Commitment of Top Management

Aiming for sustainable growth and resolution of social issues by capitalizing on vacuum technology

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ULVAC's vacuum technology: supporting a sustainable society

● ULVAC's mission and vision

Ever since our foundation in 1952, adhering to the Basic Corporate Philosophy stating ULVAC's aspiration "to contribute to the development of industries and science by comprehensively utilizing its vacuum and peripheral technologies," we have developed various application and processing technologies capitalizing on the properties of vacuum, expanding application fields—ranging from automobile to chemical, pharmaceutical, and food, metallurgy, semiconductor and electronic devices, including LCD panels (FPD) and OLED—by embracing a succession of new technologies as industry continues to evolve.

Going forward, ULVAC is committed to supporting the smart society in which diverse industries will become increasingly electronics-oriented as it engages in technological innovation. In terms of management, according greater emphasis to maximizing our contribution to the sustainable development of society and resolution of social issues through the development of industries and science by comprehensively utilizing vacuum technology, ULVAC aims to achieve sustainable growth over the medium to long term and enhancement of corporate value.

● Sustainable growth by supporting technological innovation for the smart society

In view of increasing urban concentration and population aging, the contemporary world is exposed to risks, including shortages of energy, water, and food, traffic congestion, inadequate healthcare, and changes in the natural environment. Meanwhile, as a mighty wave of technological innovation, the like of which is thought to occur only once in several decades, opens up extraordinary new possibilities, moves are afoot to resolve social issues through speedier telecommunications, lower power consumption, automation of transportation and logistics, major gains in agricultural productivity, and progress in healthcare to extend healthy life expectancy.

As technological innovation progresses, with AI, IoT, and 5G communication to the fore, diverse industries are becoming electronics-oriented amid rising expectations that the advent of the smart society will lead to resolution of various social issues. In this regard, semiconductor memories and logic devices, MEMS/sensors, power devices, and OLED are key devices. In these growth markets, ULVAC will support the realization of a smart society by providing deposition processing technology and equipment fundamental technologies. Moreover, by integrating such core technologies and creating and offering new applications, we will contribute to the progress of the smart society and the related expansion of business opportunities.

● Contribution to resolution of social issues as a comprehensive vacuum product manufacturer

As a comprehensive vacuum product manufacturer mindful of ESG and determined to address the SDGs, there are numerous fields where ULVAC is in a position to contribute to the resolution of environmental and social issues on the global stage.

Among the fundamental technologies that support the smart society, there is a need for semiconductors with higher processing speed and lower power consumption, in response to rapidly growing volumes of data and to curb the explosive rise in demand for electrical power. ULVAC is responding to these needs by offering technology and production equipment in the field of advanced miniaturized devices, such non-volatile memory and packaging. We are also addressing the demand for the high-density packaging technology essential for the AI chips that will be applied in increasingly sophisticated computing systems. In addition, we will help bring about new applications in the smart society, including CASE transformation in the automotive industry, advances in mobile devices, and the expansion of 5G communications networks, through key enabling technologies for high-performance displays, batteries, power devices, MEMS/sensors, and more. By seizing such opportunities in the market, we will contribute to the realization of an affluent society that is safe and secure.

Turning to energy management and next-generation energy that can help resolve social issues such as global warming and climate change as well as resource depletion, the progress of renewable low-carbon energy systems and the enhancement of energy conversion efficiency are market requirements. We will contribute to the creation of a sustainable society by power generation, energy storage and energy saving through solar cells, lithium-ion batteries, and power devices by capitalizing on vacuum deposition and ion implantation technologies.

Expanding market opportunities in the healthcare field and the life innovation field are also relevant to such social issues as the need to enhance healthcare and extend healthy life expectancy and to satisfy rising demand for food. For biomedical devices used for handling cells and DNA, sophisticated microfabrication technology is required. ULVAC can meet such needs through the application and further development of the thin-film formation technology it has cultivated in the semiconductor field. Vacuum technology can also be utilized for longer life and volume reduction of freeze-dried food, powder vaccines, drugs, etc. by vacuum freeze drying, evolution of regenerative medicine supported by cryogenic technology, enhancement of the efficiency of farming by smart agriculture, and promotion of remote medicine.

Commitment of Top Management

By developing advanced technologies and deploying its broad technical coverage, ULVAC will be able to offer multi-faceted support for the development of a sustainable society as it aims to be an enterprise indispensable to society.

Review of operations for fiscal 2018 and future prospects

● Sales and profit declined due to the postponements of capital expenditures

During fiscal 2018, market conditions, which had been favorable until the previous fiscal year, becam subduned, and the ULVAC Group failed to achieve the performance initially planned.

Looking back on business conditions for fiscal 2018, orders received and net sales of FPD and PV production equipment declined year on year despite the contribution of orders received, especially from China, for LCD production equipment for large-screen TVs and OLED production equipment for smartphones. Orders received and net sales of semiconductor and electronic device production equipment both declined year on year due to the impact of the postponement of capital expenditures by semiconductor memory manufacturers, despite of the robust performance from items such as production equipment for high-performance devices for mobile devices and power semiconductors.Components performed well, with growth in orders received and net sales because of strong demand for cryopumps for mounting on OLED production equipment, as well as for vacuum pumps and measuring equipment for the FPD, semiconductor, and electronic device industries and for the automotive-related industry. However, orders received for general industrial equipment decreased partly because of the postponement of investment in manufacturing of high-performance magnets in China, and net sales remained at the same level as in the previous fiscal year, centering on vacuum heat treatment furnaces for production of automotive components and leak testers. Orders received and net sales of materials declined year on year, under the impact of factors such as reduced equipment operation in South Korea, despite recording of orders received for and sales of sputtering target materials for LCDs and other items.

The operating profit margin decreased to 10.8% from 14.2% in the previous fiscal year, and all profit categories declined, as an increase in selling, general and administrative expenses compounded the decrease in net sales.

As a result, for fiscal 2018, on a consolidated basis, orders received decreased 10.1% year on year to ¥218.5 billion, net sales decreased 11.5% to ¥220.7 billion, operating profit decreased 32.6% to ¥23.8 billion, ordinary profit decreased 30.7% to ¥25.6 billion, and net income decreased 48.0% to ¥18.7 billion.

● Accelerating the growth strategy in view of mid- to long-term market prospects, despite expectations that quantitative targets for fiscal 2019 will not to be achieved

At present, we face a business environment where capital expenditures are temporarily weaker due to delays in the resumption of investments by semiconductor memory manufacturers, and factors such as a hiatus in business negotiations regarding capital expenditures for LCD production equipment for large-screen TVs. In the semiconductor memory market in particular, active investment by memory manufacturers in 2017 and 2018 has led to continuing oversupply and price declines, and a full-scale resumption of capital expenditures is expected from 2020 or later, as the market continues to be affected by high-tech trade friction between the United States and China.

In this environment, in fiscal 2019, the current decline in orders received and net sales of FPD and PV production equipment is forecast to continue, as we expect to experience a lull in orders received for LCD production equipment for large-screen TVs, and it appears likely that our customers for OLED production equipment investment plans for smartphones will be from fiscal 2020. On the other hand, an upturn is expected in orders received and net sales of semiconductor and electronic device production equipment, with growth expected in new non-volatile memory (PCRAM), logic, communications devices, sensors and power devices, as well as the resumption of investment in semiconductor memory from the second half of the fiscal year.

Based on these predictions, for fiscal 2019, on a consolidated basis, we forecast orders received of ¥206.0 billion (-5.7% year on year), net sales of ¥205.0 billion (-7.1%), operating profit of ¥22.5 billion (-5.6%), ordinary profit of ¥23.5 billion (-8.1%), and net income of ¥15.5 billion (-17.0%). We are actively making R&D investments in future growth fields such as semiconductor memory and logic, MEMS and sensors, power devices, and OLED displays. We plan to invest ¥9.8 billion in capital expenditures for R&D (+¥3.2 billion year on year) and ¥9.6 billion in R&D expenses (+¥0.4 billion). Based on our current three-year mid-term management plan (covering the period from fiscal 2017 to 2019), we have set earnings targets of "net sales of ¥265 billion" and "operating profit of ¥38 billion," but as mentioned previously, our earnings are forecast to fall short of these targets. However, the future targets that we have set for fiscal 2022 remain unchanged. We aim to achieve "net sales of ¥300 billion" and "operating profit margin of 16%" on a consolidated basis under our growth strategy, based on the mid- to long-term market prospects.

Capital policy

Regarding the capital policy, we take into account the balance among such factors as financial soundness, the capital structure, capacity for growth investment with a view to the future, and distribution of profit to shareholders.

ULVAC recognizes the sharing of profits with the shareholders as one of its most important policies. On the other hand, in an industry that undergoes significant changes in capital expenditure trends and technical innovations, ULVAC recognizes that, for further increasing its corporate value, it is necessary to enhance its internal reserves for further investments in R&D and strengthening its financial base. Therefore, the basic policy for distribution of profits to shareholders takes into account such factors as its financial base, consolidated performance for each fiscal year, and payout ratio.

To achieve sustainable growth and enhancement of corporate value

● To prevail in global competition

ULVAC's core competences are vacuum technology and its peripheral technologies. Synergy among our diverse business fields—encompassing equipment, materials, deposition processing, analysis, and services; broad technical coverage; the product lineup; and the establishment of supply chains in growth regions—is the source of our strength. Going forward, we will strengthen global strategic marketing functions and expand business partnerships with diverse companies and institutions to respond to new markets and technologies. We will also work to reestablish systems and strengthen initiatives to realize continuous development of innovative technologies and products. Through these endeavors, we will address market needs that are growing and evolving as technological innovation advances worldwide.

In terms of marketing, we are closely watching the U.S. market since many advanced technologies and products originate in the U.S. While vigorously gathering information, we are working to win projects that will lead to global collaboration covering every phase from R&D to mass production.

Meanwhile, in Taiwan and South Korea, which are driving forces of the world's semiconductor market, we have established R&D bases near our customers. Rooted in local markets while collaborating with development teams in Japan, ULVAC is pursuing development based on close relationships with customers.

In China, the trend is toward higher-value-added manufacturing and amid moves to facilitate high-tech investment. ULVAC is responding by enriching its R&D systems in China.

ULVAC, Inc. implemented an organizational restructuring as of July 1, 2019. We are working to advancethe integration of oursix business divisions, namely, Semiconductor Equipment, FPD·PV, Advanced Electronics Equipment, Industrial Equipment, Components, and Materials, as well as our group companies engaged in related operations. We have also established the Innovation Center of Excellence, which supports each business by reviewing operations and systems from the perspective of enhancing management efficiency, the New Business Development Center, which effectively utilizes the Group's combined management resources to create new business value, the Corporate Sales & Marketing Center, which controls the marketing function and sales management function and strengthens the global marketing structure, and the Manufacturing Center of Excellence, which enhances manufacturing capabilities, productivity, and collaboration with overseas production bases. Under this new organizational structure, we will strive to further enhance the efficiency of group management and transform ourselves company-wide, to prevail in global competition.

● Corporate growth utilizing external perspectives

The emergence of the smart society is creating new growth opportunities that ULVAC can benefit from by offering new value. On the other hand, competition is intensifying. For ULVAC, sustainable growth in these circumstances will require a tenacious and passionate approach to business, with management sharing with all employees its determination to achieve transformation.

As well as articulating these aspirations and inculcating them in all employees, we are striving to vitalize the Board of Directors and enhance its effectiveness by taking to heart the illuminating opinions of our external directors who bring a wealth of experience to the Board's deliberations from the perspective of strengthening corporate governance.

By pursuing these initiatives to achieve sustainable growth, we are resolved to prevail as an enterprise that earns the confidence of stakeholders. You can count on ULVAC to advance boldly into the future and I request our stakeholders to grant us their continued support over the long term.