

Commitment of Top Management

Achieve sustainable growth through investment in development for growth, structural change and contribute to technological innovation

Setsuo Iwashita

President and Chief Executive Officer



Realize the smart society and achieve steady growth

Contributing to the smart society by supporting technological innovation

By comprehensively utilizing the vacuum and peripheral technologies cultivated since its foundation, ULVAC has been supporting technological innovation in diverse industries and achieved growth while contributing to customers' business expansion and society's development.

The business environment in which ULVAC operates has been undergoing a phase of unprecedented transformation in recent years. This transformation is taking place in the context of various social issues such as: healthcare systems, water and food, logistics, and transportation stressed by the concentration of population in urban areas, population aging coupled with a declining birthrate; and the growing frequency and severity of natural disasters owing to climate change. Nevertheless, there are high expectations that these issues can be resolved through the realization of a smart society where people's life styles and industries will become increasingly electronics-oriented and digitized through technological innovation.

The realization of the smart society is supported by key devices—such as semiconductor memories and logic devices, MEMS/sensors, power devices, etc.—and fundamental technologies enabling large capacity and low power consumption of semiconductor memories and logic devices as well as miniaturization and enhanced performance of MEMS/sensors and power devices. ULVAC will respond to these needs for key devices and fundamental technologies by leveraging its strengths in vacuum thin film processing technology and fundamental technologies for equipment, thus seizing ever-greater business opportunities in the smart society.

Amid accelerating realization of the smart society

The COVID-19 pandemic has accelerated realization of the smart society while having a big impact on life styles and economic activity. Not only have measures implemented in response to COVID-19 compelled us to adapt to new ways of life and of doing business, but they also have spurred initiatives—the shift to remote working, digital transformation (DX), remote medicine, online provision of education, entertainment, and services—whose progress was previously gradual owing to various constraints.

Realization of the smart society is expected to accelerate with a view to solving various social issues. In these circumstances, in order to contribute to technological innovation, ULVAC needs to strengthen product development capabilities in the semiconductor and electronic device fields, which are growing markets,

and also improve profitability by enhancing productivity so as to achieve sustainable growth.

For the new mid-term management plan covering three years from FY 2020, we set a basic policy that has two principal elements: "investment in development for growth (selection and concentration)" and "profit-oriented management through structural change." I refer to the details below.

Steady progress of initiatives for business growth and value creation

FY 2019 business results and the impact of the COVID-19 pandemic

In FY 2019, the spread of COVID-19 imposed severe constraints on economic activity worldwide, resulting in rapid deterioration of economic conditions in the second half of FY 2019. Despite these circumstances, capital investment of foundries and logic manufacturers in cutting-edge processes remained firm and that of memory manufacturers, which was in an adjustment phase, showed signs of recovery. In the electronic device field, rising demand in line with progress toward the smart society, centering on IoT and AI, led to strong capital investment. Regarding capital investment in the flat panel display (FPD) sector, business opportunities on major investment projects related to liquid crystal display (LCD) for large-screen TVs had come to a cyclical downturn and investment related to organic light-emitting diode (OLED) displays for smartphones entered a temporary adjustment phase.

Let me review ULVAC's operations for FY 2019. For FPD and PV production equipment, orders received for LCD production equipment for large-screen TVs and OLED production equipment for smartphones decreased greatly and net sales of FPD and PV production equipment declined year on year. Orders received for and net sales of semiconductor and electronic device production equipment increased year on year because demand for sputtering equipment for logic devices and production equipment for communication devices and power devices was firm. Orders received for and net sales of components decreased year on year owing to weakening of automotive- and FPD-related investment. Orders received for and net sales of general industrial equipment decreased year on year, reflecting sluggish capital investment in China and Southeast Asia. Orders received for and net sales of materials also decreased year on year, reflecting customers' lower equipment utilization. Owing to travel restrictions and constraints on business activities due to the COVID-19 pandemic, ULVAC's business was affected to some extent as ULVAC operates globally. We established the COVID-19

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Emergency Response Headquarters, which I head as President and CEO of ULVAC, Inc., in order to ensure a timely and appropriate response to COVID-19 and we strove to minimize the impact on business activities by implementing measures to prevent the spread of COVID-19 in accordance with the requirements of various countries.

As a result, consolidated business results for FY 2019 fell short of the initial targets. Orders received decreased 28.4% year on year to ¥156.6 billion, net sales decreased 16.0% to ¥185.4 billion, operating profit decreased 33.0% to ¥16.0 billion, ordinary profit decreased 29.4% to ¥18.1 billion, and net income decreased 42.3% to ¥10.8 billion.

Review of the previous mid-term management plan and achievements

Progress on the previous mid-term management plan (covering the period from FY 2017 to 2019) began strongly, but the results for FY2019 fell short of performance targets, due to factors such as struggling sales of OLED production equipment for smartphones, a cyclical downturn in investment in LCD production equipment for large-screen TVs, reactionary decline in investment in semiconductor memory, and compounded by the impact of COVID-19.

On the other hand, we made steady progress on the key strategies of "promoting business growth" and "enhancing the power of value creation." For semiconductor and electronic devices production equipment, we achieved growth in electronic devices such as communication and power devices, and the entry into the logic field. For FPD and PV production equipment, we collaborated with leading companies to begin development of next-generation large OLEDs. We also launched manufacturing innovations as the first step in our drive to enhance productivity and achieve transformation to a profitable structure.

Promote development directly leading to product competitiveness and improve profitability through manufacturing innovations

New mid-term management plan aims at transformation to a profitable structure

ULVAC formulated and launched the new mid-term management plan "Breakthrough 2022" (covering the period from FY 2020 to 2022). Under this plan, we apprehend the trend of technological innovation for a smart society as a business opportunity, and will achieve sustainable growth under the basic policies: "Investment in development for growth (selection and concentration)" and "Profit-oriented management

through structural change." We will expand investment for the growth in semiconductor and electronic device fields, to strengthen the growing business. Regarding research and development, we will strengthen product development in response to technological innovation in growing markets. We will also promote manufacturing innovations on all processes from engineering and design to production system, aiming to improve profit margins.

By pursuing initiatives to expand the semiconductor production equipment business, we aim to double our share in the logic market and meet customers' expectations. In the memory market, we also aim to expand our share through entry into new processes while exploiting market recovery. China will be the principal market for electronic device production equipment such as equipment for power devices, MEMS/optical devices, and communication devices. Through our policy of strengthening development, sales and support systems in China where a big market is emerging, we intend to gain market share and grow sales.

On the other hand, regarding FPD, we intend to promote a shift from LCD to large-substrate OLED. Although sales are expected to decrease compared with previous years, we aim to achieve transformation to a profitable structure by promoting manufacturing innovations.

* For details of the mid-term management plan "Breakthrough 2022," such as quantitative targets, please refer to P.23-26.

Forecast for the first year of the new mid-term management plan

The business environment at present continues to be pervaded by a sense of uncertainty regarding the future outlook, with the persistence of US-China trade friction and the possibility that the COVID-19 pandemic may continue for a substantial period of time. However, at the same time, we are witnessing increasingly vigorous investment related to semiconductors and electronic devices, in line with the progress of above-mentioned technological innovation for a smart society.

Sales and profit are anticipated to decline substantially in FY2020, due to a much lower order backlog at the beginning of the fiscal year, but we expect the orders received to increase, primarily for semiconductor and electronic devices production equipment, and FPD and PV production equipment. The operating profit margin will improve due to the progress of manufacturing innovations.

For FY 2020, on a consolidated basis, we forecast orders received of ¥180.0 billion (+15.0% year on year), net sales of ¥165.0 billion (-11.0%), operating profit of ¥15.0 billion (-6.0%), ordinary profit of ¥16.0 billion (-11.4%), and net income of ¥10.0 billion (-7.1%).

Capital policy

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

ULVAC recognizes the sharing of profits with the shareholders as one of its most important policies. On the other hand, operating in an industry that undergoes significant changes in capital expenditure trends and technical innovations, ULVAC needs to secure sufficient funds for R&D investments in growth fields and establish a stable financial base, and thus intends to enhance its internal reserves. Therefore, the basic policy for distribution of profits to shareholders takes into account such factors as demand for funds, cash flows, performance, and the payout ratio for each fiscal year.

To create social value while achieving sustainable growth

Contributing to sustainability based on a long-term vision

The foundation of ULVAC's business activities is the Basic Corporate Philosophy stating our aspiration: "to contribute to the development of industries and science by comprehensively utilizing its vacuum and peripheral technologies." ULVAC established the Sustainability Promotion Committee consisting of internal directors and general managers in FY 2019 in order to examine how ULVAC can contribute to sustainability through its operations over the long term, in view of likely developments concerning society and the global environment in the coming years, by rediscovering ULVAC's origin and clarifying the current positioning. The committee formulated the Sustainability Policy: "ULVAC strives to create economic, social, and environmental value by comprehensively utilizing its vacuum and peripheral technologies." This policy encompasses ULVAC's aspirations to reduce environmental impacts and enhance health and happiness while pursuing appropriate profit through contributions to development of industries and science together with its stakeholders.

The committee is currently examining key issues (materiality) to be resolved or ameliorated by ULVAC over the long term. By continuously contributing to society through the process of resolving such key issues, our value creation will be materialized.

ULVAC's approaches contributing to sustainability through business can be classified into two categories. One category encompasses the provision of products and technologies contributing to reduction of



environmental impacts, energy saving, resource saving, and resolution of social issues. The other category concerns contributions to society and the environment in the course of business activities. These approaches include, for example, responsible procurement and initiatives to reduce environmental impacts, such as reduction of CO₂ emissions and waste in production activities.

ULVAC's business is principally B2B, centering on the provision of production equipment and technologies to customers that are manufacturers of semiconductor and electronic devices or FPD. Our contribution to resolution of environmental and social issues is mostly indirect, mainly conducted in partnership with customers. We recognize that key issues that ULVAC needs to address going forward are how to promote our contribution to sustainability from a long-term perspective as an enterprise aiming at global growth and development, how to translate that contribution into corporate value, and how to communicate it to stakeholders.

Commitment to our stakeholders

ULVAC aims to achieve an early recovery of earnings and resume growth by thoroughly implementing the growth strategy based on the new mid-term management plan "Breakthrough 2022."

Viewing this era of transformation as a growth opportunity, we will help create a more affluent sustainable future through our contribution to the development of industries and science. We hope for the understanding of all of our shareholders that the company is taking on new challenges, and look forward to your continued and increased support.