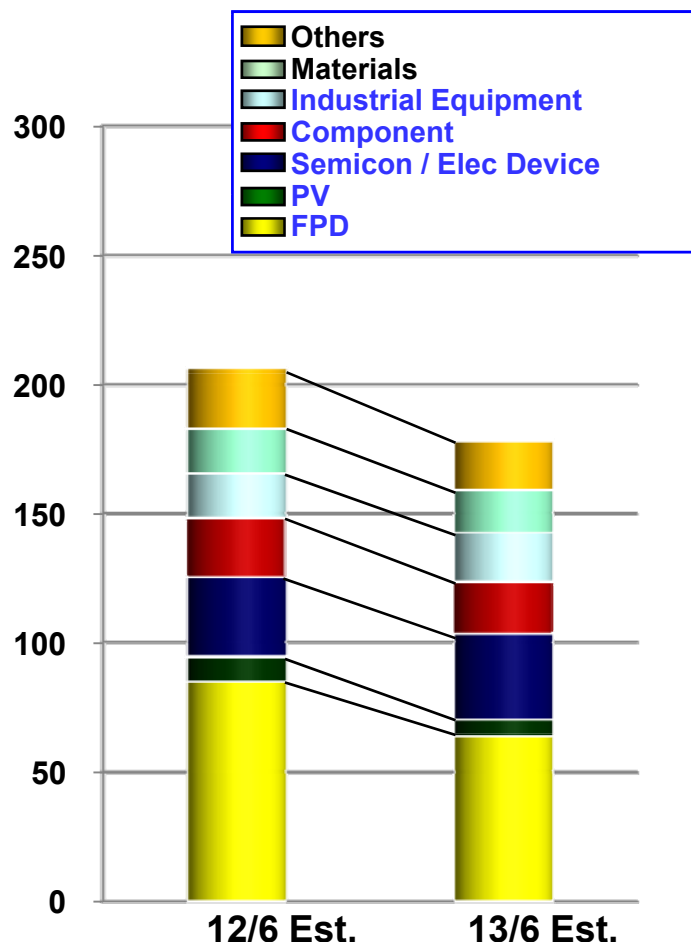
| <b>FY6/2015 Estimate</b>   |       |
|----------------------------|-------|
| Orders                     | 218.0 |
| Sales                      | 210.0 |
| Gross Profit               | 54.0  |
| GP Margin                  | 25%   |
| Operating Profit           | 17.0  |
| OP Margin                  | 8%    |
| Capex                      | 7.1   |
| Depreciation               | 8.2   |
| R&D                        | 7.0   |
| Personnel Costs            | 42.7  |
| Shareholders' Equity Ratio | 22%   |

Note: The above estimated numbers are entirely our medium term "image" of future results, and do not represent any firm commitment



# FY6/13 Sales & Profit Image

Sales Image by Product



FY6/12 → FY6/13 YoY Change Image

| Segment/Product  | FY6/2012 (Est) | FY6/2013 Estimate |             | Major projects included in FY6/13 sales estimates  |
|--|----------------|-------------------|-------------|--|
|  |                | Sales             | YoY         |  |
| <b>Vacuum Equipment Business</b>                         | <b>172.5</b>   | <b>142.2</b>      | <b>-18%</b> |  |
| FPD Production Equipment                                 | 84.6           | 64.0              | -24%        | Equipment for mobile-use LTPS & OLED. Large-size LCD stagnant.                               |
| PV Production Equipment                                  | 9.9            | 5.8               | -41%        | CIGS and c-Si related business.  |
| Semiconductor and Electronic Device Production Equipment | 31.2           | 33.2              | 6%          | Sputtering equipment for NAND, LED, power devices. Electronic Device segment looking strong. |
| Component  | 23.0           | 20.3              | -12%        | Measuring and analytical equipment. Pumps flat.  |
| Industrial Equipment                                     | 23.9           | 19.0              | -21%        | Rare earth magnet furnace.   |
| <b>Vacuum Application Business</b>                       | <b>40.5</b>    | <b>35.7</b>       | <b>-12%</b> |  |
| Materials  | 17.5           | 16.5              | -6%         | Continued impact of LCD production cuts. Increase in IGZO demand.                            |
| Other  | 23.0           | 19.2              | -17%        | Control system capex returning   |
| <b>Total</b>   | <b>213.0</b>   | <b>178.0</b>      | <b>-16%</b> |  |

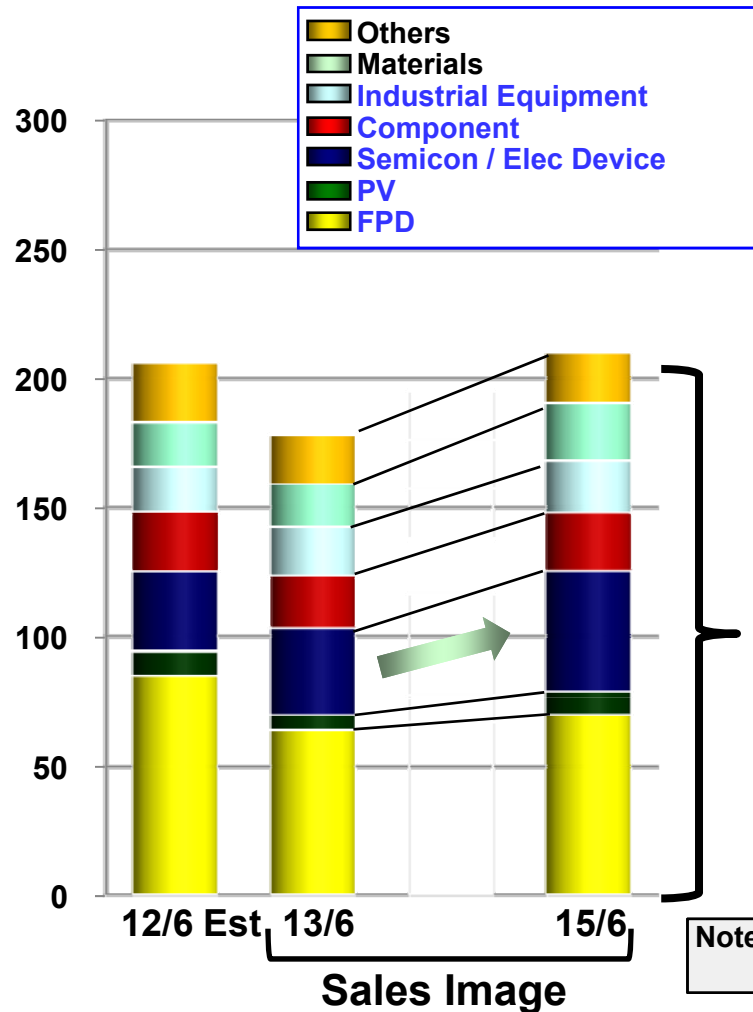
FY6/13 Earnings Image

|                    |             |
|--------------------|-------------|
| ▪ Sales            | ¥178.0bn    |
| ▪ Operating Profit | ¥6.3bn (3%) |
| ▪ Breakeven Point  | ¥164.7bn    |

Note: The above estimated numbers are entirely our "image" of future results, and do not represent any firm commitment

# FY6/15 Sales & Profit Image

## Sales Image by Product



## Image 3 Years Hence

Underlying market assumptions (as compared to FY6/12)

|                   |  |
|-------------------|--|
| LCD               | Large-size TV market shrinks dramatically; small-mid size LTPS flat. IGZO (oxide semiconductor) enters mass production stage.  |
| OLED              | New market entrants to small-medium size mobile-use market, mainly from Asia. Large players begin mass production of OLED TVs. |
| PV                | Invest only in high-efficiency c-Si and CIGS. Do not include any market capex recovery in our forecasts.                       |
| Memory            | Non-volatile memory investment ramps from 2014.  |
| LED               | Growth returns to market driven by illumination etc.   |
| Electronic Device | Investment in smartphone-related components remains strong.  |

## FY6/15 Earnings Image

|                    |              |
|--------------------|--------------|
| • Sales            | ¥210.0bn     |
| • Operating Profit | ¥17.0bn (8%) |

Note: The above estimated numbers are entirely our medium term "image" of future results, and do not represent any firm commitment

## Finance and capital situation

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### ■ Interest bearing debt situation

- ◆ Going forward, we will strive to improve our earnings with the ongoing support and guidance of our financial institutions

### ■ Shareholders equity situation

- ◆ As a result of this restructuring, our net asset value will fall as will our shareholders equity ratio
- ◆ Currently we aim to strengthen our balance sheet through future profit increases to be generated through this restructuring plan, and we forecast our business will generate enough CF for foreseeable growth capital needs.

# Summary: Corporate Restructuring Plan

| Steps         | Purpose  | Action Plan  | Goal   |
|---------------|--|--|--|
| 1) Reform     | <ul style="list-style-type: none"> <li>Selecting Core Growth Businesses</li> </ul>                             | <ul style="list-style-type: none"> <li>Complete by end of '12/6</li> </ul>   | <ul style="list-style-type: none"> <li>Select and refocus on strengthening core areas</li> </ul>                                 |
| 2) Slim       | <ul style="list-style-type: none"> <li>Lower Break-even Point</li> <li>Improve capital efficiencies</li> </ul> | <ul style="list-style-type: none"> <li>Complete by end of '12/6</li> <li>Reduction in Personnel, R&amp;D, Depreciation</li> <li>Lower non-core business fixed assets through retirement, sales, etc.</li> </ul>  | <ul style="list-style-type: none"> <li>Fixed Cost Reduction ¥ 15.5bn / yr</li> <li>Breakeven Point ¥ 23.bn → ¥ 16.5bn</li> </ul> |
| 3) Strengthen | <ul style="list-style-type: none"> <li>Product competitiveness</li> </ul>                                      | <ul style="list-style-type: none"> <li>Implement from '12/7 ~ '15/6</li> <li>Development of <i>Dantotsu</i> products</li> <li>Reorganizing R&amp;D process and refocus on key areas</li> </ul>   | <ul style="list-style-type: none"> <li><i>Dantotsu</i> Products 2 → 15</li> </ul>  |
|               | <ul style="list-style-type: none"> <li>Cost Competitiveness</li> <li>Way of thinking</li> </ul>                | <ul style="list-style-type: none"> <li>Implement from '12/7 ~ '15/6</li> <li>Establishment of corporate HQs;                             <ul style="list-style-type: none"> <li>Cost Cutting Promotion HQ</li> <li>3S Policy Promotion HQ</li> <li>Global Production Promotion HQ</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Overseas production 20% → 50%</li> </ul>  |

## In closing

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**Ulvac has grown its business up to this point by applying its “challenger spirit” to high-level technological problems no one else could solve.**

**Today marks a major turning point for Ulvac. While we inherit the DNA of the same technological leader driven by the “challenger spirit”, this restructuring marks the start of Ulvac’s rebirth – the end of our “sales and market share focus” and start of a new era of “profit margin-focused management” dedicated to growing corporate value.**

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**Innovation begins**

**in a vacuum**

**ULVAC**