

EBARA CORPORATION First Quarter of FY2021 Earnings Conference Q&A

Q&A during earnings conference held May 14, 2021

Participant 1: The first question is about the evaluation of the Q1 results. Originally, you estimated operating profit for the first half of the year at JPY15 billion, and the Q1 result was JPY12.2 billion, marking significant progress. As January-March is a demand period for the EP business, I guess that you planned a lot of profit for the first quarter.

How much of an upturn in business performance did you see on an internal evaluation basis? Please tell us the main points.

Nagata: The main reason is that, especially in standard pumps, the effect of recovery from COVID-19 emerged earlier than expected. We were expecting that the effect would emerge in the second half of the fiscal year.

Overall, I would say that the market environment in China was quite good, and the ratios of orders and revenue in China increased slightly.

Also, as you know, the PM market as a whole is very active, and I have an impression that the market was much stronger than we had initially expected.

Participant 1: You revised upward your full-year operating profit forecast by JPY2.5 billion. Is this revision based on the upswing in the first quarter?

Nagata: That will be right when you look at the numbers, though there are many different factors by business.

For example, in the custom pumps business, the numbers in the first quarter were much larger than expected, and this was because there were relatively strong sales from high-margin projects in the quarter. For the full year, however, product orders in regions other than China will decrease, so I think this will have a negative impact.

On the other hand, in the standard pumps business, as more and more people are vaccinated around the world, we expect the impact of COVID-19 to weaken, and our impression is that

the business will become stronger toward the second half of the year.

As for the PM business, we had originally expected it to be quite strong, and we wonder if it will become even stronger. There are still some areas where we cannot see the situation of orders for Q3 and Q4, so I think the results will depend on those periods.

Participant 1: The second question is about the revised revenue profit for Q2. For example, you estimated revenue in the pumps business for Q2 at JPY34.6 billion against the Q1 result of JPY52.4 billion, and operating profit for Q2 at JPY900 million against the Q1 result of JPY7.6 billion. Revenue in the PM business will increase JPY13 billion from Q1 to Q2, but you assume that profit will only increase by less than JPY2 billion.

This may be due in part to a conservative approach. However, is there some special reason? Could you explain whether or not there are any factors, particularly in pumps and PM business, which will cause deterioration in profitability in the second quarter?

Nagata: First of all, regarding pumps business, revenue in the January-March period tends to be high each year because there is revenue of pumps for the public sector. Compared to that, there is no particular reason for the expected decline in Q2.

As for the PM business, I hope you understand that figures go up and down by each quarter depending on the mix of projects and other factors.

Participant 2: The first point is how much of an impact should we expect from the acquisition of the Turkish pump manufacturer. It would also be helpful if you could tell us how much of the impact there will be on an operating profit basis.

Nagata: Regarding the acquisition of Vansan in Turkey, we have already disclosed the details regarding revenue, and we expect revenue of about JPY5 billion in the 9 months from April. As for operating profit, the level is higher than the profit ratio of our pumps business.

Participant 2: One more point is that in the EP business, you revised upward only the forecast for the first half of the fiscal year. Are there any risks that you foresee for the second half? In terms of the EP business, orders are at high levels in the current fiscal year. What kind of image should we have for the rise and fall of projects in the next fiscal year and thereafter?

Nagata: First of all, with regard to the upward revision for the first half only, there will be some changes in projects.

Also, regarding the very high levels of orders for the current fiscal year, we do not plan to receive as many orders next year as we will this year.

Participant 3: I have 2 questions. One is about cryogenic pumps and the other is about CMP. Regarding the first point about cryogenic pumps, I think you originally said that you would build a test plant in the current fiscal year. I would like to know how it is progressing now. Also, regarding ammonia and hydrogen, I would like you to comment on whether there is an opportunity for cryogenic pumps in the liquefaction process.

Nagata: The construction of the test stand for cryogenic pumps in the US is almost finished and the test stand will be operational by the end of this year.

Regarding the market for cryogenic pumps or demand for applications other than natural gas and LNG, as cryogenic technology is used under very low temperature and has the potential to be applied to cryogenic liquids, we will continue to work on the development and trial production for other applications.

Participant 3: Is there still not much movement from plant manufacturers and government agencies to make effective use of cryogenic pumps?

Nagata: We have no specific inquiry for cryogenic pumps. However, as the technology is necessary for transporting low-temperature liquids, I think it will be used indirectly.

Participant 4: At the beginning of the year, you planned JPY31 billion in operating cash flow, a negative JPY43 billion in investing cash flow, and a negative JPY12 billion in free cash flow. What are they in your new forecast?

Hosoda: There is no major change in our investment plan from the initial plan, so operating cash flow will increase.

Participant 4: You announced the share repurchase plan. Is that due to a surplus of cash as COVID-19 calms down, rather than a large improvement of cash flows?

Hosoda: In the financial strategy in the Medium-term Management Plan, we defined a proper level of equity capital. So the share repurchase is partly for the adjustment toward the proper capital level and partly from the perspective of capital efficiency.

Last year there was strong uncertainty of the future amid the COVID-19 pandemic, so we held more cash and deposits on hand than in a usual year. Partly we plan to use those funds for the repurchase for the current year. However, please understand that this is basically part of our medium-term financial strategy.

Participant 5: The situation in China seems to be good. You said custom pumps are a driver. I guess that the profitability improvement of pumps you were tackling since around the previous year, had their effects. Has the effort born fruit earlier than expected?

Prices of materials such as steel and other components are rising. Do you have to consider the impact of the price rises in components in the second half and later?

Would you please give us supplementary information to these 2 points?

Nagata: The improvement in the profitability of pumps business is as we explained. As the profitability of the products had not been good, we launched various measures to cope with it. Though the effects were already emerging last year, in this Q1, they emerged remarkably. In terms of revenue in China, orders received for pumps almost doubled the year-before result. China was the first region to be affected by COVID-19 so revenue in China in Q1, especially in March, was very bad last year, and there was a considerable YoY gap this year. It was another factor.

As for materials, we are particularly affected by changes in copper materials and stainless steel materials. The prices of copper, nickel, and others are rising, so the related costs are also rising.

Of course we are going to raise product prices, but the effect of the price increase will come out a little later, so there may be some impact in that aspect.

The products that will be particularly impacted are standard pumps and chillers, which use a lot of copper materials.

Participant 5: In China, when you look at custom pumps and standard pumps, is it a situation where both are performing well?

Nagata: Especially custom pumps. Standard pumps are also growing, though.

Participant 6: I would like you to explain more about the PM business. I guess that demand for CMP equipment is more accelerated than it used to be in the past when demand for fabs increased.

So, are you taking advantage of a structural rise in demand for metals for etching widths of 5, 3, and 2 nanometers? Moreover, please explain your development related to EUV.

Nagata: Regarding the correlation between demand for CMP and our performance, our growth is partly due to the growth of the market and we enjoyed the advantage of, as you said, the increase in applications.

On EUV, we have delivered our exhaust system units for EUV exposure equipment to customers for evaluation since last year and received good responses. So, we think that we can expect demand for our exhaust system for EUV exposure equipment.

Participant 7: Earlier, you mentioned your share repurchase plan. Would you please talk about how that size of share buyback was determined? Could you introduce the process of discussions about the size, JPY20 billion, and the number of shares to be repurchased?

Hosoda: This time, as I mentioned earlier, the scale of JPY20 billion yen is a result of comprehensive consideration from the perspective of adjusting the capital adequacy level to a proper level, and I think there was a strong aspect of an appropriate adjustment of the capital adequacy level based on total consideration of leverage and the capital adequacy ratio, with credit ratings in mind.

As a result, we will also be conscious of capital efficiency. The decision-making process on the size was based on the medium-term financial strategy as shown in the Medium-term Management Plan.

Participant 8: In the PM Business, the revenue target in the previous plan was JPY170 billion, and you increased it to JPY180 billion, up JPY10 billion, in the new plan. However, the operating profit target increased from JPY16.5 billion to JPY17.5 billion, up only JPY1 billion. Considering the marginal profit ratio, is this JPY1 billion the right number? Would you have anything to give us as supplementary information?

Nagata: As revenue grows considerably, various fixed costs will increase accordingly. So please understand that due to that factor, the growth of operating profit will not be as fast as that of revenue.

Participant 8: Should I interpret that, for example, the level of revenue has come to the point that if the volume of revenue exceeds a certain level, the costs will increase in terms of marginal profit? Or rather, is it better to see that other kinds of costs, as you did not expect, will increase? Which is correct?

Nagata: Once revenue shows a sharp upswing, the efficiency will drop or fixed costs, et cetera will increase to some extent. Please understand, however, that this is a temporary phenomenon, and if the situation drags on, measures will be taken to resolve the low level of efficiency.

Participant 8: If you are to receive more orders and the volume of goods increases further in the second half, would margins also change in accordance with the improvement in profit? Is that correct?

Or, as the distribution of goods sharply increases, should we recognize that profits will not be as big as margins? Which is correct?

Nagata: In terms of the current year alone, I think it would be difficult for the profitability to improve further this year. However, we hope that you will understand that we will make an improvement in that area next year and thereafter.

Participant 9: I'd like to ask about the basics of CMP.

Can I understand that your system for EUV exposure equipment has more functions and more value added and the unit price will increase?

Moreover, as NAND memories, logic semiconductors based on EUV lithography and DRAMs become further multi-layered, what will be the impact on your CMP systems regarding the number of units or unit price?

Nagata: As for CMP systems, the number of units sold will be more affected. As for EUV exposure equipment, as we explained, we aim for expanding revenue of the exhaust system

for EUV exposure components and our customers have provided good evaluations for them.

Participant 9: How high is the production capacity for your CMP systems?

Nagata: Of course the main work for the CMP systems is assembly because it is an apparatus. We are considering increasing assembly lines and by doing so, we believe that we will be able to meet the current demand for the time being.

Participant 10: Regarding the background for the increase in the number of CMP equipment used, I wonder if I, as an investor, can expect that the number of CMP processes will increase at a faster pace than the size of the market?

Limiting the topic to CMP systems, please tell me whether I should take the change in materials or gate areas as a positive or not?

Nagata: We believe that demand for CMP systems will increase in line with the growth in demand for other process equipment, as the investment in wafer fab equipment, the front-end process of semiconductors, is becoming very active. We do not anticipate any changes that would cause a dramatic increase in only CMP systems compared to other processes.

Participant 11: I have 2 questions. The first is the question about EUV. You are not currently in the EUV market, but are planning your entrance into it. Is this because customers specifications have changed in a way that allows your product to enter the market advantageously or are you just a newcomer as an addition to the conventional operators? Please explain that.

The second question is about the FMS business. Materials costs are surging. I wonder if your forecast has included their impact.

Nagata: First of all, with regard to exhaust system for EUV, we are going to enter the area where competitors have already been operating. There is no particular change in customers' requests. We will compete with others on the same footing.

As for the materials costs in the FMS business, our latest earnings forecast includes the impact of the surge in materials prices.

Participant 11: With regard to the system for EUV exposure equipment, is the system going to contribute to your profitability?

Nagata: Because it is a system unit, the profit margin will be higher than just an equipment unit.

Participant 12: I would like to ask you one question about the production capacity of the PM business. You plan to expand the production capacity at the CMP plant by 1.5 times in the second half, I believe. Against last year's revenue of CMP systems, which was a level over JPY70 billion, you presented the revised revenue target of JPY105 billion. Orders will exceed JPY120 billion. The question is whether the capacity expansion at the new plant is sufficient for the planned increase?

Also, I think that the quantity of components is increasing significantly. Isn't there a problem in terms of capacity? Could you give me some information about this area?

Nagata: First of all, regarding CMP systems, we are currently moving forward with our plan to increase the production capacity to 150%. Right now, we believe that the expansion is sufficient. In the next fiscal year and thereafter, to cope with the growth of demand, we will consider a production line expansion plan and other measures.

For components, dry pumps, we have established an automated assembly line. We are planning to start full-scale operation of the line in the second half of the current year, and believe that this will be sufficient to meet our capacity needs for the time being.

Participant 12: Regarding the automated line for dry vacuum pumps, have you factored in the effects of better productivity or streamlining in your plan?

Or if the operation goes well, can we expect to see additional rationalization effects that will lead to an upswing in earnings?

Nagata: The earnings forecast includes the effects of the expected productivity improvement.

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