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Financial Results Briefing for the Second Quarter Year ending March 31, 2025 of Ushio Inc.

Major Questions and Answers

Date and Time: November 6, 2024/ 17:30 - 18:15

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: To what extent did the first half exceed internal plans, and which businesses outperformed? If there were any underperforming areas, please let us know as well.

A: The internal plan was weighted towards the second half. However, there was a move up in the acceptance of lithography equipment, resulting in higher first-half sales, particularly in Industrial Processes business. Including the improved profitability through strategic business selection, profits exceeded the initial internal plan by more than 50%.

Q: This time, you recorded an inventory write-down of 2.2 billion yen in the Visual Imaging business. Can we assume that this will not occur next fiscal year and that the improved profitability effect, which has led to the upward revisions this time, will continue?

A: You may understand it that way. However, as we are currently evaluating each business, we will actively review any business that cannot achieve the targeted operating profit margin in the future. In such cases, additional costs associated with the revaluation of each asset may arise.

Q: You mentioned that advanced packaging business is progressing smoothly. Can you provide specific examples on how well it is progressing?

A: Currently, customers are conducting various evaluations to adopt new technologies for next-generation semiconductors. In this context, our lithography equipment is being evaluated by a wide range of customers, including OSATs, back-end process manufacturers, and substrate manufacturers with whom we have existing relationships, as well as semiconductor manufacturers. Evaluations are being conducted not only on the digital

lithography system, the new line-up, but also on next-generation models of existing steppers and direct imaging lithography equipment.

Q: Do you have any updates on the EUV light source situation?

A: Our understanding is that the APML market of EUV is in a challenging situation, with adoption being slower than expected. However, we continue to see significant future market opportunities in the EUV mask inspection market. Additionally, various considerations are being made to improve the accuracy of inspection processes in semiconductor manufacturing processes beyond EUV mask inspection applications. We believe there are business opportunities in these areas as well, and we are conducting various evaluations. There are no changes in the status of the conventional EUV light sources that have already been installed and are in operation.

Q: Are you developing anything new regarding the EUV light source?

A: Rather than something entirely new, we are working on cost reductions and developing higher-specification products for the future. However, we plan to proceed by allocating appropriate development resources after carefully examining future business opportunities.

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

Q: In Industrial Processes business, you mentioned 'enhancing efficiency through strategic business selection.' Specifically, which businesses have you been selecting and concentrating on?

A: In Industrial Processes business, we handle various light sources, but there are some that do not leverage Ushio's strengths or will not be able to in the future. For example, those that cannot be expected to maintain high profitability in the future. We are actively selecting and concentrating on such businesses. Typically, when we talk about the selection and concentration of businesses, one might imagine it at the segment level, but the selections we are currently making are being evaluated at a more detailed level. Meanwhile, we continue to focus on exposure lamps, OA lamps, and exposure equipment, which are disclosed as sub-segments.

Q: You mentioned the selection and concentration at a detailed level. Specifically, which sub-segments have you mainly reviewed?

A: For example, it includes items within the sub-segment of the Optical Equipment Lamps.

Q: In Industrial Processes business, you have revised its full-year sales and operating profit forecasts upward by 1.0 billion yen and 4.0 billion yen, respectively. Which businesses or products contributed to these upward revisions, and can you break down the factors that led to the upward revision in operating profit?

A: Sales were revised upward mainly due to a positive effect from the weaker yen, particularly in the light source business. Operating profit was revised upward due to the selection and concentration of development themes, among other efforts, while incurring development costs.

Q: Is it correct to understand that there has been no change in the sales forecast for lithography equipment for advanced packaging this fiscal year compared to the previous forecast?

A: There has been no change.

Q: While there has been no change in the sales forecast for lithography equipment for advanced packaging, has its profitability improved?

A: Over the long term, the profitability of lithography equipment has been improving, but there has not been a significant improvement this fiscal year

Q: Looking ahead to the next fiscal year, 2025, how do you view the market environment for existing lithography equipment for advanced packaging (steppers, direct imaging) excluding the new digital lithography system?

A: We are currently reviewing the situation for fiscal year 2025, but our initial plan anticipated an expansion in

demand for conventional lithography equipment. However, we now see the possibility that the situation may be more challenging than initially expected. We are concerned about the prolonged downturn in the overall semiconductor market.

Q: Do you expect that conventional lithography equipment will not see a significant recovery next fiscal year, 2025?

A: At this point, we recognize that the likelihood of a significant recovery is low.

◆ **Questioner: Mr. Thong, Macquarie Capital Securities (Japan) Limited**

Q: In Industrial Processes business, it was mentioned that development costs for digital lithography system would be incurred in the second half according to the initial plan. Will you accelerate these development expenses? Also, when in fiscal year 2025 do you expect the sales expansion of this digital lithography system?

A: Regarding the development costs for lithography equipment for advanced packaging in Industrial Processes business, including digital lithography system, we initially planned to significantly increase these costs, and we intend to proceed as planned. Sales of digital lithography system are expected to be recorded in the second half of fiscal year 2025 as planned.

Q: I understand that you are currently reviewing the outlook for the next fiscal year. Given the assumption that existing lithography equipment will not grow significantly, if development costs related to digital lithography system increase, there is a possibility that margins will deteriorate. On the other hand, profitability improvements through business portfolio revamping could also lead to improved margins. Considering these factors, could you comment on your outlook for margins next fiscal year?

A: Next fiscal year, while there is a possibility that existing lithography equipment will not grow significantly, we need to accelerate the development of next-generation lithography equipment for advanced packaging, including digital lithography system, and we plan to increase development costs to some extent. Although we plan to record sales of digital lithography system, the profit contribution in the first year of sales (fiscal year 2025) is expected to be limited. On the other hand, we anticipate that the Visual Imaging business, Life Sciences business, and Photonics Solutions business will continue to see certain effects from the business portfolio revamping efforts next fiscal year.

Q: For the next fiscal year, while Industrial Processes business may see negative impacts on operating profit due to development costs, can we assume that the temporary costs associated with the business portfolio revamp incurred this fiscal year will not recur, and that the negative impacts will be covered by the effects of the business portfolio revamp?

A: While we are still reviewing the outlook for the next fiscal year and cannot provide a clear explanation at this time, we believe that the profitability improvements through the business portfolio revamp will continue, even as we need to consider the prolonged downturn in the semiconductor market to some extent.

Q: Regarding Visual Imaging business, it is assumed that sales will remain flat in the first and second halves of this fiscal year. How do you view the future market situation, particularly the investment plans for cinemas next year, based on the latest information?

A: We expect the market environment in cinema areas to improve next year compared to this year. This year, there were few hit movies due to the impact of the Hollywood strike, but we expect that situation to be resolved next year, leading to increased investment in replacing cinema projectors. On the other hand, general imaging areas are stable, but there are no indications of significant sales growth at this time.

Q: Can we assume that if the top line of the Visual Imaging business grows next fiscal year, profits will improve compared to this fiscal year?

A: Yes, that is our expectation.

Q: What is the outlook for the lamp business in the Visual Imaging business next fiscal year?

A: For cinema lamps, the demand is on a declining trend due to the steady replacement of digital cinema projector light sources with lasers, and we expect this trend to continue.

◆ **Questioner: Mr. Saita, Mizuho Securities Co., Ltd.**

Q: Regarding the sales of lithography equipment in Industrial Processes business, you mentioned that sales expected in the second half were brought forward to the first half. Could you explain the scale and background of this move up? Was it due to customer circumstances, or was there a need to expedite inspection and start operations?

A: The amount brought forward is in the ones of billions of yen. Sales were initially planned for the third quarter, but due to customer circumstances, they were brought forward by 1-2 months, allowing us to record sales in the second quarter.

Q: You mentioned that the overall semiconductor market is expected to remain challenging next year. Could you comment on the background of why the acceptance was brought forward?

A: We do not received detailed explanations from our customers, but we understand that as customers build their manufacturing lines, they control the installation of each manufacturing equipment based on priorities. In this context, the sales of our lithography equipment were brought forward by 1-2 months. Therefore, we view this move up as a temporary phenomenon rather than a market change, and the overall demand for semiconductors remains weak.

Q: Previously, our impression of your company was that the profitability of light sources (lamps) was high, while equipment was not very profitable. However, we recognize that the profitability of equipment has improved over the past few years. Could you explain the background of this improvement? For example, did you standardize equipment, narrow down the lineup, or adjust pricing strategies? Also, do you expect the profitability of equipment to be sustainable next fiscal year?

A: For lithography equipment, as miniaturization progresses, the mix has shifted to equipment that supports this trend, leading to higher price ranges for the equipment used by customers. In this context, we have been working to standardize our manufacturing to reduce costs, which has contributed to improving the overall profitability of the equipment. Furthermore, the equipment we are developing for advanced packaging is in a higher value-added area, so we expect unit prices to rise and profitability to improve further in the future.

Q: Currently, development costs for advanced equipment are being incurred upfront, but as sales increase, can we expect profitability to improve further through mix improvement?

A: That is our understanding as well.

Q: What is the current average gross margin for lithography equipment, and what is the ultimate target? Could you provide a numerical perspective?

A: Due to business confidentiality, we cannot disclose the profitability of individual products. However, our cutting-edge lithography equipment has a higher gross margin within Ushio's overall gross margin. On the other hand, for lithography equipment with wider linewidths, there are many competitors, and the price range and gross margin are not as high, but we are still able to secure a certain level of gross margin.

Q: Regarding the competitive environment for lithography equipment for advanced packaging, other companies have recently announced maskless exposure equipment, suggesting that the competitive environment may become more challenging. Could you comment on your company's strengths and your recognition of the current development competition environment?

A: We refrain from commenting on other companies, but our equipment is already being evaluated by various customers. In the advanced packaging area, it is important not only to have robust hardware but also to efficiently draw the patterns required for the package and improve yield. We believe our digital lithography system is strong in this area.

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