

Ushio Inc. Financial Results Briefing for the Third Quarter Year Ended March 31, 2023 Major Questions and Answers

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Method: Online

Presenter: Takabumi Asahi

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General Manager of Corporate Headquarters

Note: The "Major Questions and Answers" is provided for reference purposes for those who did not 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. Toru Sugiura, Daiwa Securities Co. Ltd.

Q: I would like to ask about the Light Source Business project for Q4. What products are causing this decline?

At the same time, I wonder how long this kind of environment, like the current Q4, will continue. You have explained that semiconductors and FPDs will recover from H2 of the next fiscal year, but what is your current outlook for other products as well? Please tell us about this as the first point.

A: The main products that have fallen in Q4 are UV lamps and cinema lamps, both of which have been affected significantly. In the UV lamp, the market conditions have been softening and the operation has been declining since Q3, but distribution inventories have ballooned to meet the previous demand. Thus, Q4 is the situation where the sales have fallen sharply due to these adjustments. The same is true for the cinema market. Although the market itself is softening, adjustments will be made in Q4 to address the larger purchases made up to Q3, which will have a significant impact on our profits.

As for how long the adjustment will continue, we expect that the quarter adjustment itself for UV lamps will settle down in Q4, but the weak semiconductor market is expected to continue until the end of H1 of the next fiscal year. We will continue to examine this matter closely.

As for cinema, the market itself is expected to continue its recovery trend from COVID-19, and we expect some recovery in distribution inventories once the adjustment pauses in the current quarter.

Q: I would like to ask what your thoughts are on the new Medium-Term Management Plan starting next fiscal year. In terms of business, you have been focusing on Optical Equipment Business, and I think these will grow even more from the next fiscal year, but I would like to ask you a little about your company's current thinking for the next Medium-Term Management Plan, including Light Source Business and Imaging Equipment Business, to the extent that you can give us a head start. In addition, could you please explain to the extent possible, what are your current and future plans for shareholder returns?

A: I can't give you specifics as we are currently in the process of formulating the next Medium-Term Management Plan, but we expect the market environment to continue growing demand for semiconductor-related equipment and lamps. We intend to continue to focus on this area as well, while actively pursuing initiatives.

In the Imaging Equipment Business, there is a recovery from COVID-19 and replacement demand is expected to emerge during the next Medium-Term Management Plan period, so we will pursue these areas while maintaining competitiveness.

With regard to shareholder returns, we are currently discussing the balance between proactive investment for the future and shareholder returns. We would like to explain our thinking in both regards in the next Medium-Term Management Plan.

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

Q: The increase in the cost of parts and materials had a large impact on the Imaging Equipment Business in Q3 and Q4. What is the status of conversion to selling price? And I think the issue of procurement of parts and materials will probably peak out. Taking these into consideration, I would like you to explain how long this negative growth is expected to continue, and how you plan to improve profitability in the next fiscal year.

A: With the cost of parts and materials rising, we are working with customers to shift to selling prices. Under such circumstances, there is still a shortage of some parts and materials, and we expect this shortage to continue into the next fiscal year.

So we expect that it will be difficult to achieve a major recovery due to the continuing shortage of parts and materials until H1 of the fiscal year, even though we expect sales in the Imaging Equipment Business to recover in the next fiscal year. We are working on initiatives with the expectation that we can achieve a reasonable improvement in profits compared to the current term.

For example, we have promoted standardization and other measures to lower the cost of parts and materials to meet the rise. And we are improving profitability by promoting the optimization of selling prices. We are also boosting sales through supply chain management reforms.

Q: Regarding the large field steppers for cutting-edge IC packaging substrates in the Optical Equipment Business, you mentioned the long-term growth story has not changed. But I think you felt some risk in the short term. How do you feel about the balance between H1 and H2 of the next fiscal year?

A: Regarding the balance, we expect some sales will shift from H1 to H2, so H2 will be higher than H1.

◆ **Questioner: Mr. Masahiko Ishino, Tokai Tokyo Research Institute Co., Ltd.**

Q: Regarding the three “Progress with Promising Products (Large Field Stepper for Cutting-Edge IC Package Substrates; Direct Imaging Lithography Equipment; and EUV Light Source for Mask Inspection)” mentioned on page 16, please tell us what will happen from the next fiscal year onward.

A: In terms of the Large Field Stepper for Cutting-Edge IC Package Substrates, the long-term demand, as well as inquiries, are also very strong. But some customers are postponing their investment plan, thus in FY2023, there might not be as much growth. So we are currently examining this issue closely.

In the case of Direct Imaging Lithography Equipment, some of our sales have been inspected and accepted in Q4, and we expect sales to be quite strong in Q4. On the other hand, overall sales, which I think are mainly semiconductors, including smartphones, have been on a bit of a plateau. There is a sense that there will be a lull in FY2023 due to the impact of these factors. However, we see this as a market that will grow over the medium to long term.

As for EUV Light Source for Mask Inspection, we expect the cost situation to be very severe, and we think that sales themselves will not be very strong in the next fiscal year. However, the service and maintenance business has been and is continuing to be strong. Since the situation is still the same, with the operation being up, we expect that the underpinnings of the situation will continue to be supported.

Q: I would like to ask a question on the balance sheet. The cash and deposits have decreased quite significantly in QoQ from Q2 to Q3. On the other hand, inventory is increasing by a certain degree, although not that much, but how should we keep track of this decrease in cash and deposits and increase in inventory?

A: One of the reasons for the large increase in inventories is that there is a shortage of parts and materials related to Imaging Equipment and we have aggressively purchased some parts and materials due to extremely tight delivery deadlines. This has resulted in an increase in work-in-process and an increase in final inventories. In this area, we are working to reduce the number of sales to a certain extent in Q4 as we sell the products.

Another area where inventory is increasing is in demand for Optical Equipment. This is a product with a very long delivery time and a long lead time, so there is a certain amount of work-in-process. We recognize the need to pursue the optimal inventory size for sales while

reducing inventory while working to accelerate acceptance inspections. We would like to strengthen this area.

◆ **Questioner: Mr. Takashi Iwai, BofA Securities Japan Co., Ltd.**

Q: I would like to ask you a question regarding the increase in the forecast for Optical Equipment Business for the current fiscal year. You explained increased maintenance opportunities and cost containment as reasons for the upward revision of optical equipment. Which was the more significant factor? Also, which specific products are the ones that are increasing revenue from maintenance and upkeep?

A: It is more about increased maintenance and upkeep. The operation of the Large Field Stepper for Cutting-Edge IC Package Substrates has been remarkable, and the services for this and EUV services, as well as maintenance and upkeep, have both increased.

Q: In this connection, my second question is regarding the outlook for the Optical Equipment Business for the next fiscal year. In your answer to the previous question, you mentioned that you are concerned about the risk that Large Field Stepper for Cutting-Edge IC Package Substrates will not grow that much in the next fiscal year and that there may be a lull in direct imaging exposure as well. I also thought that EUV light sources would not do so well in the next fiscal year and that overall sales would not increase much, but rather sales of curing equipment would decrease, so I wondered if sales would decline.

On the other hand, I believe that fixed costs for Large Field Stepper for Cutting-Edge IC Package Substrates will rise in part because of the expansion of capacity, but how do you see sales and profits for the Optical Equipment Business for the next fiscal year when you take all the various factors into account?

A: We are currently examining expenses, including demand and strategies, and we have the feeling that sales will probably not increase that much. In terms of profit, we believe that we will be able to secure a certain level of profit because we will be able to raise the level of our maintenance and services businesses. We are currently examining the specifics and would be happy to provide an explanation when we know more.

◆ **Questioner: Mr. Tetsuya Wadaki, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.**

Q: Regarding EUV light source business, you mentioned some risks earlier at the briefing. Is this a situation where the possibility of downsizing the business cannot be denied?

A: Regarding EUV, I would say that it is a very strong business in the long term. This is an important project for USHIO. Since this is a technically competitive project, there is no change in the situation that we will do our utmost to address this issue. We are currently studying ways to strengthen our cost competitiveness, technological superiority, and marketing approach while taking a holistic view of all aspects of our strategy.

Q: You mentioned that the industry is currently talking about 8.7G OLEDs and that assembly equipment manufacturer and overseas manufacturers are excited about micro-LEDs and mini-LEDs. Could you explain the business opportunities for your company in this area?

A: In the curing part, business opportunities, I recognize that we are now in the process of expanding. Mini-LEDs are used in some imaging equipment, so in this sense, business opportunities will emerge. This is one of the areas we are currently working on.

◆ **Questioner: Mr. Masahiko Ishino, Tokai Tokyo Research Institute Co., Ltd.**

Q: Semiconductor manufacturers that use UV lamps ordered lamps in advance when semiconductors were initially very active. But currently, there is an environment of rapidly declining occupancy rates, and you disclosed the downward revision due to this distribution inventory. When did this move occur and how voluminous was the portion of the prior allowance? I would appreciate it if you could tell me the volume based on future recovery.

A: As an image, I think we started a little later than we actually started in Q2 or Q3. I assume that there is currently about a 1.5- or 2-month gap, and we are making adjustments in that area. I am assuming that it will take about 3 months to resolve it.