

## **Ushio Inc. Financial Results Briefing for the Second Quarter Year Ended March 31, 2024**

### **Major Questions and Answers**

Date/Time: November 6, 2023 / 17:30-18:20

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. Toru Sugiura, Daiwa Securities Co. Ltd.**

**Q: Regarding the Industrial Processes business, sales from Q1 to Q2 are increasing, but the profit margin has been declining. I would like to confirm this point. In addition, sales plan for the current fiscal year has been lowered by about JPY6.5 billion, including the adjustments between segment. I think that large field stepper for cutting-edge IC package substrates, direct imaging lithography equipment, and EUV are the three major factors of that. Let me confirm how much each affects.**

A: Regarding the decline in profit margin from Q1 to Q2, the main reason is that there were more unprofitable sales, not in the UV equipment but in the equipment for LCD panels. Other than that, due to the postponement of investment caused by the low-capacity utilization of EUV and UV equipment, some service parts inventories are in a trend toward longer inventory periods, resulting in a certain amount of provisions to be recorded on an accounting basis. In addition, temporary increase in service parts costs occurred for some of the EUV models.

The major factor of the revision of sales plan lowering by JPY6.5 billion is sales related to the UV equipment, especially DI lithography equipment. The impact of sales related to EUV is small. The factor after the DI lithography equipment is large field stepper for cutting-edge IC package substrates.

**Q: I would like to ask you to follow up on the EUV. In your explanation, you mentioned that you have made progress in acquiring new customers. I would like to know what progress has been made in the past three months, or maybe even six months, to the extent possible. Also, if possible, could you tell us how much of your company's inventory includes this EUV-related item?**

A: I cannot tell you specifically what kind of progress we have made because of our relationship with the customer, but we are in the process of developing new business opportunities, including exchanges of opinions and, of course, discussions about various technical matters, specifications, and so on. I cannot say more than this.

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

**Q: On page 14 of the financial presentation, the industrial processes and visual imaging segments have a profit margin of -JPY2.0 billion and +JPY2.5 billion, respectively. Could you explain the extent to which each business segment fell short or exceeded in H1 of the fiscal year?**

A: The result of the industrial processes business for H1 was as expected. However, some of sales of UV equipment expected in H2 will be postponed into the next fiscal year, resulting in the decrease in sales forecast. In the visual imaging business, a portion of the sales is higher in H1 and this had an impact on the overall plan. The operating profit was actually slightly better than we had expected. Accordingly, the result and expectation for the visual imaging business is higher for H1 and H2 of the current fiscal year.

**Q: Is it about JPY1.0 billion more than initial plan in H1 of the year?**

A: About a half of the changes in the plan of visual imaging business is based on the result for H1.

**Q: I would appreciate it if you could give me some indication of what is happening in the area of semiconductor-related IC packaging substrates, especially in direct imaging lithography equipment, whose acceptance inspection for this fiscal year will be delayed and may be delayed even in next fiscal year. How the situation might improve?**

A: We expect to see a great impact on the semiconductor investment in the market as a whole, and I think a big part of this depends on when the investment in the back-end process will be resumed for UV equipment, including direct imaging lithography equipment. Accordingly, once market conditions improve and a certain amount of time passes, investment will gradually return. We expect that investment will again increase when the market for semiconductors itself recovers and the production of products that require cutting-edge IC packages grows.

**Q: I'm sorry if this is an out-of-the-box question, but I understand that some other companies are receiving very strong inquiries about back-end exposure equipment. I have a feeling that there is a similar kind of demand for your large field stepper and direct imaging lithography equipment, but you are not under such situation. What I'm not sure is how I should recognize the difference from the situations in other companies, since the number of competitors is increasing, so please let me know.**

A: This is just our point of view, but in terms of the large field stepper, when demand for large IC package substrates used in data centers starts to increase, investment increases and so does the demand for our UV equipment. However, I have heard that the demand recovering is not for such things but for others. When the demand for those used in data centers and PCs will recover is important for our products.

**Q: Some customers are saying that the demand for PCs will increase from 270 million to 300 million units in the next two years, because 100 million units for generation AIs will be shipped. They say that, as the area of so-called interposer is increasing in relation to generation AI, the demand for back-end lithography equipment is also increasing. Based on what you have said, is it correct to say that the impact of the drop in demand for datacenters and PCs is significant, and that of the increase in demand for generation AIs is not so significant for your customers?**

A: In terms of our customers, we recognize that the current situation has some of points you have just mentioned.

**Q: So, each customer has a slightly different nuance, and the customers who have a little bit postponed demand are more likely to be your customers. Is that correct?**

A: That is what I understand.

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

**Q: Regarding expected customers for EUV, there are so many different inspection light source manufacturers, including European manufacturers. Customers for inspection light sources are not limited to inspection equipment manufacturers but include material manufacturers and many others. Is your inspection light source also marketable not only for inspection, but also for evaluation and development purposes?**

A: We are developing it to be widely used for inspection purpose in the future, so not limited for mask inspection.

**Q: Is it safe to assume that the response you are getting from customers about the inspection light source is not only the use for mask inspection?**

A: I cannot tell you at this moment, but I would say that we are strong in applications, and we believe that we can build technological superiority in the area of those, so we think that our target customers can be those related to the area .

**Q: I understand that you have currently more customers similar to the target that had ever been than those targeting for the future.**

**Second question, regarding the large field stepper for cutting-edge IC package substrates, I understand that although it was not your company's fault, but there was a mass cancellation from a certain package company, and caused many troubles in various companies. How big was the sales impact of this one specific company to your downward revision in your plan?**

A: I cannot say much about this because it concerns our customers. We believe that the structure is such that the large customer is not doing so well, and the impact of this is spreading to others. In terms of the monetary impact, for example, in this fiscal year, if you look at its impact on large field stepper for cutting-edge IC package substrates, it is not enough to account for half of our downward revision related to the large field stepper. The downward revision of JPY5.0 billion in the sales plan for the Industrial Processes business includes the expected impact from the sales of the DI lithography equipment, so if we look at large field stepper for cutting-edge IC package substrates alone, the amount affected the downward revision is much less.

**Q: Looking to the future, it may or may not be realized yet, but I hear that your company has been working hard on, for example, glass and panel level packages.**

A: In this area of the package, we have a roadmap in place, and we are looking ahead to see how advanced technology will evolve, and we are basically moving forward with the goal of becoming number one in this area. We are developing technologies that will enable us to establish a good position in these areas.

**Q: You don't seem to be at the stage yet where it will blossom as a business?**

A: I think some of it will come out gradually, and how and when we can respond to it will be an important part of the process. For example, I don't think that it will have an impact on our performance in one year or two years.

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

**Q: Regarding digital cinema projector, you have not changed your full-year forecast of 90% increase in unit volume over the previous year, but what were the results for H1 of the year?**

A: If we look at the progress of digital cinema projector, H1 progress was quite good. As I mentioned earlier, it is the field of digital cinema that is driving the upward revision in the visual imaging business. The general imaging market is getting better, but the situation is generally in line with our plan.

**Q: Was there a large deal in Q2 general imaging market?**

A: Yes, that's right. We had a large order in Q2, which boosted this particular quarter, but on the other hand, Q1 was not so good.

**Q: Did you originally expect these large deals on an annual basis?**

A: The success rate of projects is not always 100%, so we determine the estimation considering the success rate. I would say that it was a part of the initial plan.

**Q: Can you give us your estimate of the annual breakdown of JPY90.0 billion of in the visual imaging business?**

A: I cannot tell you the amount, but the light source itself is not that much. Digital cinema projectors and projectors for general imaging are the two largest portion.

**Q: How much would the sales related to imaging equipment increase from H1 to H2 of the year? I think the sales in the visual imaging business as a whole will increase by JPY12.0 billion, but I wonder whether that is mostly from imaging equipment, such as about JPY10.0 billion.**

A: Sales related to imaging equipment in H2 of the year will be 10% to 15% stronger than those in H1.

**Q: I understand. I asked you a lot, because I think you said at the last briefing that China probably accounts for about 40% of the sales total related to the cinema. Was there anything like a macro influence from China H1 of the year? How concerned should we be there in H2 of the year?**

A: We have not included the economic slowdown in China in our forecast at this time. Although it is a cause for concern, but our current business negotiations have not yet seen any direct impact related to Chinese economy.

**Q: To some extent, sales in H2 of the year are already confirmed in terms of the orders?**

A: We have not yet received all orders, but we are in a situation where some business negotiations are going to be finalized.

**Q: In the revised plan for the Industrial Processes business, how much do you plan to increase or decrease for UV equipment?**

A: Originally, sales are biased toward H2 of the year, so we are looking at a 20-30% increase in H2.

**Q: Is this like that for both DI lithography equipment and large field stepper?**

A: The sales of the large field stepper will be a bigger stretch and DI lithography equipment will be flat as H1 for H2.



◆ **Questioner: Mr. Yoshitsugu Yamamoto, Mizuho Securities Co., Ltd.**

**Q: Regarding the EUV light source, are you developing a Xenon-based light source with output high enough to be used for APMI? I have the impression that you have been working on tin-based EUV light source for APMI. You have Xenon technology itself, so I am wondering if you can comment on whether you are working on increasing the output power of the light source.**

A: I cannot talk about that matter because it is a confidential trade secret.

**Q: The bar graphs of the large field stepper on the top of page 18 of financial presentation shows an increase in the next fiscal year and the year after, which are higher than in FY2023. I believe that two Japanese companies, as well as European companies, have stopped their investment. Am I correct in understanding that you are currently reviewing the situation to see if there will really be an increase?**

A: Yes, as for the impact of the semiconductor market, we are in the process of reviewing this issue while checking market information.

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