

EBARA CORPORATION FY2021 Earnings Conference Q&A  
Q&A during earnings conference held February 14, 2022

**Participant 1:** First, I would like to ask you about the results of the previous fiscal year. Could you explain the difference in operating profit for the Environmental Plants business, Precision Machinery business, and other adjustments compared to three months ago?

**Asami:** In the Environmental Plants business, we have been negotiating with our customers on the specifications and solutions of the projects that we have already received orders for to meet their requirements. However, things didn't go as we had hoped, and we had to incur additional costs, which led to a decline in profitability.

As for the increase in the Precision Machinery business, the main reason is that revenue was posted ahead of schedule. In addition, the mix of projects has changed. The number of highly profitable projects has increased. Furthermore, fixed costs were lower than we had expected. Those have contributed to the increase in operating profit.

**Oh:** As just explained, in the Environmental Plants business, the additional costs for a project that will be completed in this fiscal year had a significant impact.

In addition, some of the private sector EPC projects experienced a slowdown in construction due to reasons given by the client, which resulted in a drop in operating profit.

**Togawa:** The big thing is the product mix of CMP. We sold a lot of profitable products, and in addition, we received a lot of orders for parts towards the end of the year. There was a rush of orders for profitable service & support projects such as remodeling projects.

**Hosoda:** We have been trying to reduce assets by selling underutilized assets for some time, and we sold some land in Japan that has not been used effectively.

**Participant 1:** Secondly, I would like to ask you about the Precision Machinery business. You explained that orders have been increasing more than your plan due partly to accelerated orders made, but the plan for orders for this fiscal year will decrease considerably. Especially, orders for CMP systems are expected to decrease by about 15%.

On the other hand, WFE outlooks that orders will increase by about 20% this year. I would be grateful if you could explain the gap between the market situation and your orders, including timing of recording revenue.

Also, while you received orders of JPY285 billion in the fiscal year under review, revenue is expected to be JPY240 billion. Is this due to bottlenecks, such as the semiconductor shortage?

I would also like to ask you to explain the gap between orders and revenue in the current fiscal year's plan.

**Togawa:** First of all, regarding the fact that orders seem to be decreasing this fiscal year, the reason for this is not that market conditions are declining, nor are we losing market share. The decline in the current fiscal year is simply due to the fact that we received more orders than we had expected in 2021, as customers made orders ahead of schedule. Last year's orders were about JPY250 billion, and this year's orders will be about JPY285 billion.

As for the second point, last year, we received JPY285 billion in orders, and this year's revenue is expected to be JPY240 billion. The gap is basically related to the production slots of CMP. We have built a third line last year, increasing our capacity by 1.5 times. The fourth line will start operating in April this year, and we plan to bring it to full production in August. Due to a slight delay in the timing of the expansion of production slots, we expect sales to be around JPY240 billion. In order to catch up, we would like to build up the line as soon as possible.

**Asami:** Orders placed ahead of schedule include orders with delivery dates in the future, and revenue from some order backlogs will not be posted in the current fiscal year, but in the next fiscal year.

**Participant 2:** Looking at your plan for the current fiscal year for the Precision Machinery business, if you make the assumption that the revenue of JPY240 billion will be recorded, I think considering the past revenue trend you should be able to generate a little more profit. Naturally, I understand that fixed costs will increase, but could you tell us the reason for the JPY36 billion operating profit in the current plan?

**Togawa:** In the current fiscal year, we will start construction of a new development facility, and in response to the increase in revenue, we plan to increase labor costs and the number of employees, not only in Japan but also overseas.

In addition, the depreciation of the automated plant will be 100% from this fiscal year, so there will be an increase in fixed costs for that, and the product mix of CMP will be slightly worse than last year in the current fiscal year. This is why we have made this profit plan.

**Participant 2:** In the press release issued today on the development and expansion of production and other facilities in the semiconductor production equipment business, it is stated that the production capacity will be expanded by a factor of 1.5 compared to the previous level. It is stated that the construction will be completed in June 2024, but if it is fully operational, what should we expect in terms of sales potential?

**Togawa:** Basically, the production capacity will increase by a factor of 1.5, so if we can sell that many more products, we will naturally be able to increase the number of service and support parts, which will increase revenue accordingly.

**Participant 2:** Do you mean, for example, that revenue for the current fiscal year will be increased by 1.5 times?

**Togawa:** There is no problem in thinking that way for the equipment business.

**Participant 2:** I'd like to know about this guidance's approach to profit in the Fluid Machinery & Systems business. It seems that the YoY growth rate differs in the first half and the second half of the year. In particular, I think that the profit plan for the first half of the fiscal year for the Fluid Machinery & Systems is lower than the results for the previous year. I think this is probably because the operating profit forecast of pumps is a little conservative compared to last year. Please tell us the background of this.

**Noji:** For one thing, there were some parts for the standard pumps that could not be procured at the end of last fiscal year, especially in December, so there were delays. The impact of the shortage of parts, etc., will probably remain in the first half of this year.

As for the custom pumps, we are seeing that the price competition is getting fierce, especially among the pumps that are used for Oil and Gas in China, and the profitability is expected to become worse. However, based on the results of the first and second quarters, if the impact of the delay is eliminated or the impact of China is not as great as expected, we may be able to see an upside to the first half results. On the whole, we have been conservative.

**Participant 3:** First, you mentioned that, in the Fluid Machinery & Systems business, procurement of parts and materials became difficult and delivery dates were delayed, and the impact of higher prices of raw materials was also seen. For the other businesses and your company as a whole, could you please explain what impact you expect compared to the results of 2021 and the plan for the new fiscal year?

**Togawa:** In the Precision Machinery business, for 2021, I felt that the lockdown caused by COVID-19 in Southeast Asia in September and October made it difficult to purchase and procure parts at once. However, Ebara Group has bases all over the world, and we have managed to overcome this situation by using not only our domestic procurement department but also the procurement departments of our group companies to search for products from all over the world, and also by making design changes.

For this fiscal year, I think this situation will continue for a while, so we will continue to do the same thing. By closely monitoring the procurement status not only of our suppliers, but also of sub-suppliers, we hope to somehow avoid inconveniencing our customers.

As for prices, although they have skyrocketed, we managed to keep them within the range of our efforts last year. If there is a further price hike this year, the first thing we will do is to do something about it through our corporate efforts, but if the price rises further, we may need to consider what the appropriate price is.

**Ohi:** In the Environmental Plants business, as you know, we mainly purchase equipment rather than materials. Some of the procurement costs for a project were slightly exceeded the budgets, but overall, we have not been affected too much.

**Noji:** The best thing we can do to cope with the rising cost of parts and materials is to raise prices. At the end of last year, we were slightly affected by the sharp rise in the price of materials, especially in Europe, where the price of stainless steel suddenly soared. Since we have already passed on the price increase to our users, we don't think that will have any impact this year.

**Participant 3:** If that is the case, in the Precision Machinery business, basically you are planning to offset the impact of higher costs, such as the high cost of raw materials, by passing them on to customers through price increases, is that correct?

**Asami:** I think that is one option, but since we have competition, we would like to think about lowering the price somehow.

**Participant 3:** Secondly, I would like to ask about the exhaust systems for EUV lithography systems in the Precision Machinery business. Could you explain the results of orders and revenue in the period under review, and also how much expansion you expect in FY2022?

**Togawa:** First of all, last year, we were able to receive orders and post revenue as planned. This year, we would like to achieve revenue of more than JPY1 billion.

**Asami:** Last year, we were able to achieve sales of several units, and this year, we're trying to raise that to more than JPY1 billion.

**Participant 3:** In order to increase revenue to more than JPY1 billion, how many units will be ordered and sold this fiscal year?

**Asami:** I'd like to refrain giving you specific figures.

**Participant 3:** Is it correct to assume that orders and revenue will both increase YoY?

**Asami:** Yes, we are planning to do so.

**Participant 4:** I would like to ask you two questions about the Fluid Machinery & Systems business.

First, I'm looking at the sales revenue by region on page 30 of the document. Which direction is the revenue plan of the Fluid Machinery & Systems business for 2022 heading, up or down?

**Noji:** In the Pump business, the impact of COVID-19 is disappearing worldwide, so we believe that revenue will increase in all regions.

As for Chillers, revenue in China will be about the same as last year's level, while revenue in Japan, including overhauls, will grow.

As for Compressors and Turbines, although there are signs of a lull in China, growth is expected in the Middle East and India. I don't think there will be regions where revenue decline.

**Participant 4:** Is it difficult to make a higher revenue?

**Noji:** We have made a plan assuming that the negative impact of the delay due to the shortage of parts in the Standard Pumps business in December last year will remain throughout the first half of this fiscal year. As I mentioned earlier, in a sense, we set a conservative plan.

**Participant 4:** Secondly, you mentioned several times that the capital investment of Oil and Gas is recovering due to the rising oil price, but I'm wondering if the capital investment will actually increase straight away this time like it did in the past when the oil price rose.

People who are concerned about environmental measures are not happy about capacity building, so should we consider that although investment will increase, it will be more environmentally friendly investment or investment in energy conservation? Or should we understand that there will be capacity building? How should we view the impact of crude oil prices on capital investment?

**Asami:** When the oil price rises, the industry becomes more active. In this context, the upstream area will be particularly active. However, due to the issue of carbon dioxide emission regulations, the situation of investments will vary.

However, since the Compressors and Turbines business is for a Downstream business, it will not be affected much by the upstream effects of the rising oil prices, and we expect the Downstream business to remain almost the same as last year.

In the Downstream business, the carbon dioxide emission regulations have not had much of an impact so far, so we expect the situation to remain on par with last year. In terms of regions, however, I think that investments in China will decrease slightly and in India and the Middle East will increase.

**Participant 5:** This year's guidance was a little bit conservative. Is this because it is Mr. Nagata's first year?

**Noji:** No, we don't take that into consideration very much.

**Participant 5:** Mr. Nagata, is there anything you would like to say? You're newly in charge.

**Nagata:** Yes. Although we will continue the Mr. Noji's policy, I personally think that we will need to change our business model in the medium to long term from selling products. I don't expect to see results in just a year or two, but I would like to direct the Fluid Machinery & Systems business in that direction.

[END]