ULVAC

ULVAC, Inc.

Key Questions and Answers from the Financial Results Briefing and Analyst Meetings for the First Quarter of the Fiscal Year Ending June 2027

Financial Results Overview

Q1 **First-quarter results showed significant increases in both net sales and profit. Were the results in line with the plan? Please provide an overview, including changes in the business environment compared with three months ago.**

A Overall, first-quarter results exceeded our expectations. Three months ago, in August, we took a somewhat conservative view, as it was still the beginning of the fiscal year. However, no major risks materialized, and each business performed well.

- **[Orders Received]** JPY 116.6 billion (up 93% year on year)
  Orders were driven mainly by Semiconductor and Electronic Devices and rare-earth-related businesses, reaching a record high on a quarterly basis.
- **[Net Sales]** JPY 73.3 billion (up 39% year on year)
  Net sales increased due to the high order backlog of JPY 176.1 billion at the end of the previous fiscal year, as well as contributions from additional semiconductor-related projects.
- **[Operating Profit]** JPY 6.2 billion (up 170% year on year)
  Higher net sales, mainly in Semiconductor and Electronic Devices, increased gross profit and more than offset the increase in SG&A expenses and other costs.

Q2 **Was the JPY 116.6 billion in orders attributable to a temporary large-scale project? Is this level expected to continue?**

A The increase was not dependent on any single large-scale project. Orders increased across a broad range of fields, including logic, DRAM, PCRAM, optical communications, displays, and rare-earth-related businesses. We raised our full-year orders forecast to JPY 290.0 billion and expect the solid business environment to continue. Orders in Q2 are expected to be lower than in Q1 on a quarterly basis, as some projects were brought forward into Q1. Although we revised H2 forecast to reflect the current outlook, we continue to receive a large number of inquiries that are still under review and therefore believe there is room for further upside.

Q3 **Please explain the factors behind the change in the gross profit margin.**

A The gross profit margin was 29.2%, a significant improvement from 25.4% in the previous quarter, when results were affected by a temporary factor related to EVs. Although the margin declined 0.5 percentage points year on year, quarterly results are susceptible to fluctuations due to the application of the percentage-of-completion method. We expect a significant improvement in Q2, reflecting a better product mix and other factors. We believe performance for the first half as a whole will provide a more accurate indication of our underlying profitability.

Q4 **Please explain the factors behind the change in operating profit. SG&A expenses are trending upward. Do you expect them to continue increasing?**

A Higher net sales, mainly in Semiconductor and Electronic Devices, increased gross profit and absorbed higher sales-related expenses and other costs, resulting in a JPY 3.9 billion increase in operating profit. We are making planned investments for future growth, including R&D expenditures in growth areas and higher personnel expenses associated with base-pay increases, bonuses, and workforce expansion. At the same time, we are implementing cost-reduction measures under the Value Up Plan and will continue to control costs appropriately in line with sales growth.

Q5 **Please provide an update on the procurement of parts and materials, which remains a challenge.**

A In response to tighter procurement conditions, we are implementing various measures to normalize supply, including developing alternative suppliers and placing orders in advance. Some impact remains at present, but by advancing these measures, we aim to normalize the situation during the second half.

Q6 **Is free cash flow of JPY 23.0 billion a sustainable level?**

A Operating cash flow increased by JPY 10.2 billion from the previous fiscal year. In addition, investing cash flow turned positive due to temporary proceeds of approximately JPY 13.8 billion from the sale of shares in a subsidiary. As the JPY 23.0 billion includes temporary factors, free cash flow is expected to normalize from Q2 onward.

Orders and Investment Trends by Product Category

<Semiconductor and Electronic Device Production Equipment>

Q7 **Do you expect demand for MHM systems for logic applications in China to continue?**

A Orders for logic applications increased from JPY 5.6 billion in the same period of the previous year to JPY 13.7 billion. The rollout of MHM systems to additional customers in China has progressed, and orders remain at a high level. From H2 onward, we expect demand to remain at a certain level, supported by customers' solid investment plans.

Q8 **What drove the increase in DRAM orders? Meanwhile, why did net sales decline from JPY 3.6 billion to JPY 0.6 billion?**

A In addition to investment by the top three manufacturers, capital expenditures by a Taiwanese DRAM manufacturer made a significant contribution. The decline in net sales reflects quarterly fluctuations in the timing of percentage-of-completion recognition based on project progress, as well as the acceptance criteria of certain customers. We have a substantial order backlog and expect these orders to be recognized as net sales sequentially from Q2 onward.

Q9 **Please explain the breakdown of the increase in NAND/PCRAM orders.**

A Orders increased from JPY 1.4 billion in the same period of the previous year to JPY 7.8 billion, mainly due to investment associated with the launch of PCRAM production in China. We expect NAND investment to continue. As PCRAM is still in the launch phase, however, we do not anticipate additional orders during the current fiscal year.

Q10 **Why did packaging orders decline significantly? Please also explain the outlook.**

A Orders declined from JPY 6.0 billion in the same period of the previous year to JPY 2.4 billion. Ashing systems for WLP applications contributed, and we also received orders for PLP ashing systems for customers in Japan and Taiwan. As the timing of orders is weighted toward Q2, we expect orders to return to the planned level by the end of H1.

Q11 **Optical-communications-related business appears strong. Please provide an update on current conditions.**

A Orders for various electronic components increased from JPY 2.7 billion in the same period of the previous year to JPY 10.5 billion, driven by active investment in optical communications for data centers. We expect this robust data-center demand to continue for the foreseeable future and anticipate further expansion.

<Display and Energy Production Equipment>

Q12 **Why did display orders double, and is this level sustainable?**

A Orders doubled from JPY 13.0 billion in the same period of the previous year to JPY 26.2 billion. In LCD, contributions came from investment in a new G8 panel line for automotive applications, as well as additional equipment and modification projects. In OLED, additional equipment and modification projects were supported by the wider adoption of flexible panels for smartphones and other applications. Capital investment appetite remains solid, and we believe demand has a certain degree of sustainability.

<General Industrial Equipment>

Q13 **Please explain the background and outlook for the sharp increase in rare-earth-related orders.**

A By region, Europe accounted for 44% and North America for 39% of Q1 orders, with the two regions representing more than 80% in total. Demand continues to expand as supply chains are restructured. The probability of converting inquiries into orders is also increasing, and we aim to secure orders at an early stage.

<Components / Materials / Other>

Q14 **While orders increased in most product categories, why did Materials orders decline?**

A Target materials for semiconductor applications remained strong, and new evaluation projects are also increasing. However, due to the reduction in business scale following the sale of the display-related business, orders declined from JPY 7.8 billion in the same period of the previous year to JPY 6.8 billion.

Earnings Forecasts

Q15 **Please explain the details and assumptions behind the upward revision. Why is profitability now expected to fall below the initial forecast?**

A We revised our forecasts upward in light of strong first-quarter progress, the high level of order backlog, the effects of the Value Up Plan, and expectations that the solid business environment will continue. We raised the full-year orders forecast from JPY 260.0 billion to JPY 290.0 billion, net sales from JPY 255.0 billion to JPY 283.0 billion, and operating profit from JPY 28.0 billion to JPY 30.0 billion. At this stage, we have taken a conservative view of profitability, including costs, and therefore expect the margin to be slightly below our initial assumption. The revised forecast also incorporates approximately JPY 5.0 billion in low-margin projects within the increase in net sales.

Q16 **Considering the Q1 progress rate and favorable business environment, is the revised forecast still conservative?**

A The substantial order backlog is expected to contribute to net sales sequentially, and there may be further upside. However, we are still implementing measures to address the tighter procurement environment for parts and materials toward H2. As we continue to assess the second-half outlook, we have left the forecasts for each profit item unchanged.

Q17 **Why was the second-half orders forecast revised downward by JPY 20.0 billion?**

A Orders are expected to be recognized somewhat ahead of schedule in H1. H2 forecast reflects our current outlook; however, as inquiries are increasing, we will monitor conditions and revise the forecast as appropriate.

Q18 **Why did you leave the Semiconductor and Electronic Devices orders forecast unchanged despite strong Q1 progress and favorable market conditions, which would appear to support an upward revision?**

A Progress in Q1 and for H1 is in line with our prior expectations. While the favorable market environment suggests further upside potential, we are currently conducting a more detailed assessment of H2 trends. We therefore decided to leave the full-year orders forecast unchanged at this time.

Q19 **Why was the dividend forecast left unchanged despite the upward revision to profit attributable to owners of parent?**

A We have left the dividend forecast unchanged from the previous forecast at this time. We will make a further decision on the year-end dividend after considering full-year performance and the financial position.

Value Up Plan

Q20 **Please provide an update on business reform.**

A As disclosed on October 27, we expect to complete the deconsolidation of seven of the eight target subsidiaries under our business portfolio optimization initiative. Negotiations are continuing for the remaining company, and we expect to complete its transfer during the second half of the current fiscal year.

Q21	**Please provide an update on production reform.**
A	We are fundamentally reviewing our overall production structure. To address tighter procurement conditions, we are implementing measures to normalize parts and materials procurement during H2. We are also expanding capacity through the more effective use of factory space, while advancing modularization and lead-time reduction in parallel.

Q22	**The net sales forecast for the fiscal year ending June 2027 already exceeds the interim target of JPY 260.0 billion. Will you revise the target?**
A	The interim targets of the Value Up Plan for the fiscal year ending June 2028 are net sales of JPY 260.0 billion, operating profit of JPY 39.0 billion, and an operating profit margin of 15%. While continuing to pursue expansion in net sales, we will now prioritize achieving operating profit of JPY 39.0 billion and an operating profit margin of 15%, with a focus on improving profitability.