

FY2024 Second Quarter Earnings Conference held August 14, 2024

Summary of Q&A

Respondents:

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| Masao Asami (Asami) | Director, President and Representative Executive Officer, CEO & COO; President of Precision Machinery Company |
| Shu Nagata (Nagata) | Executive Officer, President of Building Service & Industrial Company |
| Takanobu Miyaki (Miyaki) | Executive Officer, President of Energy Company |
| Teruyuki Ota (Ota) | Executive Officer, President of Infrastructure Company |
| Hideki Yamada (Yamada) | Executive Officer, President of Environmental Solutions Company |
| Isao Nambu (Nambu) | Executive Officer, Co-COO of Precision Machinery Company |
| Shugo Hosoda (Hosoda) | Executive Officer, CFO |
| Akihiro Osaki (Osaki) | Division Executive of Group Public Relations and Finance Division |

Questioner 1: First, I would like to ask you about your evaluation of your performance compared to the plan. Please give us some background on the operating profit on page six.

In particular, the operating profit from the Energy Segment is slightly short of the plan for H1 of the year, while the operating profit from Precision Machinery is above the plan. Could you please explain a little more?

Miyaki: The Energy Company's planned operating profit for H1 was JPY9 billion, and we achieved JPY7.5 billion. Revenue-wise we achieved JPY92.6 billion versus the plan of JPY96.5 billion. H1 revenue was largely driven by product sales, but deliveries of some key components from suppliers were later than planned for in May which affected our revenue, driving operating profit lower than the plan.

We expect to catch up with such delays in deliveries from suppliers throughout the year allowing us to achieve our original plans for revenue and operating profit for the full year.

Nambu: In the Precision Machinery Segment, operating profit for H1 was JPY19.2 billion, JPY2.2 billion higher than the JPY17 billion planned. For one thing, customer fab utilization rates are much higher than expected, and the S&S ratio has increased considerably, which has led to an increase in profit margins.

For another, fixed cost increases planned for H1 of the year were slightly delayed to H2, so not much fixed cost was incurred in H1 of the year. Those two points together caused operating profit to exceed the plan by JPY2.2 billion.

Questioner 1: Second, could you give us your assessment of the order volume for Precision Machinery, broken down into CMP and components?

While the overall precision machinery segment on a consolidated basis appears to be making solid progress, the trend in CMP, both versus plan and YoY, seems different from that of components, which showed the solid performance.

You mentioned that the utilization rate of components is good, but could you please reiterate your current understanding of the probability of CMP orders in H2 of the year?

Nambu: While we have achieved the H1 plan for components, orders have fallen slightly short for equipment, although we expect the orders to build up in H2 of the year.

The reason for that is that the customer mix is slightly different between components and equipment, and we anticipate that customer investment in equipment will increase toward H2 of the year. As a result, we have adjusted the order intake to place greater emphasis on H2.

Questioner 1: Can I get some further clarification about that. Regarding CMP customers, are there variations in inquiries from customers in different regions such as Asia versus customers in Japan, or and other leading-edge manufacturers and is this factored into the current plan? While I understand mentioning specific customer names is difficult, could you provide additional information on the status of inquiries and the likelihood of orders by region or customer segment?

Nambu: I think you probably want a more detailed explanation of the differences in customer mix that I mentioned earlier. Basically, the equipment has a slightly higher percentage of Chinese customers, and that has had a slight impact.

Additionally, the increase in investments related to generative AI, such as HBM, tends to benefit equipment more, which is another reason for the observed trend.

Asami: If I may add additional information, this has to do with the characteristics of our component and CMP product lines. Components, primarily dry vacuum pumps, are used in a variety of vacuum-based equipment, and demand increases and decreases in line with investment trends in the industry's manufacturing equipment.

For CMPs, our products are predominantly used in the wiring process, which is a part of the front-end semiconductor manufacturing process. As a result, the timing tends to lag slightly behind the overall investment trends in equipment.

Questioner 1: Lastly, on page 21 of this presentation, you explained the demand for products related to generative AI. Given that the demand for generative AI has become a significant industry topic recently, how much of this new demand has been incorporated into the medium-term management plan, E-Plan 2025?

Could you please tell us, if possible, with figures, about areas where demand is stronger than expected and if there is room to exceed the plan, and areas where it is not.

Nambu: Yes, demand growth related to generative AI is already incorporated into the plan to an extent.

Questioner 2: I have three main questions.

First, this overlaps slightly with the other questions, but I would like to ask you about your approach to CMP orders. Following 1Q, orders were almost flat QoQ in 2Q, and were a bit weak compared to the plan. Can you really expect a recovery in H2 of the year? We had a similar discussion three months ago, but I would like to know your thoughts.

Also, you suggested that demand from China may be a bit weak. Can you tell us if there has been any change in the competitive environment with local equipment manufacturers?

Asami: As I mentioned earlier, investment ramp-up tends to be somewhat slower in CMP compared to components.

Nambu: I believe you are asking about the newly added quarterly trend figures where the difference between Q1 and Q2 is hard to see.

Looking ahead to Q3 and Q4, we are seeing signs of investment for generative AI, and are confident that orders will increase steadily in H2 of the year.

If I may add to my earlier response regarding products for China, comparing components to equipment, I explained that the demand for components is slightly weaker than that for equipment, but that does not mean that we view demand for equipment weakening in the future.

We are of course aware of the rise of local manufacturers, and we believe that the environment will continue to become more competitive.

Questioner 2: I would like to ask a supplemental question.

As background to my earlier question about China, I believe you explained three months ago that the decrease in orders in China was a major factor in the 30% QoQ decrease from JPY41 billion in FY23Q4. To confirm, do you believe EBARA is not losing market share, but simply has a problem of investment timing in China as well?

Nambu: Yes, we believe it is a timing issue.

Questioner 2: Additionally, while there was discussion about the demand for generative AI, are there any other applications where you foresee changes in customer investment trends as we move into H2 or into the next fiscal year? If possible, could you provide insights on this by segmenting into logic and memory?

Nambu: Generative AI is of course the biggest topic, but we are also seeing stronger demand for enterprise and server applications.

We focused on chipsets for generative AI as a topic this time, but we also expect that demand for SSDs and other products for servers will increase in the future.

Asami: I believe one change is that NAND flash prices have bottomed out and customers are now making positive comments toward investment.

Questioner 2: I would like clarification about one point concerning the operating profit of Precision Machinery.

Earlier, you explained that the delay of fixed cost into H2, higher service & support ratio, profitable projects, and other factors contributed to the increase in profit. I would like to believe this profit uptick will continue, but can you please tell us about the continuity of the improved project mix and how much fixed cost was shifted to H2?

Nambu: I cannot speak on the fixed cost shift at this moment. In terms of project mix, the increase in the S&S ratio due to the rise in customer fab utilization rates in Q1 and Q2 made a significant contribution. We expect that utilization rates will continue to rise in Q3 and Q4, and the probability that this will continue is quite high.

Questioner 2: Thirdly, I would like to ask you about the Energy Segment.

Regarding the environment for orders, you explained earlier that there has been no change in the market environment, but that there is a gap in the timing of investment decisions by customers for LNG projects. Orders appear to be a bit weak. Can you speak on whether catch-up is possible in H2 and whether the environment for orders will change.

Miyaki: Although cumulative results through Q2 did not meet the May plan, this is due to timing discrepancies from projected projects. Although the H1 results did not reach the plan announced in May, we believe that the orders will come within the year, and we will be able to achieve the full year order volume of JPY200 billion that was originally planned for at the beginning of the fiscal year.

In addition, the market environment for orders, not only for LNG and compressors and turbines, but for Energy in general, has not changed significantly from what we expected at the beginning of the fiscal year regardless of region, although there are some delays. Therefore, we maintain our full year forecast of JPY200 billion in orders.

Questioner 3: I have two questions.

First, I would like to ask about Energy. In H1, what were the factors that caused the customer delays in the first place? Also, did it happen in one or two cases or several more?

Miyaki: The delay is due to customer factors, mainly in LNG. LNG projects require a fairly large investment. This means that the timing of the client's order and the timing of the project composition depend on many things, this range of factors can then impact us in terms of the timing of orders and the timing of bidding.

For us as well, a delay in a single LNG project can have a significant impact on order volume, and we have experienced timing shifts with some projects.

Questioner 3: At the 1Q briefing, I believe it was explained that the reason for the weak orders in North America was the delay in S&S. Am I correct in my understanding that for 2Q, S&S was strong, but there were delays in products?

Miyaki: Yes, you are correct. In May, we had another project, separate from the one impacting results in 2Q, that was originally scheduled from the H2 but was moved up to H1, leading us to revise our H1 order plan upwards.

As of the end of June, as you mentioned, orders for S&S have been progressing well, but due to the large order sizes of certain products, timing shifts have impacted our results for this period.

Questioner 3: My second question is about the generative AI topic on page 21. Regarding HBM, can you tell us if the number of CMPs used per line is significantly different compared to conventional general-purpose DRAM?

Naturally, HBM requires CMP on both sides because of stacking, so the necessary number of CMPs increases. Or is there a separate CMP that is dedicated to HBM and the number of CMPs will not change much? I would like to ask if there is any difference in number and product technology between conventional general-purpose DRAM and HBM.

Nambu: HBM, often referred to as a package, involves stacking DRAM chips as shown in the image on page 21. Currently, these chips are stacked using microbumps for interconnection.

Based on the technology trend toward hybrid bonding for chip-to-chip wiring in the future, we expect the number of CMP applications to increase.

Then, as for the number of CMPs employed in making DRAMs, I think that the number of CMPs employed in the final finishing and backside, as well as in the crafting process for hybrid bonding, will increase more than before.

However, to the extent to which CMP is utilized in DRAM layers varies by customer, so I would prefer not to specify exact information.

Questioner 3: May I ask if there be any changes in CMP technology or the products themselves between the use of microbumps and future hybrid bonding? Or can I assume that it is just a matter of time?

Nambu: There have been no major changes in CMP technology itself, and we do not think that anything beyond what we have been doing is necessary.

Questioner 4: I have two questions.

First, the full-year plan for the exchange rate was JPY140 to the US dollar, so considering that Q1 and Q2 saw a weaker yen, it seems that, excluding the yen depreciation, operating profit fell a little short of the Company's plan. Could you clarify if there were any significant negative impacts, or if this is not something to be overly concerned about?

Asami: We do not see this as a serious situation. CFO Hosoda will explain the details.

Hosoda: To repeat my earlier explanation, operating profit increased by JPY6.1 billion from the previous fiscal year. Exchange rate impact was JPY2.5 billion. The planned exchange rate was JPY140, but since operating profit increased by that much compared to the previous year, we understand that there were other factors besides the exchange rate that improved profit.

Indeed, as you pointed out, when compared to the plan, operating profit ended up almost as planned, so it can be seen as slightly lower than expected. As we move into H2, we are closely monitoring the exchange rate impact, especially with the plan still assuming JPY140 to the dollar.

Overall, there was no change from the planned level, and we do not believe we missed the mark by a serious level.

Questioner 4: Second, I would like to ask about Precision Machinery orders in China. It was commented that component orders are somewhat weak but not equipment. You said that the appetite for investment related to generative AI and NAND will also improve through H2. If you divide your China business into components and CMP, do you see differences in the order trends?

Nambu: Regarding business in China, we currently expect investment to remain strong in Q3 and Q4, on par with Q1 and Q2.

In this context, we continue to receive strong inquiries about CMP. We believe it is important for CMP to reap such inquiries.

Our orders for components are lower than those for equipment, but our market share has increased considerably recently, and we will push forward to get orders in the same manner as CMP in the future.

Regarding the US-China relationship, there have been reports of moves by the US to tighten regulations. We will continue to monitor this closely.

Asami: If I may add a little more, customers use Ebara's dry vacuum pumps in other applications besides semiconductors, such as LED, solar, and photovoltaic cell-related applications. That market is also somewhat challenging, but I hope you are aware that we have a presence in those markets in addition to the demand for semiconductors.

Questioner 5: I would like to confirm that net profit is the highest ever recorded for Ebara in H1. Additionally, can you explain the factors that led to the upward revisions in the orders forecast for the Infrastructure and Environmental Solutions Segments?

Asami: As Mr. Hosoda explained earlier in the introduction, we achieved a record high net profit.

For both the Infrastructure and Environmental Solutions Segments, the upward revision is primarily due to the confirmation of large-scale project orders. Additionally, as we move into the second half of the year, we are beginning to see high-probability projects in the pipeline. Based on the progress made over the past six months, we determined that it would be appropriate to revise the order forecasts upwards by JPY5 billion for Infrastructure and JPY6 billion for Environmental Solutions.

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