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

Major Questions and Answers

Date and Time: February 7, 2025/ 18:30 - 19:15

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: You said that the Q3 results exceeded the internal plan. By how much did operating profit surpass expectations? Could you also share any differences by segment and whether there were any areas that underperformed?

A: The contributions of structural reforms are beginning to emerge in each business, with notable profit improvements in the Industrial Processes business. On a company-wide basis, operating profit has improved by approximately 2 billion yen compared to the initial internal plan.

Q: Structural reform effects have started to appear this fiscal year. For the next fiscal year, including the impact of one-time structural reform costs recorded this year, how much improvement do you anticipate?

A: We expect greater effects next fiscal year compared to this year. However, there is a possibility of incurring one-time costs. Additionally, the recovery in the semiconductor market has been delayed, and we are currently assessing the market outlook and its impact.

Q: Could you provide updates on the progress and outlook for the advanced packaging business, including sales forecasts, industry evaluations, and targeted applications?

A: The digital lithography system we are developing in collaboration with Applied Materials is scheduled to launch next fiscal year, with the timeline for recording sales progressing as planned, and has already been evaluated by a wide range of customers. Additionally, we are advancing the development of next-generation lithography equipment, such as steppers and direct imaging (DI) lithography equipment, and are conducting

evaluations for new technologies expected around late 2026 or 2027. While sales contributions will come slightly later, the main target applications are packaging for generative AI-related technologies.

Q: I understand that you are shifting focus in the EUV business from targeting APMI* to other applications. What level of impact do you expect next fiscal year?

A: Multiple evaluations are currently underway, and the situation may change depending on the results of prioritization. Therefore, it is difficult to specify a monetary impact at this time. However, we have significantly shifted resources from the original plan. Meanwhile, revenue and profit from service maintenance are expected to remain stable going forward.

* APMI: Actinic Patterned Mask Defect Inspection

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

Q: You mentioned a 2 billion yen outperformance in Q3 and strong performance in the Industrial Processes business. Could you specify which part of the revenue or profit this refers to?

A: Cumulative operating profit for Q3 has exceeded our initial plan by approximately 2 billion yen on a company-wide basis. However, one-time costs are expected to be recorded in Q4, leading to lower profitability.

Q: The full-year forecast, including by segment, has not been revised. If the current trend continues, can we expect a profit increase of around 2 billion yen?

A: We revised our full year forecast upward in Q2 and have not made any changes since then. The 2 billion yen outperformance mentioned refers specifically to the cumulative results for Q3 compared to the initial plan.

Q: You initially planned 3.4 billion yen in forward investments for the year and have spent approximately 1.7 billion yen by Q3. Do you expect to proceed as planned for the full year?

A: While there are still variable factors in Q4, we plan to proceed with the development of next-generation lithography equipment as initially planned.

Q: Regarding the expansion of the Second Life Support Program, can you share any details about the target number of participants or the scale of related costs at this point?

A: As the solicitation for this program is about to begin, the number of participants and the associated costs will depend on how the situation unfolds. We will provide updates as decisions are made.

Q: Regarding the "contributions" and "one-time costs" of the business portfolio revamp, what are your expectations for the full year?

A: The data we have shared so far reflects cumulative results up to Q3. Additional "one-time costs" may arise in Q4, which are expected to weigh on profits. On the other hand, we also expect to see some "contributions," with effects estimated in the range of billions of yen.

Q: What level of fixed cost reduction effects do you expect from structural reforms next fiscal year?

A: We expect fixed cost reductions to have a certain positive impact on operating profit. Additionally, there is a possibility of recording special losses in Q4, which could lead to lower depreciation costs next fiscal year. These factors are currently under review, but as we continue efforts in business selection and concentration, further fixed cost reduction effects are anticipated.

Q: Regarding the new growth strategy's goal of "achieving 200 billion yen in revenue and an operating

profit margin of over 10% by FY2026," what is your outlook for FY2025? Will growth be linear toward FY2026, or will FY2025 still be a year of reform with significant growth in FY2026?

A: While the business portfolio revamp will continue next fiscal year, progress has been made in each business, and various initiatives are transitioning to the execution phase. Therefore, there is a possibility of incurring significant one-time costs associated with these efforts next fiscal year. Although the revenue structure is steadily improving, the semiconductor market is more challenging than initially anticipated, and we are currently assessing these conditions. As such, FY2025 is expected to involve both positive and negative factors, making linear growth unlikely at this point.

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

Q: For the Industrial Processes business in Q4, revenue is expected to increase by over 8 billion yen quarter-on-quarter, while profit is projected to decrease by around 1 billion yen. Assuming a marginal profit margin of 35%, it seems that profits could deteriorate by 4 to 5 billion yen. You mentioned three reasons for this, but the plan seems quite conservative. Could you explain why the situation is expected to be this severe, along with the approximate financial impact of each factor?

A: The largest factor suppressing profits in the Industrial Processes business for Q4 is "operating losses due to production adjustments." The prolonged downturn in the semiconductor market has led to further delays in the sales forecasts for lithography equipment, and there is a possibility of new provisions being recorded. Additionally, forward investments are expected to increase by an amount close to billions of yen compared to results of Q3. Furthermore, while the financial impact is smaller, initial-stage equipment for next-generation technologies tends to have higher costs, and such projects are included in Q4 sales, pushing up the cost ratio. These combined factors are expected to result in lower profit margins.

Q: It seems that these factors causing lower profit margins are all temporary and will not continue into the next fiscal year. However, the operating losses appear to be ongoing. How long do you expect production adjustments to continue?

A: The demand outlook for lithography equipment subject to production adjustments remains challenging, and we anticipate that these adjustments will continue until around the first half of the next fiscal year.

Q: Regarding the market environment for the Visual Imaging business next fiscal year, could you provide any hints about sales forecasts, such as the expected resolution of the Hollywood strike and the likely continuation of the economic slowdown in China? Additionally, regarding profits, I imagine that temporary inventory write-down losses recorded this fiscal year will decrease, and the effects of business structure reforms will also contribute. Could you share your outlook on whether an increase in profits is anticipated next fiscal year?

A: For sales, the resolution of the Hollywood strike may lead to a recovery in replacement demand for cinemas, which could improve the situation. However, the economic conditions in China remain unfavorable. Therefore, we are not overly optimistic about sales. On the other hand, we expect the effects of structural reforms to materialize to a greater extent compared to this fiscal year, which should positively impact profits.

Q: Is there a possibility of incurring one-time reform costs next fiscal year, similar to this fiscal year? Or should we assume that such costs will not occur next fiscal year as most measures have already been implemented?

A: For the Visual Imaging business, we plan to conduct a detailed review of the product lineup portfolio to

align it with the desired future profit levels, focusing on high-end areas that generate steady profits. This may impact sales and lead to future declines, and we will also advance end-of-life (EOL) measures. Furthermore, organizational structure reforms will be carried out in parallel, so there is a possibility that some one-time costs will continue to occur.

Q: Regarding digital lithography system, could you provide hints about the number of customers expected to contribute to sales recognition and whether the initial applications will focus on substrate patterning or on front-end processes such as interposers within advanced packaging?

A: The number of customers is expected to be more than just a few, indicating a scale beyond several companies. As for future applications, various possibilities are under consideration. In the initial phase, both mass production and evaluation purposes are expected. We understand that our customers are considering both of the mentioned applications.

Q: Are there any technical challenges that need to be addressed for digital lithography system, or is the situation stable in that regard?

A: While customer requirements are diverse and need to be addressed individually, the performance of the digital lithography system itself is robust and has been positively evaluated by customers.

Q: When do you expect sales from digital lithography system to be recorded next fiscal year—during the first half or the second half?

A: We expect it to be in the second half of the next fiscal year.

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