

Financial Results Briefing for the Fiscal Year ended March 31, 2024 and New Growth Strategy Presentation of Ushio Inc.

Major Questions and Answers

Date and Time: May 14, 2024 / 18:15 - 19:30

Method: Online

Presenter: Takabumi Asahi, Representative Director President and Chief Executive Officer

Notice: The 'Major Questions and Answers' is provided for reference for those who were not able to attend the financial results briefing. Please note that the information contained herein is a concise summary at the Company's discretion. Please also note that the forward-looking statements, including earnings forecasts, contained in this document are based on information currently available to the Company and on certain assumptions deemed reasonable by the Company, and actual results may differ materially due to various factors.

◆ Questioner: Mr. Wadaki, Morgan Stanley MUFG Securities

Q: For the past decade, you have faced a tough situation with the absence of growth drivers. In today's briefing, besides the digital lithography system through the strategic partnership with Applied Materials, Inc. (hereinafter, Applied Materials), no specific drivers are visible. Will you continue to rely on this digital lithography system for a while, or will new growth drivers emerge in Phase II? Please tell us what you can at this point.

A: In terms of growth drivers, the digital lithography system through the strategic partnership with Applied Materials stands a significant position. We are also accelerating the development of current stepper and ADTEC Engineering's Direct Imaging (DI) lithography equipment for the advanced packaging market. We are working under the recognition that the advanced packaging market will definitely expand, which will become a major pillar for future growth.

Additionally, we are focusing on the development of light sources for semiconductor manufacturing processes, especially for thermal processes, which we believe will become one of the growth drivers. Furthermore, looking a bit further ahead, in the inspection and analysis field, for example, we announced a collaboration related to electron beams last year. We believe that advancing the development of light sources, including existing ones, will make this field a new growth driver. Therefore, we are proceeding with the view that a wide range of Industrial Processes areas, especially those centered around semiconductors, will be the next growth drivers.

Q: Regarding advanced packaging, I believe that if substrates shift to glass, it will significantly change the supply chain, presenting an opportunity for your company. Could you tell us about your efforts regarding glass substrates, within the scope of what you can disclose?

A: We are enhancing our lineup to cover new materials, including glass. Various methods are advancing in the advanced packaging field, and we are making progress to cover those.

Q: As a long-standing issue for your company, there has been a lack of sales and marketing strength. How do you plan to strengthen these areas in the business of the digital lithography system with Applied Materials? Also, regarding EUV light sources, I believe the issue was not the emergence of other companies' light sources but problems with your own light sources. Could you share your thoughts on this?

A: Regarding sales strength, we are making progress in conducting sales activities efficiently through various initiatives, including discussions with Applied Materials. For Tier1 (major semiconductor manufacturers), Applied Materials has a strong relationship, and we are working together with Applied Materials. For Tier2 (dedicated packaging substrate manufacturers and OSATs, etc.), Ushio has very strong sales and service networks, and we plan to strongly push forward by integrating these. Also, regarding resources such as human capital, rather than dispersing them as before, we are working company-wide to strengthen sales and customer support thorough internal initiatives, including reskilling within the company. Regarding EUV light sources, we deeply regret our past efforts in terms of cost, allowing the rise of other companies' light sources. We are sincerely reflecting on this and currently working on various considerations and developments, including with our customers, for a comeback.

◆ **Questioner: Mr. Nakanomyo, Jefferies Japan Limited**

Q: Regarding the digital lithography system with Applied Materials, what is the expected performance contribution in FY2026 and FY2030? Also, when is the product expected to be launched?

A: The timing of contribution to performance is expected to start around the final year of Phase I (FY2026), and we are steadily making progress towards that. After that, we plan to expand at a high growth rate. Although I cannot provide specific contribution amounts, we are aiming to capture about half of the market share in the advanced packaging market and are planning with a certain level of confidence. For the advanced packaging sector, we plan to contribute also with existing Ushio's stepper and ADTEC Engineering's DI lithography equipment, but the major growth driver is expected to be the digital lithography system developed with Applied Materials.

Q: Will the lithography equipment related to advanced packaging grow at a CAGR of over 15%, and by 2030, about half of the related lithography equipment will be digital lithography system with Applied Materials?

A: By 2030, we plan to capture about half of the market share in that market. While there will be contributions from existing stepper and DI lithography equipment, the digital lithography system is expected to grow at a very fast pace, resulting in occupying more than half of the market share by 2030.

Q: Regarding development with Applied Materials, there is a plan to invest 1.3 billion yen in this fiscal year (FY2024). Can we expect the same level of investment to continue over the next three years?

A: A certain level of development expenses will continue. Depending on future sales volumes, development expenses may increase further, but the plan is to generate even greater profits.

Q: Regarding light sources for semiconductor heating applications, for what kind of equipment are they intended, and how far have discussions progressed? Will your company adopt a business model of supplying light sources for heating?

A: I cannot specify due to customer relationships, but we are in discussions with various customers. There is a need for heating light sources for various applications, such as instantly heating the surface of wafers in semiconductor front-end processing, and we are proposing light sources such as flash lamps, halogen lamps, and LEDs tailored to these applications.

Q: The Visual Imaging business is planned to decrease in sales over the next three years, but I believe cinema is a growing field with upcoming replacement demand. Why is the revenue expected to decrease in three years?

A: In this business, the policy is to focus on areas of higher added value rather than expanding scale. While there is a possibility that sales may increase, the plan is to proceed with measures focused on improving profitability.

◆ **Questioner: Mr. Ujihara, SBI SECURITIES**

Q: When expanding your presence in the advanced packaging market, you plan to build a stable sales base through a broader customer. With the addition of digital lithography system, you expect to reduce reliance on traditional key customer sectors and expand the customer base. However, for example, if your presence increases in the lithography equipment for advanced package substrates, such as those with 2 microns or less L/S, I think that the capable customers would primarily be existing substrate manufacturers, potentially narrowing down your main customers instead. Does your plan mean that by having cutting-edge products, you intend to expand to slightly downstream customer groups as well?

A: We plan to further expand from the existing Ushio's customer base. By adding digital lithography system to our lineup, we can offer a wide range of products from low-end to high-end. For example, we can give proposal for customer groups developing with semiconductor manufacturers that matches their investment plans tailored to various projects, enabling us to engage with a broader range of customers.

Q: Does it mean there is a possibility to enter the entire supply chain directly connected to major semiconductor manufacturers by lithography equipment, including existing Ushio's stepper and ADTEC Engineering's DI lithography equipment?

A: That's correct. While digital lithography system drives the way, we believe there is potential to enter by not only existing but also next-generation stepper and DI lithography equipment.

◆ **Questioner: Mr. Yoshioka, Nomura Securities**

Q: Regarding EUV light sources, have there been any positive factors in the past three months? Also, you said that if the business is not expected to be feasible in the future, you will consider withdrawing. Under what specific conditions would such considerations advance?

A: Due to confidentiality, I cannot give a clear answer, but we are currently making progress in our efforts towards the High-NA area with our customers. However, the required specifications are at a high level, and we first need to adequately address that part. In addition, beyond specific applications, there are possibilities in several new applications such as inspection, and we have received some requests and so on. We are in the process of considering for those with comparing marketability, required specifications, etc.

Regarding the feasibility of the business, for example, if we cannot meet the market-required specifications in the High-NA area, we would consider withdrawing, but there are still various options available. We will make strict judgments considering marketability, feasibility, and profitability, and proceed with the confidence that it is a business that will generate future corporate value. If it does not reach that point, we consider withdrawing.

Q: For the advanced packaging field, the story is that the SAM (Serviceable Available Market) will expand, and your share will increase, but what is your current image of the SAM and your share? When expanding your share, what kind of customer groups will you target?

A: In the advanced packaging field, we are planning for getting a 20% of market share by FY2025. However, due to the structure of the packaging, there are areas where our lithography equipment has strengths and areas where it has not, and demand is currently difficult in the areas where we have strengths. However, we believe that our market share will expand in the future through our value chain connections with semiconductor manufacturers. Especially from now on, as each company will be working on the development of advanced packaging, we aim to expand our market share by adequately responding to this.

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