

**Ushio Inc. Financial Results Briefing for the Year Ended March 31, 2023 and
Introduction of Second Medium-Term Management Plan
Major Questions and Answers**

Date/Time: May 12, 2023 / 10:00-11:15

Method: Online

Presenter: Koji Naito, President and CEO

Naoki Kawamura, Representative Director, Senior Executive Vice President, COO,
General Manager, Business Management Headquarters

Takabumi Asahi, Director, Managing Executive Officer, CFO, General Manager of
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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: Regarding Life Science business in Medium-Term Management Plan, the sales will increase a little but the profit will improve significantly. Could you first tell us about the background to this?

A: In the Life Sciences business, there was a large amount of impairment loss related to light source area in the last fiscal year. It is the sodium lamp for plant growth. Because of this impact, we are actually in a situation where operating profit for the current fiscal year will look better, and there will be no major changes.

Q: May I understand that there is just that return?

A: That's right.

Q: About EUV on page 37 of the presentation material, you commented that the competitive environment is intensifying as customers continue to demand lower TCO. I would like to know your view on how the competitors are better in terms of TCO. In the lower part of this page 37, there is a description of efforts to acquire new customers. What is the visibility of these new customer acquisitions if you can somehow meet the needs of your customers in terms of lower TCO?

A: As to your question about competition and superiority, we do not have any clear data on this yet. We are now in the process of analyzing this information and hearing from our customers to strengthen our efforts in the future.

As for the other initiative to acquire new customers, we intend to strengthen our development efforts to acquire new customers during this Medium-Term Management Plan period.

I have the feeling that currently, the penetration of APMI method in EUV system is a little behind where I originally thought it would be up and running in 2025. It is well within our time frame, and we will work toward that goal.

Q: In any case, am I correct in understanding that this orange line will not appear unless you can outperform the competition in terms of TCO, whether for new or existing customers? In contrast, is it your understanding that we cannot even have a concrete image because the data has not yet been clearly presented?

A: I personally think that, at least two companies will remain as long as they do not lose out in the competition. In any case, I believe that the competitive environment will intensify in the future for both equipment and light sources.

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

Q: It is great that you were able to present solid figures in a really tough business environment, but what I personally appreciate most, and I think you have done a lot of things properly this time, is that you have been able to make a decent profit from optical equipment and also to ride on the growth of the market.

I would like to know more about this, because I am hoping that things will not go back to the way they were before, but until now, the issues with equipment have been lack of marketing, sales, and profitability. And for the past 20 years, it had not performed well. I wonder if you could comment on how you have addressed these issues, how you evaluate them, and whether they are sustainable.

A: As to whether this is a temporary situation that will return to normal, I do not think so, and I believe that the various measures we have taken since around 2019 have completely strengthened this business. Of course, there has been a significant increase in overall sales, but more than that, we have been working hard over the past few years to strengthen our structure. In the past, for example, we had major problems such as taking many orders before they were standardized, thereby causing defects, or lack of procurement capability and production leveling. Therefore, I believe that at that time, the Company's structure was such that even if sales grew, earnings did not follow. I believe that over the past few years, especially during the three years of the first Medium-Term Management Plan, we have been able to eliminate most of the problems in this area, and work has flowed very beautifully as a whole. We will be in a phase of semiconductor's adjustment in FY2023; however, I believe that we are now in a position to generate a reasonable amount of profit if sales grow steadily.

Q: Regarding EUV business, I am a little concerned that maintenance sales will not come in under the current conditions. Also, in terms of acquiring new clients, I was wondering if you are making any progress in negotiating with a second company or something like that?

A: As far as maintenance is concerned, the system is operating very well. We will continue to strengthen our efforts to reduce costs while securing our operation. We would like to maintain it there. As for the acquisition of new customers, I am not able to give you more details at this time, so please bear with me.

Q: Do you mean that new customer acquisition means an increase in the number of customers, or do you mean that customers who once missed out will come in again? The other thing about this operation, for example, just hypothetically, even if your company's light source is removed and no longer in operation, will you still get maintenance service requests?

A: Concerning acquiring new customers, both are available. And as for maintenance, if our products, for example, stop operating, maintenance will not come in.

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

Q: I would like to ask you a question about lithography systems for cutting-edge IC package substrates. Unlike the EUV light source, you expect it to continue to grow during the Medium-Term Management Plan period, but I think you have lost some of your customers' investment. I wonder if you could tell us how certain you are about the visibility of the business in FY2024 and beyond.

Also, regarding this area, your company has a very high market share right now, but as you have at the EUV light source, I think that as a customer, they might be considering purchasing them from two companies. I would like to ask you a little more about the risk of competition for this equipment for package substrates.

A: Concerning further steady growth of the semiconductor industry, I think you all expect a rapid recovery from around Q4 of FY2023. I think it will delay. I believe that it will grow more in FY2025 than FY2024. However, this depends on the sales of PCs, servers, and smartphones, and we are not sure what to expect. We are also concerned about the sales of these products. On the other hand, if we look at the longer-term range, we believe that there is still a great deal of growth potential, since the construction of semiconductor front-end processes is progressing rapidly and the need for packages is increasing.

As for the other question about competition, regarding this cutting-edge IC package substrate market, it is a very habitual process equipment, and we believe that we can maintain our market share.

Q: Regarding the reform of the balance sheet and shareholder returns, you said that you will sell your assets of JPY15 billion to JPY20 billion in the next three years. What kind of assets will be sold? I would like to ask whether it is tangible items such as factories that you own or investment securities. Also, in connection with this, regarding share buyback, I understand that there are the second or third rounds in the future, but what would be the timing and conditions for such repurchases? I would like to know a little more about this point, whether it is the timing of the asset sale being approved or the timing of the stock price drop.

A: Asset sales are considered securities. As for share buybacks, we will proceed based on a comprehensive assessment of the overall situation, taking into consideration such factors as the status of improvement in capital efficiency.

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

Q: Your company's strategic investment of JPY40 billion, I would like to know the breakdown. I think that the amount of investment per semiconductor is likely to be quite high, but I think that a considerable amount of investment will be necessary to strengthen this market in the future. What do you think about this balance, EUV and Non-EUV, this feed balance?

A: Although semiconductors account for a high percentage, we are also considering a strategy for the Life Sciences business area from a long-term perspective, which I mentioned earlier, in addition to semiconductors.

Q: How much do you plan to increase the production capacity and manufacturing capacity of solid-state light sources from now until 2030?

A: During these three years, rather than increasing our capacity, we would like to focus on developing a product lineup that meets the needs of each application, improving the performance and quality of our products, and modularizing our systems.

We are not planning any major increase in production capacity or manufacturing capacity during the next three years. We want to make sure that we change what is inside.

Q: I was wondering if your company has any new areas that you will be expanding into until 2030, especially in light sources. For example, last year you posted write-down for sodium lamps and in that, are there actually new areas that you will be expanding into in the future? For example, environmental hygiene lamps, and heaters, etc. If you look at it over a five-year span, there has been a lot of evolution here. If we look at the projector lamps alone, for example, how much will the demand shrink over the next 30 years? Can you please explain this to us, even if it is just an image?

A: This is just an image, but I believe that solid-state light sources will replace by a considerable amount of light sources between 2023 and 2030. However, we do not expect that all lamps will be replaced by 2030, and we expect that lamps will still be used in some areas and by some

customers. However, we will make investments and spend expenses in a manner appropriate to the scale of each business, so that we can operate in a sustainable manner.

Q: If it evolves more quickly, additional fixed cost reductions or something like that could be implemented?

A: Yes, that is right.

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

Q: Could you please tell us quantitatively as much as possible about the factors behind the considerable decrease in profits in the Industrial Processes business? Also, is there some sort of degree of variation in profits when looking at major products?

A: The main reason for the decrease in profit is that the market for semiconductors is not necessarily favorable, but basically, we are investing in the development of EUV and lithography systems for cutting-edge IC package substrates for the future. This is the reason for the temporary decrease in profit. However, if semiconductor or FPD operations decline, the output of our lithography lamps will suffer, so we are expecting a decline from FY22.

Q: If you exclude that upfront investment, sales would decrease a little and profits would be reasonable, is that what you are imagining?

A: Yes, that is right.

Q: This is a rather primitive question, but would a second source-like light source for EUV inspection equipment work? In other words, I think it is common to find a second vendor for a Deep UV light source, but I wonder if procuring a light source for inspection equipment from another source with a special light source like EUV would not affect stability, quality, inspection accuracy, images, etc.? In other words, is there usually compatibility?

A: We believe that we are competitive now. We are not in a position to give an answer as to the actual performance, but we will continue to work hard to improve the TCO so that we can maintain and improve our position.

Q: Replacing the light source is not a hindrance, especially from the user's point of view, except for the TCO.

A: It is difficult to answer whether or not there is a problem, since this is a question about other companies, but our current understanding is that there is competition, and we are aware of it, we do not know how our customers are actually using them, but that is our understanding. We are only a light source manufacturer, so it is up to the equipment manufacturers and device manufacturers to decide what they want to do. I have the feeling that EUV process and mask inspection has only just begun, with some concerns of pellicles, etc. Therefore, I believe that many more things will happen in the future and that competition will intensify.

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

Q: In the area of IC package substrates, I think Ushio has been quite oligopolistic in this field, but competitors are finally coming out with proposals that are reasonably priced and have a small footprint. I have heard that they are also proposing this to major Japanese package manufacturers. I would like to know what you think about the deterioration of profitability or the downsizing of the footprint of this chassis as a result of the demand for this product, which has been priceless, or really your company's superiority.

A: As I mentioned earlier, this is a very habitual process and difficult equipment, so naturally device makers, or perhaps panel makers would be a better term in this case, will place importance on the footprint. Cost will also be an important consideration.

On the other hand, what we hear the most about is throughput and yield. Therefore, we maintain a certain advantage in this area, and we are not particularly competitive in terms of price. I am sure that our competitors are also conducting various trials, but I suspect that it is difficult to use them in mass production.

Q: You indicated that there is some competition in EUV area. I think that your EUV light source, like this logo, is made with a tinned technology. I would appreciate it if you could tell me about whether your competitor is proposing the same method, or a different one.

A: As I mentioned earlier, the EUV process has just started, and I am not sure if it will be tin for the rest of its life, or if the competitors will also use tin for a long time. I am not sure about our competitors, but I believe that we have to keep an eye on the future.

[END]