

Ushio Inc. Financial Results Briefing for the First Quarter Year Ended March 31, 2024

Major Questions and Answers

Date/Time: August 7, 2023 / 17:30-18:10

Method: Online

Presenter: Takabumi Asahi,
Director, Managing Executive Officer, CFO,
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. Tetsuya Wadaki, Mitsubishi UFJ Morgan Stanley Securities

Q: In the area of optical equipment, your company has good products, and the market for advanced IC packaging is currently picking up wind, but I am very disappointed that you are still not able to take advantage of this. I would like to know if you are aware of the problem and if you have any suggestions for improvement in this area.

A: In the case of exposure systems for advanced IC packages, our business performance has been affected by the recent downturn in the semiconductor market, which has led to investment restraints and other factors and has had a negative impact on our business performance. However, this market will undoubtedly expand in the medium to long term, we are actively engaged in research and development and accelerating the development of steppers and DI exposure equipment for fine pitch and other applications, and at the same time, we are strategically promoting the expansion of our relationships with our customers. Although we need to consider when the market will restart investment, we are making preparations to significantly increase sales and secure earnings accordingly.

Q: Regarding the EUV light source, you mentioned last time that you are going to sell them to new customers as well. As far as possible, could you please explain where you are seeking new customers?

A: We do not disclose our customers' information due to confidentiality concerns, but I am aware that the number of players in the EUV market is increasing. In this context, we are developing new customers in accordance with the various options available as a light source supplier, and we are also working on various technological measures and business negotiations. At this stage, I am unable to say more, but I hope you will understand.

Q: By various, do you mean multiple customers?

A: It is a possibility. That's all I can say.

◆ **Questioner: Mr. Toru Sugiura, Daiwa Securities Co. Ltd.**

Q: In the area of general imaging, sales were up 4.3% YoY, but this probably looks like sales did not grow at all, excluding foreign exchange. On the other hand, in your explanation, you also mentioned that demand for events remained strong and that high-end models and mixes improved, so I feel there is a slight gap between these visible figures and your qualitative explanation. Can you please provide some additional information on this point?

A: If we look at it on a QoQ basis, the situation is such that there has been little growth in terms of exchange rates. Regarding the mix, sales of high-end RGB models are growing, while sales of laser phosphor models are a bit milder. We are currently receiving various business negotiations and inquiries, and we expect sales to increase compared to the previous year, even excluding the effects of the yen's depreciation, as high-end RGB models will pull up sales for the current fiscal year as a whole.

Q: Does that mean that your company already received inquiries and has a certain visibility?

A: We are beginning to receive a lot of inquiries.

Q: In the area of cinema projector business, it looks as if we started the year somewhat behind in terms of our plan to grow volume by 90% per year, as you explained. Can you give us some additional information on the visibility or certainty of this 90% increase? Since the orders have already been received, is it safe to assume that there is no particular problem in this regard? Please explain a little on this point as well.

A: In the cinema projector business, we are still short of components and key parts, although the shortage of materials has been resolved, and we haven't been able to respond to the demands in H1. However, we are almost on track to eliminate this problem, and it will improve from the second half of H1 or from Q3. In terms of the seasonality of the cinema industry, Q3 is expected to be a seasonally active period, and we are beginning to receive strong inquiries, so I hope you understand that we are making our forecasts with a certain degree of certainty.

Q: In that sense, would it be correct to say that you are receiving orders now but are not fully able to respond to them?

A: Yes, that's right. We have already received inquiries and negotiated delivery dates, and as a result of these negotiations, many deliveries will be around Q3.

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

Q: How much did cinema sales increase in Q1 YoY?

A: The growth was a little less than 50% in Q1 YoY.

Q: What percentage of progress was this against your annual plan?

A: It is about a dozen percent.

Q: What percentage of your sales will come from China this year?

A: We estimate that sales in China will be between 30% and 40% of total sales.

Q: With the recent economic situation, is there a risk that the delivery date will be pushed back to the next year or so, even though there are projects and orders received?

A: From what we are seeing right now, we expect to be able to deliver it in H2, approximately within this fiscal year.

Q: Is it correct that there aren't many pushbacks?

A: It may happen at the installation as schedules can change in various projects. Last year, due to a shortage of parts and materials, there were some items that could not be included in H2 last year, but looking at the overall situation, we do not anticipate a similar situation at this time. We are aware that the supply-demand balance for key parts is softening, and we are confident that we will be able to secure a certain level of supply.

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

Q: In semiconductors and electronic device businesses, could you first tell us to what extent your customers' operating rates have fallen and at what point you would expect to see a recovery in that rate?

A: From the lamp sales quantity point of view, we expect that the current operating rates of our customers are probably down by a few dozen percent compared to when semiconductors and flat panel display market were doing well.

Q: You also mentioned that the delivery period for optical equipment is heavily weighted toward H2. Has this been delayed against the original plan, or was that the original assumption? If so, what is the reason for the delay, and will it catch up?

A: We have been receiving more projects for installation in H2 than in H1 and our plan has not shown any change in the balance between H1 and H2 since we announced the plan at the beginning of the term. However, we are starting to receive requests from customers to delay the operation schedule of their plants from the time we had originally discussed. We believe that there may be factors occurring beyond that are probably delaying the timing of the client's investment.

Q: I assume that you have received orders and that the order backlog itself has not changed significantly. Is that correct?

A: Yes. As you understand, the order backlog itself has remained almost unchanged, but we have begun to receive requests to delay the timing of deliveries.

Q: May I ask when that started?

A: In Q1.

Q: Regarding the R&D cost of the EUV light sources, could you tell us how much you will need to increase R&D expenses for light sources this year and whether this will give you an advantage over your competitors over the next few years?

A: We are now significantly increasing our EUV R&D expenditures. As for our advantage over the competitors, we are now developing EUV as a light source that is more competitive and can achieve cost reductions and stable operation. If our development progresses, although it may be an exaggeration to say that the performance is very overwhelming compared to other companies' light sources, we see that we can derive a state of affairs that will allow our customers to realize cost reductions in stable operation.

Q: Do you have any figures for the development expenses for this fiscal year, such as how much you have increased from the original level?

A: Although we do not disclose it specifically for the EUV business, the overall R&D expenditure is about JPY10 billion, and we are increasing that amount by a few dozen percent. And, most of the increase is in the EUV business and other advanced IC package substrate equipment, so in terms of percentage, we have increased our production by a considerable amount.

Q: Do you already have a reasonable prospect of achieving a significant cost reduction by the end of the fiscal year? Do you think you will be able to achieve a certain level of cost reduction by the end of the fiscal year? Could you tell us when it will be?

A: We have a good idea of where we are at, but there are so many parameters that we still need to work out when and to what extent we will be able to achieve our goals.

[END]