

**FY2024 Fourth Quarter Earnings Conference held February 14, 2025****Summary of Q&A****Respondents:**

Masao Asami	Director, President, Representative Executive Officer, CEO & COO
Shu Nagata	Executive Officer, President, Building Service & Industrial Company
Takanobu Miyaki	Executive Officer, President, Energy Company
Isao Nanbu	Executive Officer, President, Precision Machinery Company
Shugo Hosoda (Hosoda)	Executive Officer, CFO

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**Questioner 1:** My first question is about CMP. The order volume for Q4 FY2024 (October-December) did not meet the company's plan, could you touch on the reasons for this, and explain your outlook for global players and China, considering the FY2025 forecast shows an increase in order volume. Could you explain your outlook for global players and China?

**Nambu:** We couldn't achieve the plan due to the postponement of our customers' investment plans, but since the investments have been deferred to FY2024, the order plan for CMP in FY2025 is high.

**Questioner 1:** Just to confirm, is it correct to assume that the order delays were primarily due to global players rather than a larger-than-expected decline in China?

**Nambu:** In that sense, both Chinese customers and global players pushed investments into FY2025.

**Questioner 1:** Next, regarding the Energy Segment, to what extent have LNG projects been incorporated into this year's order plan? There are several LNG projects in the US expected to start. What impact will this have on your performance? Also, the Energy Segment's operating profit margin has been improving recently. Looking back at the past year and the medium-term management plan, what factors have contributed to this improvement, and what could further enhance it? I would like to know if you have hit the upper limit.

**Miyaki:** Regarding LNG, last year, the previous US administration and the transition period to the new administration led to a slowdown in projects that were already close to approval but remained pending.

For this fiscal year, we anticipate that some of the delayed projects will receive approval and move forward, leading to orders from customers. As a result, we expect to see more projects related to compressors and cryogenic pumps for LNG applications compared to last year. These projects have already been factored into this year's order plan, with specific named projects included in our forecast.

Regarding operating profit margin, improvement has been a key focus. During the E-Plan 2022 period, before the formation of the Energy Company, we prioritized profitability improvement as a primary objective. This focus has continued under E-Plan 2025. We improved business processes and better promoted the value of our products to customers. Additionally, before securing orders, we adopted a front-loading approach, conducting design work in advance to ensure higher accuracy and quality in order selection. In summary, by improving the profitability of the product business, we have been able to achieve substantial improvements in profit margins.

During the E-Plan 2022 period, operating profit margins were in the mid-single-digit range, but as of now, they have improved significantly to around 12% to 13%.

While we may not achieve such a large improvement again, we aim to maintain or slightly improve our profit margin while investing for the future.

**Questioner 1:** Lastly, I would like to ask about the profit outlook for the Precision Machinery Segment in FY2025 guidance. Setting aside orders received and revenue, the company's plan assumes a YoY revenue increase of JPY21.6 billion. Given the high marginal profit ratio, it would seem reasonable to expect both profit and market share to grow. However, the forecast indicates that profit will remain largely flat. Could you explain the reasoning behind this projection? I assume, as noted on slide 40 that higher R&D and depreciation expenses are the main factors, but I would appreciate it if you could elaborate specifically on the profit outlook for the Precision Machinery Segment in this guidance.

**Nambu:** Regarding the profit outlook for FY2025, as you correctly pointed out, depreciation expenses will increase significantly due to ongoing investments. Another major factor is the shift in customer investment trends from FY2024 to FY2025. In FY2024, investment in China was strong, but it is now stabilizing. At the same time, there is a notable increase in investments related to AI-driven advanced logic. This shift in the business mix is also having an impact, leading to a decline in gross profit margins. As a result, although we forecast an increase in profit for FY2025, it is limited.

**Questioner 2:** I have three questions.

First, what were the factors that led to the operating profit for FY2024 exceeding the company's plan? Specifically, why did the Energy and Precision Machinery Segments exceed expectations? Additionally, regarding one-time factors, in Q4, the Energy Segment recorded a gain on the sale of pension assets, which I believe was around JPY1.5 billion to JPY2 billion. Meanwhile, the Building Service & Industrial Segment recorded an impairment loss of around JPY600 million for Vansan in Q4, following a JPY6.4 billion impairment in Q3. Could you provide details?

**Miyaki:** As of November, the operating profit plan was JPY24 billion, but the actual result was JPY28 billion. Several factors contributed to this difference. One factor was cost reductions toward the end of the fiscal year, along with foreign exchange effects. Another was the high factory utilization rate, which allowed us to meet customers' requests for shorter delivery times by adjusting factory loads and our supply chain, leading to increased revenue and profits, especially for S&S parts. These were the main reasons for the positive variance.

In FY2024, the Energy Segment also had one-time factors such as gains from the sale of pension assets and land in Nevada.

**Questioner 2:** What was the volume of the pension asset sale gain?

**Hosoda:** Compared to the plan, it was about JPY1.5 billion to JPY1.6 billion higher. Compared to the previous year, it was a few hundred million yen higher.

**Questioner 2:** Why did the Precision Machinery Segment's Q4 operating profit exceed the plan?

**Nambu:** One reason was that S&S sales and operating profit significantly exceeded expectations due to high customer utilization rates. S&S has a very high profit margin, so the increase in revenue led to a substantial rise in operating profit. Another reason was the reduction of fixed costs, as we did not use some of the initially planned development costs. These two factors resulted in a positive variance of about 5.1 billion yen.

**Questioner 2:** For my second question, I would like to revisit the CMP order forecast for FY2025. If possible, could you break it down into logic, memory, and China, and explain how you expect orders to increase or decrease compared to the previous fiscal year? Also, what are the proportions for China in FY2024 and FY2025?

**Nambu:** In FY2024, orders and revenue in China were about 30%. For FY2025, while I can't provide specific numbers, we expect a significant decrease from around 30%. Additionally, compared to FY2024, we expect a substantial increase in logic and foundry orders while memory orders will see a slight increase. Overall, we anticipate a decrease in orders from China and a significant increase in logic and foundry orders, with a slight increase in memory orders in FY2025 compared to FY2024.

**Questioner 2:** There is a difference in the order plans for components and CMP in the Precision Machinery Segment. Could you explain this difference? I assume CMP includes some large new investment projects, leading to this difference.

**Nambu:** The order trends for FY2025 show a significant difference between components and CMP. One reason is the different customers we have for components and CMP. Due to the mix of customers, component orders are not expected to grow much in FY2025.

Although orders from China will decrease in FY2025, they will remain at a certain level. In China, we are still in the stage of increasing our share for components, so the plan is conservative. These factors contribute to the difference in order trends between CMP and components for FY2025.

**Asami:** To add to that, as you mentioned, CMP orders tend to fluctuate significantly depending on whether customers with whom we have a high market share decide to invest. On the other hand, Components, mainly dry vacuum pumps, closely follow the overall trends in semiconductor capital expenditures. Additionally, the extent to which we successfully increase market share determines whether the segment's growth can exceed the broader market trend.

**Questioner 3:** The operating profit margin for the Precision Machinery Segment is expected to decrease from 18% to 17% in FY2025. Considering the increase in fixed costs due to the construction of an R&D building and the significant decrease in the proportion of China, how reliable is this margin? Should we understand that the profit margin for customers investing in advanced logic is high? Could you explain the likelihood of achieving this profit margin and what will drive it?

**Nambu:** Your understanding is correct. Higher depreciation expenses from ongoing investments and a declining share of China are both contributing to the lower operating profit margin in FY2025. I also understand your question as implying whether 17% might actually be too optimistic given these negative factors.

As you pointed out, 17% is indeed a high figure considering the expected decline in China's share, and we are fully aware of this. We believe that the improvement in profit margins from investments in advanced logic, continued cost reductions, and high customer utilization rates will help us achieve the 17% operating profit margin. Additionally, maintaining or increasing the S&S ratio will also contribute to higher margins.

**Questioner 4:** I have two questions, one regarding Precision Machinery and the other about Energy.

First, regarding the order environment for Precision Machinery, would it be correct to understand that compared to three or six months ago, the overall scale has remained largely unchanged, but with a shift, China declining while global players have increased?

**Nambu:** That's correct.

**Questioner 4:** For the Energy Segment, the order and revenue plans for 2025 are lower than for 2024. However, you mentioned earlier that there are positive factors, such as projects deferred from 2024 and upcoming projects in the US. What are the reasons for the decline?

**Miyaki [A]:** For new products, we expect an increase in orders, especially for LNG projects. However, in FY2024, we received large modification orders (efficiency improvements and major overhauls) for S&S, which we do not expect to see in FY2025, which is one of the main reasons for the expected decrease.

Another factor is that, in FY2024, parts sales remained stronger than expected, but we anticipate that in FY2025, they will return to normal levels. As a result, while there will be an increase in new products, the lack of large, engineered solutions, such as the modifications mentioned earlier, leads to a decrease overall.

Regarding revenue, as you mentioned, the market environment is not negative, but the decline can be attributed to the fact that new product orders in FY2024 were concentrated in Q4. This means that those orders will contribute to progressive revenue, so some of the revenue will shift to FY2026 instead of FY2025.

Additionally, in S&S, the orders in FY2024 for field services are actually for large-scale repairs and turnarounds expected in FY2026, so they will not contribute to FY2025 revenue. As a result, both orders and revenue are expected to decline compared to FY2024.

**Questioner 5:** I have one question about the "others" category within the Precision Machinery Segment. Orders and revenue increased in FY2024 and are expected to continue growing in FY2025. What products are driving this growth?

**Nambu:** The "others" category includes orders and revenue for two specific products: electroplating equipment and bevel polishing systems.

**Questioner 5:** Could you explain what demand is driving this growth?

**Nambu:** Our electroplating equipment is primarily used for packaging applications. Currently, there is significant growth in wafer-level packaging, which is used in conjunction with logic chips and high-bandwidth memory chips (HBM), such as those used in generative AI. These chips are being integrated and packaged together, driving the demand for our plating equipment.

As for the bevel polishing systems, these are used in the production of silicon wafers, which are essential for semiconductor manufacturing. The demand is increasing due to the need for high integration through wafer bonding. Our equipment provides solutions to issues such as edge defects and bonding problems, which is why customer inquiries are strong.

**Questioner 5:** So, the increase in generative AI investment is driving the growth in electroplating equipment, and the demand for bevel polishing systems is being fueled by advancements in wafer bonding technology. Is that correct?

**Nambu:** That is correct.

**Asami:** In August, during the explanation of the first half results for FY2024, we discussed the accumulation of HBM and other generative AI-related memory. This is the same context.

**Questioner 6:** My first question is regarding the Building & Industrial Segment. On page 19 of the materials, it states that the domestic building and industrial markets are performing well, but page 10 indicates a slowdown in Japan's GDP growth rate. Is the strength in FY2024 also due to the growth in S&S rather than product demand? Additionally, the overseas markets in the Americas and EMEA (Europe, Middle East, and Africa) are strong. Is this related to data centers?

**Nagata:** The growth in the domestic market is due to our focus on S&S, including the new Ebara Maintenance Cloud system, which also contributed to increased revenue. We expect this growth to continue in FY2025.

In the Americas, data center demand is mainly strong in North America, particularly the US. For EMEA, Italy and Turkey are performing well. Despite the goodwill impairment in Turkey in FY2024, we expect a significant recovery this year, contributing to the growth in the EMEA region.

**Questioner 6:** My second question is about the Energy Segment. Since becoming the Energy Segment, the Book-to-Bill (BB) ratio has been consistently high. Why has the BB ratio remained high for the past three years? When are the orders recognized as revenue?

The performance data for the Energy Segment indicates three years, including the forecast for FY2024, but my main question is whether maintenance contracts are renewed annually or if they are multi-year contracts recognized as orders and then gradually recognized as revenue. Given the consistently high BB ratio, when will the orders be reflected in revenue?

**Miyaki:** I understand your question to be regarding S&S revenue.

Regarding S&S, there are different types within this category. One type is repair, where we perform repairs on customers' equipment at our service centers. The second type is field services, where we send personnel to the site to perform tasks such as installation, maintenance, or inspection at the customer's location. The third type is parts. This involves receiving orders for parts and supplying them to customers. Lastly, there are large-scale improvements, which involve upgrading equipment that has been in operation for many years. For example, a customer may want to improve efficiency after 20 years of operation or update to the latest control and instrumentation systems.

These four types of work are what we consider S&S and for each type the timing of orders and revenue recognition differs. For instance, parts are recognized as revenue when shipped, while large-scale repairs are booked as progressive revenue. In addition, for field services, even if a customer placed an order in FY2024, the revenue is not immediately recognized but instead booked for FY2026 when the major repairs are carried out. Therefore, depending on the project, there are some differences in how revenue is recognized.

Additionally, we handle orders on a project-by-project basis, not as multi-year contracts with annual revenue recognition. This business model minimizes the gap between orders and revenue.

**Questioner 6:** Thank you. Lastly, I have two questions regarding the Precision Machinery Segment. First, regarding the missed orders in Q4, I believe they were over JPY200 billion. Is it likely that this will be recorded all at once in Q1 of this year? In other words, while Q1 usually does not have much seasonal fluctuation, would it be correct to expect a significant amount of orders to be recorded in Q1, given the potential for delayed bookings?

**Nambu:** Not all of the orders deferred from the FY2024 plan will be recognized in Q1 FY2025. We expect these orders to be distributed throughout FY2025. So, at this point, we don't anticipate a particularly high level of orders in Q1.

**Questioner 6:** My second question is about electroplating equipment, which is in high demand for packaging. What opportunities are there for CMP in advanced packaging?

**Nambu:** CMP is also emerging in advanced packaging applications, such as CoWoS and HBM.

CoWoS involves placing multiple chips on an interposer, which requires planarization to address the steps created during deposition.

HBM currently involves chip-to-chip bonding, which also requires planarization. As we move towards wafer-level bonding, planarization will be necessary before bonding. Therefore, we expect CMP demand to grow in advanced packaging.

**Questioner 6:** Has CMP for advanced packaging already been shipped in FY2024, or is it expected to start in FY2025?

**Nambu:** While I cannot specify the applications, we have already shipped CMP for advanced packaging in FY2024, although the volume is small.

**Questioner 7:** Why is the order plan for the Precision Machinery Segment in FY2025 skewed towards H2? Is the decline in orders from China larger in the H1 and smaller in the H2?

**Nambu:** We expect orders to increase in H2 of FY2025. Currently, investments related to generative AI are very strong, and we anticipate that the semiconductor market will improve in the H2 of FY2025, leading to higher orders.

**Questioner 7:** Is the difference in profit margins between H1 and H2 due to a higher CMP ratio in H2, resulting in a higher margin in H2? Page 31 of the materials shows a profit margin of 14.3% in H1 and 19.4% in H2, which is a significant increase.

**Nambu:** One reason is the higher proportion of CMP sales in H2.

**Questioner 8:** I have one question about CMP. You mentioned that advanced equipment investments will increase in FY2025. In conversations with foundry customers, have you heard that the number of CMP layers is increasing, and the investment intensity for CMP is rising compared to previous processes? Additionally, is there an increase in metal layers, which EBARA specializes in, in advanced processes? Could you explain the business opportunities for EBARA in advanced processes?

**Nambu:** As technology nodes advance, the number of fine wiring layers continues to increase. Along with this, the number of layers requiring planarization also increases. Thus, the CMP layer count tends to increase as nodes progress.

Regarding intensity, it is not just CMP that increases; deposition processes also expand in parallel. Overall, as the semiconductor process advances, the entire ecosystem grows, and CMP layer counts increase accordingly.

In terms of the types of additional layers, it is not only metal layers that increase. However, among the growing number of layers, the proportion of metal layers is significant. Given that we have a strong expertise in metal, we aim to leverage our strengths to capture growth opportunities and expand market share in this area.

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