

EBARA CORPORATION FY2024 First Quarter Earnings Conference Q&A

Q&A from earnings conference held May 14, 2024

Respondents

Executive Officer, CFO (Responsible for IR)

Shugo Hosoda (Hosoda)

Participant 1: You mentioned in the explanation that operating profit for 1Q are generally as planned, but I would like to ask further if they exceeded expectations in terms of foreign exchange and gains on sales of land.

Is it possible to disclose the amount of gain on sale of land in the Energy Segment and the loss on retirement of the building at Fujisawa, shown on page 7 of the materials, and whether these were included in the plan for the full year. Please explain 1Q operating profit in more detail.

Hosoda: The gain on the sale of land in the Energy Segment and the loss on retirement of a building at the Fujisawa District were included in the plan from the beginning. The gain on the sale of land in the Energy Segment is the result of the sale of land in Nevada that was no longer needed due to the relocation of a former cryopump plant in Nevada to Pittsburgh, where Elliott is located.

The impact on operating profit, roughly around JPY1 billion, was recorded in this 1Q as a gain on sale of land. Operating profit was within the range of expectations, however, the assumed exchange rate of JPY140 was used for the planned exchange rate, so the foreign exchange gain was unexpected, and resulted in an overall foreign exchange gain of about JPY900 million.

Overall, we view the results as progressing according to plan, however, we have made some slight adjustments to the landing point for 1H of the fiscal year. We have made a little more operating profit in 1Q than we planned and have reflected that in the 1H forecast.

Participant 1: My second question is about 1Q orders for Precision Machinery, if you look at the year-on-year progress, there has been a recovery, but compared to the plan seems to be low, and is down compared to last year's 3Q (July-September) and 4Q (October-December). I assume there is no need for concern, but I would like to hear your analysis regarding this.

Also, the forecast for orders in 1H has also been lowered, please explain whether there is any need to be concerned about timing issues.

Additionally, regarding operating profit, you mentioned there was a shift from 1Q to 2Q due to process acceptance tests (PAT) for CMP, would you include in your explanation how much revenue shifted between 1Q to 2Q?

Hosoda: 1Q orders in the Precision Machinery Segment increased about JPY20 billion from the same term in the last fiscal year. If looked at sequentially by quarter, it seems lower but compared to 1Q of last fiscal year orders in CMP have increased substantially. Last year in the same period there were cancellations in CMP, so we take this change as a sign of stability indicating a favorable trend. The ratio of S&S is increasing more than anything else is a sign of positive momentum. When a customer's factory utilization rate increases, S&S services, such as overhauls, grow first, and then, when the customer's factory reaches a certain level of utilization, they will invest in equipment.

Participant 1: The orders target for 1H has been slightly lowered, should I be concerned?

Hosoda: The orders target for 1H was shifted to 2H, simply due to the projected timing of orders.

Participant 1: Also, can you give us an idea of the amount the process acceptance test delay comes to?

Hosoda: We have already delivered a fair amount of equipment to our customers, and in such cases, we receive advances from them, so we are in a good cash flow situation.

However, since customers perform PAT on equipment other than ours as well, the customer has their own timing considerations. The situation is such that the amount of equipment (awaiting acceptance inspection) is increasing on the customer side.

The number of units that have been shipped but have not yet been inspected has increased by dozens compared to the end of the previous quarter and is up compared to the end of 1Q last year. However, acceptance inspections are scheduled to be completed and it is simply a matter of time until we can recognize the revenue. We have already received advance receipts, so there is no cash problem, and are essentially in a situation where revenue will continue to increase steadily as inspections progress.

Participant 2: I would like to ask two questions.

First of all, I would like to ask for more information about orders in the Precision Machinery Segment. I think you mentioned earlier that orders for CMP are increasing year-on-year. Looking at quarter-on-quarter, I see that orders have dropped by more than JPY10 billion from JPY41 billion in 4Q, is this due to weak demand in some area? If so, where? You mentioned earlier that demand from Chinese customers is strong, so does that mean somewhere outside of China?.

Could you please provide a supplemental explanation of the prospects for recovery of orders in the future, divided by region and customer type (logic and memory)?

Hosoda [A]: Compared to 4Q, there has certainly been a decrease, but as I mentioned earlier, we believe this is due to the timing of customer orders, not an essential change.

It is difficult to say specific regions that have decreased because the number of customers is small, but China continues to be relatively strong, whereas outside of China is trending slightly down.

Regarding logic and memory, considering the current situation, the recovery of memory is still a little slow. Once memory is back in full swing, recovery will really regain momentum, but that is the situation at present.

Participant 2: Compared to three months ago, has your impression of the state of memory recovery changed? Is it assumed to be happening later now?

Hosoda: We have not particularly changed our stance on the state of recovery from three months ago. We believe it is due to the timing of customer orders.

Participant 2: I would like to ask one more question about Precision Machinery's operating profit. Looking at the breakdown of changes in operating profit for 1Q (page 14 of the materials), it seems that profitability was low in the previous year, but there was a positive effect this term, pushing the plan for operating profit in 1H up by JPY1 billion. I would like to ask if the operating profit of Precision Machinery in 1Q was better than expected.

Also, I think another positive factor on profitability is the increase in the service and support ratio you mentioned earlier, but is there anything else that is having a positive effect on the project mix and improving the outlook for profitability there? Please confirm this point.

Hosoda: Progress has been roughly in line with expectations, but as to whether it is positive or negative, I think for Precision Machinery operating profits it was slightly positive.

As for the positive factors affecting profitability, those would mainly be improved project mix and the rising S&S ratio.

Participant 2: Would it be correct to assume improved project mix is having greater effect than was originally anticipated?

Hosoda: Yes, largely as expected, but I would say slightly stronger than anticipated.

Participant 3: For my first question, I would like to hear your assessment of the S&S revenue ratio for the Energy Segment.

I believe you said in the initial plan that the Energy Segment's S&S ratio would decline this fiscal year, and I would like to know if the 1Q ratio is in line with the original forecast. If the S&S ratio is higher than expected, is there room for an upward swing in operating profit in 2H?

Hosoda [A]: The S&S ratio for the Energy Segment has decreased significantly compared to the same period last year, from 60% to 51% in 1Q. This is in line with our forecast and even a bit higher than anticipated. Therefore, it is certain that this slightly contributes positively to operating profit.

On the other hand, customer inquiries about our services in 2H of the fiscal year are on a downward trend, and we do not anticipate any major changes in our outlook for the full year.

Participant 3: Second, please explain a little more about the difference in operating profit between 1Q and 2Q for the Precision Machinery Segment.

Although this is a subtraction from the revised profit, I believe that the profit level will be rounded up one notch in 2Q compared to 1Q. Of course, this may be due to the increase in revenue, but could you explain the probability of achieving the 2Q forecast, while touching on changes in profitability or costs, such as whether costs are more likely to be incurred in the 1Q, etc.

Hosoda: Simply put, this comes down to the effect of increased revenue and project mix. The timing of revenue recognition for each project is accumulated and included in our forecast, and we expect to recognize an overall better mix of projects in 2Q.

Participant 3: So, if the revenue of the equipment that is currently awaiting acceptance inspection by the customer is in line with your plan, there is basically nothing to be concerned about, is that correct?

Hosoda: Yes, you are right.

Participant 4: I would like to ask about how to view the orders for Precision Machinery.

At the beginning of the term, EBARA came out with a fairly strong orders forecast, so that is the source of my expectations, and I am glad to see that your company is flexible in updating its quarterly

results forecasts, but I am also a little concerned about the impact these revisions have on the full year.

How much can we trust the figures given for the orders forecast? Are you saying that you have received plans from customers for the full year, but not the quarterly amounts, and that is why it is hard to get a read? I am sorry if this is a basic question, but I would like to know how reliable the orders forecast is and whether it is common for the forecast to fluctuate.

Hosoda: Yes, it is true that the status of orders in the semiconductor industry is, generally speaking, difficult to read. However, we do not make order forecasts on a macro basis, but rather on a micro basis, using the results of our efforts with each customer in each region, as a foundation.

But it is definitely a market that can change often, including customer expectations. However, when we look at the bigger picture and consider the situation in which our customers' factory utilization rates are increasing, as well as the general talk in the semiconductor industry and AI, there is little doubt that we are now in a phase of increase.

In that sense, it may be difficult to accurately predict the timing, such as whether a full-fledged recovery will take place in 3Q or 4Q, or the beginning of the next fiscal year. There is some rationale for seeing a full-fledged recovery in 2H.

Participant 4: I see. Summing it up, the original forecast had the recovery happening in 2H, but the revision to 1H and the full year is based on 1Q results and 2Q outlook, which didn't quite go as well as expected, but whether there will be a full recovery in 2H is not yet known, and so there will be no changes to the full year forecast. Is that correct?

Hosoda: You may take it that way.