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3Q2023 BUSINESS UPDATE BRIEFING

08 November 2023, 9.30am

Management Panel:

Gary Ho	Executive Director and Group Chief Executive Officer ("**Group CEO**")
Kay Lim	Group Chief Financial Officer ("**Group CFO**")
Gian Yi-Hsen	Group Chief Strategy Officer ("**Group CSO**") and CEO, Sydrogen
Ian Howe	Group Chief Commercial Officer ("**Group CCO**")

Presentation Transcript

Duane Tan
Investor Relations
: Good morning, ladies and gentlemen. Thanks for joining us this morning for Nanofilm's Third Quarter 2023 Business Update Presentation. I'm Duane from Investor Relations. We are glad to have you all this morning as management provides some updates on our third quarter of 2023 ("**3Q2023**").

Before we start, please allow me to introduce the management present for today's session. First off, we have our Group CEO, Mr. Gary Ho. We have our Group CFO, Mr. Kay Lim. We have our Group CSO, Mr. Gian Yi-Hsen, and who's also CEO of Sydrogen. And lastly, we have Mr. Ian Howe, who is our Group CCO.

For today's presentation, we will be starting off with Gary, who will bring us through a review of the third quarter of 2023 before touching on the outlook. Thereafter, he will pass the time to Ian, who will finish off by sharing some initiatives on the European front. So, without further ado, I will pass the time now to Gary.

Gary, please.

Gary Ho
Group CEO
: Thank you, Duane. Good morning, everyone. Thank you all for joining today's presentation. Allow me to kick off the presentation with an overview of the Group's revenue.

The Group's revenue for nine months ended 30 September 2023 ("**9M2023**") was S$128 million or 29% year-on-year. AMBU[1] contributed most of the Group revenue, contributing 81% while NFBU[2] and IEBU[3] each contributed approximately 9% respectively. Sydrogen, given its early-stage development, did not contribute meaningfully to 9M2023. However, the Group remains

[1] AMBU refers to Advanced Materials Business Unit
[2] NFBU refers to Nanofabrication Business Unit
[3] IEBU refers to Industrial Equipment Business Unit

excited about Sydrogen's long-term potential and its wide-ranging application.

Firstly, let me start by giving you an overview of the operating environment for the third quarter of 2023, which remained challenging, exacerbated by macro headwinds and the dampening of overall consumer demand. Despite this challenging environment, we have seen an uptick in operational activities in the third quarter. This was driven by the seasonal peak period as well as inventory rebalancing improvements for the 3C[4] segment, although it was not comparable to last year due to softer than expected demand. The supply chain continues to experience a softer end-demand which was reflected in our results. However, our customer base remains healthy and we believe that once demand rebounds, we will be able to take advantage of our overall positioning and economies of scale.

Notably in the past quarter, we have also seen an improvement in operational performance resulting in a higher gross profit margin which validates our cost control efforts. Our improved operational performance in 3Q2023 was in line with the seasonal peak period. We believe our continued cost control efforts, combined with balancing spending for strategic business initiatives, are essential in driving future growth.

Turning to the next slide, we wanted to drill down further into our operating performance, geographical expansion, and capacity utilisation in 3Q2023.

On operating performance, we achieved a higher gross profit margin through our continuing efforts to streamline costs. For example, we flattened the production organisation structure to optimise labor resources, and improved yield productivity and efficiency through process optimisation and automation. Gross profit margin in 3Q2023 was above 40% compared to 32% in the first half 2023. Gross profit grew 76% quarter-on-quarter; however, it was down 28% year-on-year as the Group was unable to benefit from stronger economies upscale due to lower production volume. 3Q2023 operational expenditure (below GP[5] cost items) increased 5% quarter-on-quarter but fell 10% year-on-year, as a result of our balanced investments for longer term business expansion initiatives together with the various cost control measures. Despite the challenging market conditions, the Group has achieved profitability in 3Q2023 and continued to generate positive operational cashflow in 9M2023.

On geographical expansion. In 3Q2023, we have expanded into various strategic geographical sites to capture market opportunities available from supply chain redistribution, and non-penetrated but established markets

[4] 3C refers Computer, Communication, and Consumer
[5] GP refers to Gross Profit

which are familiar with vacuum coating solutions. For our Vietnam Site 2, phase one construction, followed by renovation and fittings before operations commence, is on track to be completed in the first quarter of 2024 ("**1Q2024**"). Our Indian subsidiary has set up its operational team and the team is undergoing training along with site preparations. Small production is expected to commence in the first quarter of 2024 as well. For Europe, we continue to assess different production sites. We also continue to explore potential inorganic opportunities to springboard our entry into the European markets. More details about our Europe expansion will be provided by Ian later in the briefing.

On capacity utilisation, we have seen an improvement in coating equipment utilisation to approximately 50% during the quarter. We are proactively managing the excess capacity and improving equipment utilisation, especially in Shanghai, by way of redeployment to other production sites including Huizhou and Zigong in China, Vietnam, and India, and continue to utilise Shanghai for multi-BUs[6], tapping demands from the China market. A number of equipment utilisation for new business initiatives are related to NPI[7] and process qualification, which generate no or limited revenue until projects move on to mass production.

Before I move on to our business outlook, I would like to take a moment to re-emphasise our core strategic priorities. We continue to focus on market expansion and investment in R&D[8] to support future growth while staying committed to our strategic goals for sustainable long-term growth.

For AMBU Consumer in India, we are focused on finalising factory-in-factory arrangement with a partner to expedite deploying equipment and target it to be completed by 1Q2024. For our consumer business in Vietnam, our phase one renovation is expected to be completed by 1Q2024. AMBU Consumer and NFBU equipment installation and commissioning are going to commence first, with IEBU operations to follow. For our Industrial segment, the preparation for European expansion is progressing on track and we expect to announce our entrance to Europe in due course, as we see growth opportunities for providing our solutions for Industrial and Automotive OEMs[9].

Turning to the BUs, each of our BUs has a clear focus on high growth, with new segments or products. For AMBU Consumer and NFBU, we remain focused on the ongoing NPI involvement with customers for future generation of products as well as introduction of new product lines. For AMBU Industrial and IEBU, we focus on replicating success cases across targeted segments

[6] BUs refers to Business Units
[7] NPI refers to New Product Introduction
[8] R&D refers to Research & Development
[9] OEMs refers to Original Equipment Manufacturers

such as Precision Engineering, Multifunctional Printers, Automotive, et cetera. For ApexTech, customer qualifications at the component level for EV[10] busbar connectors are currently in progress; however, we have seen slower advancement attributed to customers having excess production capacity due to the current market weakness. We are also exploring opportunities with high potential customers for the application of green plating solutions to other components.

For JVs[11] and M&A[12], we continue to explore opportunities across all the segments. With Sydrogen, we have announced the strategic partnership with SHPT[13] for both supply of bipolar plates and system integration beyond China. This is an exciting development and whilst very much in early-stage development, we believe in this long-term opportunity.

Last but not least, R&D remains a key pillar for our future growth. By the end of the year, we will add the Advanced Technology Research Centre, in short, ATRC, to our Tai Seng HQ[14] to further support the development of new applications and products for AMBU and NFBU. We have also established the Corporate Lab in collaboration with NTU[15] for deep technology R&D for earlier Technology Readiness Level applications.

Next, I would like to give you some commentary on our business outlook. Looking at the market environment going to FY2024, the macro environment remains uncertain. As we have mentioned, inventory rebalancing has improved but production volume is still lower year-on-year within the 3C consumer segment. IEBU customers remain tight on capex[16] spend, but we are in active engagement with customers for their requirements in the coming year. We will continue to invest in where we see long-term opportunities, while also strengthening our customer base and building our geographical footprint and R&D to drive long-term sustainable growth.

On the operational front, we will continue our cost optimisation efforts to drive margin recovery. We are well-positioned for supply chain diversification. We are agile and can redeploy equipment from Shanghai to new geographical sites for the 3C supply chain to meet market needs, and we expect overall net business growth over the longer term. Our Shanghai plants will continue to feature as an important strategic site for 3C and other BUs, including IEBU, Sydrogen and NFBU.

[10] EV refers to Electric Vehicle
[11] JVs refers to Joint Ventures
[12] M&A refers to Mergers & Acquisitions
[13] SHPT refers to Shanghai Hydrogen Propulsion Technology Co., Ltd
[14] HQ refers to Headquarters
[15] NTU refers to Nanyang Technological University
[16] Capex refers to Capital Expenditure

As presented earlier, in terms of market expansion, we will focus on global expansion including plans in Europe as well as India and Vietnam.

Finally, as for financial performance in FY2023, we are aiming to achieve full year profitability. However, our full year performance will be dependent on end consumer demand for new 3C product launches. Our bottom line may be negatively impacted if end consumer demand remains muted.

For FY2024, we will focus on materialising revenues through our sales strategy in offering proven solutions to focused markets while green shoots from our business initiatives are expected to gradually take shape. With higher revenues, we are able to enjoy high operating leverage and drive profitability.

Overall, as a management team, we remain confident of the mid to long-term prospects of the Group despite the near-term challenges facing the business. As we have mentioned, we will continue to invest in business expansionary initiatives and innovation without derailing strategic goals to deliver sustainable long-term growth and value.

With this, I will pass the time to Ian to provide more detail on our European expansion. Thank you.

Ian, please.

Ian Howe
Group CCO : Okay. Thank you, Gary, and good morning, everyone. In this section, I would like to give a deeper explanation on the European investment approach. So, this is a strategic expansion initiative, and it is all about bringing functional thin film coating solutions for industrial applications. We see this as a medium to long-term growth initiative. We drive here then the growth into Europe and we see many opportunities.

Traditionally, the European OEMs and market are early adopters of advanced coating technologies, and that can help our customers differentiate the performance of their products and services.

We are also confident that Nanofilm has the solutions with our FCVA[17] thin film technologies to meet those customer needs and demands for providing advanced technologies.

The European market is also very attractive. If you look at the total addressable market on the right-hand side, it is in excess of €13 billion when you look at all coating technologies from thin film to advanced heat treatments to electroplating and so on. Out of that €13 billion, there is a serviceable addressable market of around €2 billion in adjacent technologies and a serviceable market in the region of around €400 million that is directly

[17] FCVA refers to Filtered Cathodic Vacuum Arc

addressable with current products, technologies, and solutions. We also have a clear focus on how to do this on which market segments, which target customers, and which applications we are interested in.

As step one into Europe, we will focus on Germany, the reason being that the German market is roughly half of the European market so this is the logical first step. This paves the way for a three to five-year plan of having several or a multi-site business within Europe, but Germany is clearly the number one step for that.

Also on the focus areas, the initial focus areas will be on three specific areas. General industry is where we see a clear need for Nanofilm solutions. Typical application groups would be, for example, off-highway diesel or off-highway propulsion as alternative fuel technologies, machinery tools, hydraulic systems for industrial businesses. These are just three of the top application groups. Clearly, the value proposition is all around improving fuel efficiency. It is about system longevity and it is about system performance.

The second step will be in the decorative space where we see high potential in areas such as automotive interiors, sanitary fittings and consumer luxury goods. Here, the value proposition is more around providing durable decorative surface solutions, providing abrasion resistance plus other features such as anti-fingerprint and so on.

Last but not least, the medical segments where we look at application groups such as dental devices, medical devices, medical robotics. Here, the value proposition is also around providing high-risk durability and quality for enhanced performance.

These would be three of the starting market verticals. Of course, there can be more in the future, but we have a targeted approach here in terms of industry and the customer. Thank you.

Q&A Transcript

Duane Tan
Investor Relations
: Alright. Thanks, Gary. Thanks, Ian. We have come to the end of the presentation, and we will proceed to the Q&A section. If you do have questions, please feel free to use the raise hand function in Zoom or feel free to type in your questions in the chat box.

Lee Keng, do you have a question? Would you like to unmute yourself?

Lee Keng Ling
DBS
: Hi. Good morning, everyone. I'm Lee Keng. My first question is can you clarify on the 3Q profitability? Is it at the net level?

Gary Ho
Group CEO
: Yes, Lee Keng, you are right.

Lee Keng Ling
DBS
: How about on a nine-month basis?

Gary Ho
Group CEO
: On a nine-month basis, we don't disclose fully in our third quarter briefing. Based on what I've earlier presented for the third quarter of this year, we have seen that overall market sentiment remains weak. However, in 3Q2023, we have also seen that the inventory rebalancing has improved. Coupled with all the operational efficiency and cost optimisation efforts, we have yielded positive results. Although the demand has not reached the mark that we have experienced before in the past years, we have achieved profitability on a net basis in the third quarter.

So, all in all, as we move to the full year, we will continue to drive our cost optimisationefforts and we still see that there could be some persistent uncertainty in the market. Our fourth quarter is also dependent on how the consumer demand will perform, especially for our 3C new product launches. So, it may negatively impact our operating performance or profitability if the new product launches demand continues to stay muted.

Lee Keng Ling
DBS
: Okay, thank you. How about in terms of order momentum? How do you compare 4Q versus 3Q?

Gary Ho
Group CEO
: Based on the overall order momentum in 2023 as what we have seen now, I would say that the overall demand remains soft. However, as the second half was a seasonally peak season, we have also participated in all the new product launches with the 3C segments. On the Industrial segment, we continue to enjoy a steady double-digit growth. For the IEBU front, our customers are still cautious in terms of their capex spending. That definitely has also impacted our overall performance. However, we are actively engaging with our customers to work on their orders for the coming years.

So all in all, Lee Keng, to answer your question, overall market sentiment is still soft and demand is still soft but I believe that we are well-positioned to take on all these challenges, especially also when combined with our geographical expansion initiatives. As it progresses, in case of any redistribution of the demand to any part of the region, I would say that Nanofilm is very well-positioned to take on all these opportunities.

Lee Keng Ling
DBS
: Okay. Maybe just one last question on the product launches. Do you expect any new launch in 4Q and with mass production?

Gary Ho
Group CEO
: For product launches, especially for the 3C segment, it typically takes place in the 3Q, and also in preparation for the holiday seasons. Traditionally, this has always been the cycle.

Lee Keng Ling
DBS
: Okay. Thank you.

Duane Tan
Investor Relations
: Thanks, Lee Keng. Bernard, do you have a question?

Bernard Tan
T-Mara Capital
: Hi, good morning. I actually have two questions so I'll just ask the first one. It's regarding ApexTech. The idea was to start with batch production machinery and in the meantime, develop these very large and high throughput inline machines. Can we get an update on the progress in terms of the development of these large inline machines? Do you have a sense now of when you can deliver, at least for testing, initial testing, prototyping purposes of these inline machines? That's the first question.

The second question is regarding the presentation on the European venture. I mean, I appreciate the insight into what you all are doing, but it still sounds rather 'motherhood' to me. The thing is if it's a very established market, it also means there are very established players providing coating services already. And so, I still don't understand precisely what is the foot in the door that you are going to use to enter this market. Exactly what technical specifications, what coating technologies are you using? I mean, you have a portfolio of technologies besides your FCVA. But what exactly is the technology or the product that you are going to deploy as a means to break into the market?

That's my two questions.

Gary Ho
Group CEO
: Thank you for your questions. Maybe I can start off by answering your question one and I'll probably leave it to Ian to take on question number two.

For ApexTech, as I presented earlier, customer qualification at the component level for the EV busbar connectors is currently in progress. However, we have seen slower advancement attributed to customers having excess production capacities due to current market weakness. We are actually exploring and also adopting this application for other high demand customers as well.

Coming back to the capacity or the equipment, we are on track. Our new site in Zigong is already operationally ready. That was actually presented in the last quarter. We have installed five batch machines that are newly built for these applications. So currently, we are using this batch system for the qualification for one of the launch customers. As for the inline machines, we have completed the design of the equipment. In fact, we are right now building a portion of the inline system to validate the effectiveness of the high throughput of volume capacity that we anticipate. We are going to stage this new inline type of system together with the customer demand moving forward.

Gian Yi-Hsen
Group CSO
: Maybe I can add on to Bernard's question as to whether the platform is being validated today, it is. Actually, as Gary mentioned, we are building the pilot line equipment in Shanghai, and it is complicated. We have started undergoing the in-house qualification and verification testing to prove that this is a platform that is relevant for both ApexTech and other high throughput applications that we envisage for the Nanofilm Group, including Sydrogen for example.

Maybe, Ian can take the European question.

Ian Howe
Group CCO
: Coming on to the European question, thanks for that, Bernard. You're right. Yes, in any established market there are incumbents there that already have solutions. However, we have a clear view if you look at the future needs and demands of customers and what they need to continuously advance the performance of their own products and systems. With the FCVA technologies, for example, if we look at the carbon-based technology, this is I would say, superior to existing solutions in the market. If you look at characteristics such as the ultra-low friction, the extremely high hardness, and wear resistance that comes with that, the ability to be able to deposit these coatings at low temperature so you can put it onto metal, or onto polymers, or onto various low temperature materials, I would argue that these solutions are not readily available in the market in Europe today. Additionally, they're not available at the scale that we can do here at Nanofilm.

Further, we not only do small batch technologies but also have the capability of doing large batch systems and even larger inline system technologies for cost leadership on top of that.

Those are the key reasons we are confident that it is applicable. And obviously, we have lead customers that are already working with us on qualifying and validating the technology. We are very clear on that. And then if you look into the different market verticals, then obviously, you'll have to adapt to the general industrial base that we see. As mentioned, it's more about the coating product capabilities that are there. If you look at the decorative applications, it's about combining not only abrasion resistance but also other features like anti-fingerprint. In addition, we bring the scale. And if you look at medical applications, similar story, it's about driving performance further.

I think we have clear indications from the customers that we work with already, and those ideas and concepts that we had at the beginning are actually the case and validated. I hope that answers your question.

Bernard Tan
T-Mara Capital
: My takeaway, Ian, is that you are offering solutions that they haven't seen before.

Ian Howe
Group CCO
: Correct. It's the offering of the solution and being able to provide it on an industrial scale. Yeah, this is the point.

Bernard Tan
T-Mara Capital
: In relation to the inline machines, do we have a timeline of when this validation process will be completed or is targeted to be completed for the inline machines for ApexTech?

Gian Yi-Hsen
Group CSO
: Let me answer that. I think as this is an important validation process, we expect it to take at least another quarter or two to complete where we will validate all the design decisions that we've made in past and also confirm the throughput that we expect from these machines. I would rather say that we are probably able to give you a better answer on the actual performance, and so on, sometime in the middle of 2024.

Bernard Tan
T-Mara Capital
: Okay, that's clear enough. Thank you very much. That's all.

Gary Ho
Group CEO
: Thanks, Bernard.

Duane Tan
Investor Relations
: Thanks, Bernard. Do we have another question from the audience? Wern Juan, do you want to unmute yourself?

Wern Juan Chng
HSBC
: Yeah. Thanks, Duane, and thanks everyone for taking my question. My only question is regarding your Vietnam and India expansion. Have you seen any shift with regard to your customers in terms of which geographical location you are planning to expand to, whether it's India or Vietnam? And how fast it will take for you to move these production lines to those sites? Thank you.

Gary Ho
Group CEO
: To answer your question, our expansion into Vietnam and India is to support our customer strategy, particularly in the 3C business segment for this new geographical expansion. We have a very clear line-up on what are the projects, what are the parts that will be redistributed or expanded in these two countries. All in all, with this geographical expansion, Nanofilm has the first mover advantage as well as being definitely much more well-positioned to serve the customer needs regardless of any location, whether we are currently in Shanghai or in Vietnam or in India. So overall, we do see that this is a good opportunity and overall, we see that the net business growth will continue to increase on a longer-term basis.

For Vietnam, let me reiterate again that the construction of our phase one building, which is a new site about four kilometres away from our current facility, will be ready by the end of this year. In the meantime, we are in the progress of doing its internal renovation, fittings, and we are also installing and commissioning equipment as a start for AMBU Consumer segment and also NFBU, and we expect to commence mass production by 1Q2024. And later on, our IEBU operations will follow.

As for India, at the moment, we are also in the finalisation stage with one of our partners for our factory-in-factory production site within our partner's campus. We have already recruited a core team which is currently undergoing training at our Shanghai facilities. We plan to move equipment to this site by early part of next year and we expect to commence initial production from 1Q2024 as well.

Gian Yi-Hsen
Group CSO
: Maybe I could also add on a bit to Gary's points. Gary has already mentioned our first mover advantage to these markets, and one of the good things about being first mover is we expect to have very high wallet share for all redistributed parts into these markets as we will be one of the few (companies who are) able to provide this service in Vietnam and India as well.

Wern Juan Chng
HSBC
: Got it. Thank you.

Duane Tan
Investor Relations
: Thanks, Wern Juan. Do we have another question? Derrick, would you like to unmute yourself?

Derrick Heng
Manulife Asset Management
: Can I just check for ApexTech, given the weaker market environment, how have the volume production assumptions for this entity changed since we originally started doing this venture? And when do we think we can hit EBITDA[18] breakeven for ApexTech?

Gian Yi-Hsen
Group CSO
: Maybe Derrick, would you mind repeating yourself? We kind of missed some parts of your question. You were a bit muffled.

Derrick Heng
Manulife Asset Management
: Yeah. I'm asking about the busbar production volume. We went into this venture with a certain volume in mind. How has that changed given the changing market environment and when do you think ApexTech can hit EBITDA breakeven?

Gary Ho
Group CEO
: Thanks for your question. As I've shared earlier, we have already started or are in progress in terms of qualifying our solution with one of our launch customers. That is very much in progress and is being carried out with our newly installed batch systems. However, due to the whole entire market softness, our customer is also having excess capacity and we are seeing right now that this will contribute to a slower advancement into the mass volume production that we originally anticipated. However, we are still pushing ahead

[18] EBITDA refers to Earnings before Interest, Taxes, Depreciation and Amortisation

in qualifying the solutions and to commence the initial production in due course.

And then at the same time, like what Yi-Hsen and myself have shared, we have started to validate our inline systems, and then to also get ourselves ready once this customer's demand outlook is more visible. So all in all, everything progressed according to what we have shared earlier. At the new site in Zigong, we have installed the batch system and qualified the solutions. At the same time, we’re also preparing for the high throughput inline systems. But for all of this, we will have to stage according to the demand outlook.

Derrick Heng
Manulife Asset Management
: For EBITDA breakeven, (there is) no clear visibility. Is that right to say?

Gary Ho
Group CEO
: For this Zigong JV, right? It’s primarily set up for this purpose (EV busbar connectors). However, we do see that there's also other potential in this region. At the same time, I would say that we are also working with our partners. In fact, we also have commenced some production for other applications as well. As we are progressing in these very unique applications for green plating, at the same time we are also working in parallel on other proven solutions for that region. We expect that these two will go in parallel to load our new site in this cycle.

Duane Tan
Investor Relations
: Alright, thanks, Gary. Jame, do you have a question?

Jame Osman
Citibank
: Hi. Morning. Thanks for the call. Sorry I dialed in a bit late so I'm not sure if this was asked. But just going to the capacity expansion into Vietnam and India, just wondering if there's any visibility over how the overall operational cost structure could change, given that primarily, Nanofilm has been operating out of China. And just thinking about how the cost basis could be different between these three markets and what it could mean for ultimately, margins going forward. Thank you.

Gary Ho
Group CEO
: Jame, thanks for the question. Our expansion plan to Vietnam and India is primarily to support our customer’s strategy to have all these located in all these different geographies to serve their global demands.

As you probably can recall, Vietnam is not a new location to Nanofilm. We have been operating there for almost six years. Today, we have also developed a very competent local team over there. We have a very clear understanding of the environment and the cost structures. With this new expansion into our new Vietnam site, (it) will actually provide us over time a much larger economy of scale, as it's going to be another of our multi-BUs' mega site.

For the first phase, we are currently going to complete our first phase building and the renovation, and fittings are ongoing. We expect that our AMBU 3C segment and our NFBU expansion will commence production for the new projects that have been assigned to us by our customers by 1Q2024. As we progress, our IEBU expansion to Vietnam is going to follow, and then we will basically stage out the capacity expansion according to the demand outlook.

As for India, we basically are adopting a factory-in-factory approach for the initial setup, and that is also supported by the clear projects that was being assigned to us by our end customers. We're also working closely together with our partner, which is a large player in metal machining.

Kay Lim
Group CFO
: Just to add to Gary, the cost of structure, raised by Jame, may not have a straightforward answer because it has to be viewed hand in hand with the revenue that we expect on the net basis. On a net basis, we expect growth. With that in mind, in terms of the cost structure that Gary has lined up, we have to stress that in terms of beyond the AMBU Consumer segment, one of the key motivations for us to build a site in Vietnam came from our NFBU's expected business growth. I think that calls for the investment. On top of that, we are actually in a right position and timing to extend that to the AMBU Consumer segment. As led by the customer's recalibration of supply chain diversification, with a China plus one strategy where Nanofilm is at today, we do not need to start from ground zero as we have a certain base already built up in Vietnam.

Yes, India is a relatively new (market) to us. Although it's new, we have the right partners to go in together with a supply chain, and I would also say, right conditions, for us to operate. We will actually go in with a certain risk management basis for India in terms of the cost structure, when it comes to efficiency, when it comes to fixed investments, for example, by redeploying our coating equipment which forms a larger part of our cost. Of course, there are not reflected in the EBITDA base because there is depreciation. But that gives us a good base because we are not incurring new capex on coating equipment. We're redeploying on top of that fixed infrastructure which we can use for decades to come. That puts us in a good position to actually realise this growth on a net basis.

Jame Osman
Citibank
: Thanks Gary and Kay for the detailed answers. May I just follow up on that? Once we are done with this period of capacity expansion and given that you are diversifying your geographic footprint for production capacity, is there an expectation that the overall marginal cost of production could ultimately

trend downwards over the longer term? I know it's a bit early to say now, but is that the expectation going forward?

Gary Ho
Group CEO
: Yes. I would say that you can assume that. I would say that this geographical expansion will basically allow us to be well-positioned to capture the first mover advantage. Overall on a net-net basis, our overall volume will continue to grow because we are the only player right now that is able to offer this type of footprint. And this capability is supported by our strong track record. This will, over time, definitely provide a net improvement, with an increase in our business as a new site starts to take shape and we will then (be) able to load up with sufficient volume over time.

Gian Yi-Hsen
Group CSO
: Maybe if I could add one more point to what Gary and Kay have already elaborated, as most of you would be familiar, Vietnam and India are relatively lower-cost production locations compared to China, or at least Shanghai, where we are predominantly at. Overall, as the supply chain matures out and we fill up the capacity, we do expect the manufacturing margins to improve.

Kay Lim
Group CFO
: In terms of the longer-term evolution of our cost structure, if you look at Nanofilm today, we are a more seasonality-driven company because of our consumer-related business. More revenue loading happens in the second half compared to the first half, and that’s concentrated in our Shanghai plant one and two, our mega plants.

With this shift in terms of diversification into Vietnam – which we are doing in phases, we are not doing a few million square feet of a mega plant at one go – we are timing it in terms of how we want to spend, invest, as well as agree on the right returns at the right pace.

India is a smaller setup. If we look at that, we are shifting out certain capacity. Yes, net-net, we will increase capacity. However, China remains a very important market for us in terms of serving the local market, which also springboards us to the international market. But because of the bifurcation of China and outside to the rest of the world, it's important to stress that our Shanghai plant will be actually used for multi-BUs. Continuing with AMBU Consumer, IEBU, Sydrogen, followed by NFBU. It's actually a multi-BU site.

So, what does it mean? These multi-BUs, apart from AMBU Consumer, are less cyclical, less seasonality-driven when it comes to revenues. Industrial applications, our industry equipment sales where you can say it’s “Made in China”, but this is basically Singapore technology, and deep tech. In terms of certain critical industries in China, we are well-positioned for that kind of market segmentation. With more revenues than we expect coming from basically non-seasonality than is non-consumer related, we have better loading. If you look at our first half and our second half, typically we are a lot more profitable in the second half. Why? Because of revenue scaling. So, if we can even out that on a net basis, cover up first half, more revenue coming up fits into our Shanghai plant one and two.

Then, in terms of cost structure, returning back to economies of scale, margins and profitability, there is a straight path or at least a path that meets basically the macro environment as well as the expected customers' demand. So, depending on how we pan out the strategy, we do have a clear market strategy to do so. I hope that gives you better colour in terms of the longer-term plan of Nanofilm.

Jame Osman
Citibank
: Thanks. Very helpful, actually. Actually, my last question is, is there a timeline that management has in mind, notwithstanding all the near-term uncertainty and headwinds in the market at the moment, but is there a timeline that we can expect given that the capacity expansion is quite significant? So, just wondering how quickly we should think about how operational leverage can be achieved. Is it within the next three to five years or is it over a longer timeframe that we're looking at in terms of filling up capacity?

Gary Ho
Group CEO
: Maybe I can answer this question. With this geographical expansion, no doubt, initially we are going to incur startup costs. We need to prepare the factory and we need to do the renovation and fittings. The good thing is that if you look at our coating equipment, it is versatile. We're able to recalibrate and we're able to redeploy very easily. Actually, that is also one of our major capex if you look at our AMBU business.

All in all, on the capacity side, we are trying to basically adopt redeploying. For example, for a certain region, let's say that there is demand, we will deploy appropriate capacity to serve our customers' needs. No doubt, in that initial stage, they will incur some startup costs because we need to qualify a new site for a new product. But usually for the consumer segment, the cycle is much faster. I believe that this phase, particularly for Vietnam and India, in relation to our consumer segment, will probably take about a six-month period, and then you will start to see that we will be able to ramp up to a certain level that is based on the demand outlook or the project that was being assigned to us by our end customers.

But for the industrial segment, it's a different ball game. In this segment, the solutions that we offer are very much our proprietary technologies. For those projects that we're in, we retain a very high level of stickiness. In fact, for these segments, we continue to enjoy very steady, stable, year-on-year double-digit growth. Right now, with this expansion plan in place and some of redistribution of the consumer business, it will also free up some capacity for us in our China mega site, and that will be able to allow us to even push forward further, on especially those proven technologies that we are able to expand or accelerate more aggressively within China to grow this segment.

At the same time, as to what Ian and myself have presented, basically we also would like to expand globally in all these key markets. For industrial application, typically in developed countries like Europe, Japan, or United States, the customers that they have been engaging know how to appreciate the values that coating can bring them. We believe that there is a space in this market that requires good quality coatings, especially in relation to our FCVA. And that is also one of the reasons that we feel that we need to be in all these strategic locations, working very closely with customers and their R&D, so that we are able to have this first involvement on an R&D basis to bring our core technology to their products.

At the end of the day, we are also able to support in different locations, depending on where the customers would like us to carry out the production.

Jame Osman
Citibank
: Thanks, Gary. Maybe if I can just sneak in one last question for Ian. Given your background, coming from essentially a competitor, just wondering how you think Nano competes differently from that company and what do you think (are) the areas where Nano could effectively get market share in certain segments?

Ian Howe
Group CCO
: Thanks for the question. Clearly, the unique selling point of Nanofilm as a company in the European space, again it's around unique products and unique solutions. And this is not only on the product itself, but on the level of industrialisation that can be provided not only for technology leadership but also cost leadership.

Also, the agility of a company like Nanofilm is also a big advantage. We can address customer needs quickly, efficiently, and move quickly into the right areas. I think that they are the main points, and I said we have already strong indications that are confirmed with key customer projects, and we are confident moving forward on that approach.

Jame Osman
Citibank
: Okay, understand. Alright, that's all for me. Thank you very much.

Duane Tan
Investor Relations
: Thanks, Jame. We are about on the hour. If there's any other question, we can just do one more for management?

Alright, since there are no further questions, thank you, management and (the audience) for the questions asked.

Should you have any other questions or need for further clarification, please do not hesitate to reach out to us. We'll be happy to take it offline. Thank you for your time and attention this morning. With that, I'd like to bring this session to a close. Have a wonderful day ahead, everyone, and thank you once again.

END.