

EBARA CORPORATION Second Quarter of FY2021 Earnings Conference Q&A

Q&A during earnings conference held August 13, 2021

**Participant 1:** The first point. You also revised upward after the first quarter, and compared to the plan for orders in the first half at that time, for example, in the case of pumps, I believe that the actual orders received exceeded the plan by more than JPY9 billion.

In the PM business, orders for components also increased by about JPY9.5 billion. The orders for CMP also increased by about JPY7 billion. Even in this short period of time of 3 months, results of these 3 businesses in particular was considerably higher than the plan. Please tell us the background.

**Noji:** Now, let me explain the increase in orders related to pumps.

The big thing is the overseas business of standard pumps. Orders in Europe and China increased. The reason for the discrepancy from the previous forecast is that the first quarter was surprising strong, while the impact of the coronavirus pandemic and other factors still remained, and we believed that the second quarter would return to the level of the original plan. However, the good performance in the first quarter continued unchanged in the second quarter, so we revised the plan upward.

**Togawa:** Next, I would like to explain the PM business.

In terms of market conditions, there is a huge shortage of semiconductors due to demand for stay-home demand and demand for web-based conference systems caused by COVID-19, and our customers are working to increase production. Since the factory utilization rate is high, orders for parts for S&S are growing significantly.

In addition to that, the memory industry has been increasing its investment recently, and both the EU and the US have announced large investment plans, as semiconductors are strategic goods. As a result, we believe that orders have increased quite rapidly.

**Participant 1:** In addition, orders for components in particular have been quite good, and you have also revised upward for the full year. Is it correct to say that you revised orders for exhaust systems for EUVs in the second quarter, or has this not yet happened?

**Togawa:** In the area of exhaust systems for EUV, we are making progress as expected or even a little better than expected. I can't talk about the details because it is customer information, but we will do our best this fiscal year to sell multiple units.

**Participant 1:** Secondly, I would like to ask you about the profit in the PM business. Revenue in the second quarter was JPY45 billion in the PM business, and nearly JPY110 billion in the third and fourth quarters, so the average quarterly revenue will be about JPY56 billion. I have the impression that the effects of increased production will be felt even more in the second half of the year.

In that context, the OP ratio, which was 15.1% in the 2Q results, is expected to be 13.9% for the second half, so the assumption is that the margin will go down rather than up, which looks a bit strange. Do you forecast it conservatively, or is there any significant factor that will lower the profit margin?

**Togawa:** Basically, profits will rise due to the effect of increased revenue. As for the factors that will reduce or push down the profit margin, since the automated plant for dry vacuum pumps is now in full-scale operation, 100% of the depreciation will be taken into account, and we are also making some investments in increasing the production line and speeding up logistics facilities to increase production. So I think these factors will slightly reduce the profit margin. We are also increasing our workforce, so that is also the reason.

**Participant 1:** So You don't view particularly conservatively?

**Togawa:** We forecast reasonably.

**Participant 2:** Please explain the factors behind the increase or decrease in the Precision Machinery business.

I would like to ask about the movement of operating profit, which has a large weight in the profitability. Qualitatively, in the CMP project mix, you have indicated the effect of the operation of the automated plant on the profitability of the components. I understand that the improvement in components profitability is sustainable, so please tell us whether we can expect to see more growth in the second half of the year.

At the same time, in the explanation of the CMP project, there was a comment that some of the projects with low profitability were delayed. Please tell us the scale of the impact.

**Togawa:** As for the factors behind the increase or decrease, the CMP is rather larger than the components. In the area of components, we believe the automated plant will continue to contribute to the improvement of profitability as the operation of the automated plant will be in full swing.

In addition, the impact of the CMP mix has a certain degree of magnitude, but in the second half of this year, revenue will be much larger than in the first half, so the large increase in revenue will offset the negative impact of the mix.

**Participant 2:** Next, what is your plan for operating profit in the second half of the fiscal year for the FMS business? The plan has been changed based on the results of the first half of the fiscal year, but the projected profits for the second half of the fiscal year for pumps and compressors/turbines do not change significantly from the previous plan, if I am not mistaken.

Please explain in more detail how you see the risk of a slowdown in profits in the second half of the fiscal year, since I believe the progress has been steady in the first half.

**Noji:** One of the reasons for the good figures in the first half is the improved profitability of the custom pumps business and the compressors and turbines business.

Naturally, this effect is sustainable, and we believe that it will continue to be effective in the second half of the year.

On the other hand, we are concerned about the spread of COVID-19, especially in Southeast Asia and China, under the current situation.

To be more specific, in July, some of our factories in China were partially shut down due to COVID-19. In addition, we also factored in concerns about economic stagnation in China.

Comparing the first half and the second half, there have always been a large number of projects for public sector demand in the first half. In addition, some revenue was generated ahead of schedule in the custom pumps and compressors and turbines businesses. The second half figures are based on a combination of these factors. I think that the numbers are somewhat conservative.

**Participant 3:** First of all, if we look at the full-year order plan for the current fiscal year in the PM business, the amount of orders in the first and second half of the fiscal year will be almost the same. I think the environment for orders continues to be solid, but could you please confirm the background behind your assumption that orders will continue to be at the same level as in the first half?

**Togawa:** As for orders, we depend on the timing of our customers' investments, so we believe that the amount of orders we receive happens to be about the same.

**Participant 3:** In that case, is it correct to say that there is no particular change in the environment for investment on the part of customers?

**Togawa:** Yes. I think it's solid.

**Participant 3:** The second point is about EUV. In looking at the long-term business opportunities for EUV, should we basically expect demand to increase in line with the annual number of EUV shipments? Or can we expect replacement demand for existing EUVs that are already installed by customers?

**Togawa:** We have just started, so we don't have that many projects, but in the future we would like to have a 50% share of the market.

As for the question of whether the replacement of existing products or a new installation, we would like to capture the demand for EUV that will be newly installed in the future.

**Participant 3:** If that is the case, the annual shipment of EUVs is about 50 units, and I think it will be about 60 units next year, but if you said at some point that you would have a 50% share of the market, is that correct to think of 30 units per year?

**Togawa:** Yes. That's our target.

**Participant 3:** In the process of increasing your market share to 50%, what kind of triggers can be expected to increase your market share?

**Togawa:** I think that the timing of changes lithography in EUV is when customers consider and evaluate which supplier's exhaust system to use. When such changes occur, we would like to get the information right and release evaluation equipment at the appropriate time, in order to gain an opportunity to be evaluated and increase our share.

**Participant 4:** First of all, with regard to the compressors and turbines business, revenue for the first half of the fiscal year was generally in line with the plan, but profit was JPY1.7 billion, whereas it was originally planned to be zero.

I would like to know if the major reason for the rapid increase in the profit margin of the compressors and turbines business is simply due to selective order receipt, or if there are any more factors of such effects.

**Noji:** Although selective orders were one of the reasons, rather the product business, was the one that led the improvement in profitability of the compressors and turbines business, especially in the first half.

Of course, profit margin for the projects are very good because we receive selective orders. In addition, effects of cost reduction measures and design automation have been appearing.

The on-time delivery ratio has become very high, and as a result, losses have been eliminated. We have been able to greatly reduce the costs that used to be incurred as loss costs.

Therefore, the awareness on the part of factories to meet delivery deadlines has changed greatly, and I believe that this has contributed greatly to the improvement of profitability.

**Participant 4:** The other thing is that the profit margin of pumps has also improved significantly. In particular, there has been a lot of talk today about custom pumps, but do you have anything similar to talk about here?

**Noji:** As for the custom pumps, we had get rid of problems the year before last and last year. These problems include unprofitable projects, risks or defects, and the fact that the delivery rate for custom pumps was not that high.

This is almost in line with the change in mindset at the compressors and turbines plants. We are determined to raise the on-time delivery rate, and we are now almost at 100%. The profitability of projects has been improved.

Naturally, we are trying to reduce costs and so on. On top of doing the positive activities, the negative factors have been almost completely eliminated. There are still things that can be improved, though.

**Participant 4:** In the mid-term plan, the target is 6.5% for pumps and 8.0% for compressors and turbines, but in the revised plan for the current year, you will already surpass both of these targets.

Do you already have an image that you want to earn 10.0% each?

**Noji:** Yes. We externally announced the E-Plan 2022 figures, but our internal target, or what we thought we should aim for, was 10.0%.

**Participant 5:** First of all, President Asami commented that the upward revision took into account the shortage of parts and materials, but I would like to know how the shortage of parts and materials has been addressed for this fiscal year.

**Asami:** I would like to talk about this in general.

First of all, the shortage of semiconductors has so far not interfered with the shipment of products, but at one time, when there was a worldwide shortage, there was a risk in standard pumps and precision products. We had to work hard to secure them so that the delivery date would not be affected. We were able to secure that.

At this point in time, the business impact on semiconductors across all of our businesses is not such that it will impact our ability to meet demand.

In particular, orders for precision products grew more suddenly than expected, and not only EBARA, but other equipment manufacturers are also experiencing the same situation.

The most important thing is to ship CMP systems and components in time to meet demand and customers' increased production. When demand started to rise around 2018, parts became even more unavailable than now, which happened not only with semiconductors but also with other more basic components. The effects of strengthening the supply chain at that time are becoming apparent. For now, I hope you understand that we are in a position to announce the revenue plan as we have explained.

**Togawa:** In response to the shortage of parts, we have been constantly developing 2 suppliers or 3 suppliers that handle similar products, can secure products with the same performance, and can manufacture the same products, and this has been effective.

In addition, many equipment manufacturers and manufacturers buy alternative products for semiconductors. If there is an alternative product available, even if the specifications are slightly different, we will redesign the product and make it available.

Also, in 2018, we had a lot of trouble procuring parts, but what we learned was that it is much easier to buy parts in the country where they are produced, rather than in Japan. The EBARA Group has bases all over the world, so we use the procurement departments of these bases to procure from such places.

**Noji:** In the case of pumps, there was a slight problem in obtaining some semiconductors.

In this regard, we have sales companies, factories, etc., for standard pumps around the world, so we have been able to mobilize the power of these companies and gather semiconductors. We have not had any delays in delivery or anything like that.

We believe that we will be able to obtain semiconductors during the next fiscal year, but as Togawa mentioned, we will also be looking for alternatives and working to make them available.

**Participant 5:** Secondly, I'd like to ask you to talk about the compressors and turbines. I would like to know if there is any change in the trend that customers are still finding it difficult to secure orders in the North American market as in the first quarter. In addition, I would like to ask you to comment on whether delays in investment in LNG and cryogenic pumps are still continuing.

**Noji:** Regarding the environment for orders for compressors and turbines, one of the major projects for products and services was delayed, and the order that should have been received by the second quarter was postponed to the fourth quarter.

However, I believe that the situation is gradually improving. We hope to receive orders firmly from the second half of this year to next year.

Orders for cryogenic pumps were good in the first half of the fiscal year. We have received orders worth several billion Japanese yen in addition to the plan, and in October this year, a new cryogenic pump plant will start operating near our current headquarters in Elliott, USA. This will be in full operation from the beginning.

**Participant 5:** Lastly, in the PM business, the gap between orders and revenue in the first half of the fiscal year was quite wide. The shortage of parts and materials mentioned earlier probably had nothing to do with this, so I don't think there is a problem in terms of production capacity.

**Togawa:** The shortage of materials has nothing to do with it.

The reason for the low revenue in the first half of the fiscal year compared to the orders received is that it takes several months from the time an order is received to the time revenue are made for the equipment. It's due to the impact of the time difference between orders and revenue.

**Participant 5:** Understood. By the way, is it correct to understand that the number of evaluation machines themselves is increasing?

**Togawa:** We are planning to release it as needed.

**Participant 6:** I would like to ask about business opportunities for CMP systems. In the future, when FinFET will be shifted to gate all-around, what kind of changes are likely to occur in the number of CMP processes and steps, and how should we think about business opportunities for your company as a result?

**Togawa:** In the case of FinFET and gate all-around, the difference is in the structure where the transistor is made, so we don't think that the number of units will change drastically or the situations where CMP is used will change. However, since more precise flattening is required, I believe that more advanced technology will be required.

**Participant 6:** Am I correct in understanding that this will not be a significant change in business opportunities for your company?

**Togawa:** Whether we can keep up with the technology or not will determine whether we are adopted or not. If we don't keep up with the technology, we will lose business, but if we go in advance, we will get larger opportunities.

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