
1Q2024 BUSINESS UPDATE BRIEFING

23 April 2024, 9.00am

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, Sydorgen
Ian Howe	Group Chief Commercial Officer (“ Group CCO ”)

Presentation Transcript

Duane Tan : Good morning, ladies and gentlemen. Thanks for joining us for Nanofilm's First
Investor Relations Quarter 2024 Business Update. I am Duane from Investor Relations.

I would like to introduce our management panel for this morning's session. Bringing us through the presentation today will be Mr. Gary Ho, our Group CEO. Joining the panel for the Q&A, we have Mr. Kay Lim, our Group CFO; Mr. Gian Yi-Hsen, Group CSO and CEO, Sydorgen; and lastly, Mr. Ian Howe, our Group CCO.

Without further ado, I will pass the time now to Gary, who will bring us through the presentation.

Gary, please.

Gary Ho : Thanks, Duane.

Group CEO

Good morning, ladies and gentlemen. Thank you for joining us today.

I will begin today's presentation by providing you an overview of our first quarter of the financial year 2024 before providing an updated outlook for the year.

The Group's revenue for the first quarter ended 31st March 2024 (“**1Q2024**”), reached S\$39 million, registering a 19% year-on-year growth. The majority, 89%, came from AMBU¹, while the NFBU² and IEPU³ contributed 5% each to our overall revenue.

Despite operating in an uncertain environment, our Group has continued its upward trajectory. We achieved notable growth, driven by the recovery in our 3C⁴ segment, expansion into new customer segments and deepening

¹ AMBU refers to Advanced Materials Business Unit

² NFBU refers to Nanofabrication Business Unit

³ IEPU refers to Industrial Equipment Business Unit

⁴ 3C refers to Computer, Communications, and Consumer Electronics

relationship with existing clients. Our overall revenue grew by 19% year-on-year, with AMBU spearheading this growth with a 41% year-on-year increase.

Within AMBU, our 3C segment surged by 51% year-on-year, attributable to contributions from new customers and the recovery of demand from existing customers. The automotive segment also saw a robust 24% year-on-year growth, led by the commercial vehicle segment. Our industrial segments, including the inaugural contribution from AxynTeC⁵, experienced a healthy 21% growth.

NFBU maintained stability in line with projects' current production status, while IEBU faced a decline of 66% year-on-year due to a softer order book. Sydrogen continued mass production for our key customers.

Turning to the next slide, let me give you an update on the operating performance, geographical expansion and strategic priorities.

The smartphone subsegment emerged as the largest contributor to our revenue stream, with a 44% share within the 3C segment. The onboarding of a new customer contributed significantly to the growth. Operational performance improved, driven by efforts to expand the revenue base and cost rationalisation efforts.

Our gross profit for 1Q2024 grew 30% year-on-year to S\$12.8 million compared to S\$9.8 million in the corresponding period last year. The gross profit margin also improved for 1Q2024 by 300 basis points year-on-year to 33% compared to 30% in the first quarter of the financial year ended 31 December 2023 ("**1Q2023**"). This growth was driven by improved revenue contributions from the 3C and industrial segments. However, this progress was slightly tempered by a decrease in the contribution from IEBU.

In our global operations, we have made significant strides in expanding our footprint and capabilities. In Germany, we successfully closed the acquisition of AxynTeC in February 2024, making a pivotal step in our growth strategy.

Meanwhile, in India, we are actively preparing and qualifying our factory-in-factory facility, gearing up for the start of small batch production in the second half of 2024. Over in Vietnam, Site 2 phase one has completed renovations. Currently, we are in the final stages of commissioning equipment with initial production set to commence in the second quarter of the financial year ending 31 December 2024 ("**2Q2024**").

Our integration efforts with AxynTeC are in full swing, driven by a strategic focus on top-line growth through synergies. We are actively accelerating the growth trajectory of AxynTeC's DLC (diamond-like carbon) products by expanding our customer base across general industrial, consumer, and medical segments. Additionally, we are proud to introduce Nanofilm's FCVA⁶

⁵ AxynTeC refers to AxynTeC Dünnschichttechnik GmbH

⁶ FCVA refers to Filtered Cathodic Vacuum Arc

carbon-based coatings, known as TAC-ON[®], to the European market, targeting consumer and general industrial segments.

This expansion also includes bringing Nanofilm's decorative product coating portfolio to European market segments, such as automotive interiors, luxury, and sanitary, among others, showcasing our commitment to innovation and market diversification. Furthermore, with our AMBU industrial and IEBU sectors, we are honing our focus on market development for existing solutions.

Our goal is to replicate success stories across various domains, including optics, automotive, general industrial, semiconductor, and more. By leveraging our expertise and forging strategic partnerships, we are poised to drive sustainable growth and create value in these dynamic markets.

As we look ahead to the financial year ending 31 December 2024 (“**FY2024**”), we acknowledge the uncertain market landscape, which presents both challenges and opportunities.

In the consumer segment, we anticipate stronger pipeline visibility stemming from existing projects and new ventures slated for mass production during the period. Our industrial sector is poised for stable growth with promising prospects in market expansion across Europe. In the realm of new energy, Sydrogen's BPP⁷ coatings are undergoing production for additional automotive customers, signalling a phase of strategic growth.

Our ongoing focus remains on optimising our cost structure. We are anticipating lower capital expenditure year-on-year, focusing on maximising returns from our current asset base.

We anticipate peak period production activity to commence towards late-2Q2024, extending into the third quarter of the financial year ending 31 December 2024 (“**3Q2024**”). With these initiatives in place, the Group is optimistic about FY2024's financial performance, expecting higher revenues and profits, contingent upon the absence of major unexpected events.

In conclusion, Nanofilm is well-positioned for continued growth and success. I want to highlight our enduring confidence in the Group's future, despite the immediate challenges we face. Our dedication to investing in expansion and innovation remains strong, while always aligning with our strategic objectives. This commitment ensures that we are not just ready for sustained long-term growth, but also dedicated to creating enduring value for our shareholders.

Thank you all for your attention and support as we navigate this journey together. With this, I will open the floor for Q&A. Thank you very much.

⁷ BPP refers to Bipolar Plate

Q&A Transcript

Duane Tan
Investor Relations

: Thanks, Gary.

For participants who would like to ask questions, please feel free to either use the raise hand function on Teams or type your questions on the chat.

John, you have a question? Would you like to unmute yourself?

John Cheong
UOB Kay Hian
("UOBKH")

: Hi, congratulations, management team, for the improved sales results. I have two questions.

First question is on the profitability in the first quarter. Can I check - have you reached a profitable level in the first quarter, and if not, how far are we from the profitable level?

Gary Ho
Group CEO

: Thank you, John.

To answer your question, there has been a slight improvement in the margin, and we have narrowed our losses for 1Q2024. We expect profitability to improve in the next few quarters.

John Cheong
UOBKH

: The second question I have is on moving into the second half, you have a few new projects that are coming up. So, do you expect significant start-up costs? How much cost is going to hit you in the second half as you start the Vietnam and India operations?

Gary Ho
Group CEO

: We are seeing good recovery in the 3C segment. And, we do see a good visibility of the pipeline projects, both from our largest client and also new customers. With the infrastructure and setup costs, we have invested quite a bit from last year for our operations in Vietnam and India. As the volume continues to evolve, this is going to help us enjoy the operating leverage.

Kay Lim
Group CFO

: I want to add that since we commenced the expansion into Vietnam and India, we have been incurring the expenses, which are already reflected progressively in our P&L⁸ over the past few quarters.

Duane Tan
Investor Relations

: Thanks, John.

We have a question from William. Actually, he has two questions that he has posted in chat. His first question is: how much of 1Q2024 revenue came from the new smartphone customer?

⁸ P&L refers to Profit and Loss Statement

Gary Ho
Group CEO : The new customer from the 3C segment contributed about 10% of our Group revenue in 1Q2024. Our solutions are applied onto their flagship titanium smartphone.

Duane Tan
Investor Relations : Thanks, Gary.

His second question is asking how much revenue and GP⁹ did AxynTeC contribute in 1Q2024?

Kay Lim
Group CFO : Maybe I can take this question. We completed the acquisition of AxynTeC on the 1st of February 2024. In terms of AxynTeC's revenue contribution for February and March to our 1Q2024 revenue, it is not material, amounting to less than 2%.

Duane Tan
Investor Relations : Thanks, Kay.

Do we have any other questions from the floor?

Hi, Paul. Would you like to unmute yourself?

Paul Chew
Phillip Securities : Hi, thanks so much for the presentation. Just two questions for me.

The first is on operating expense run rate, just extrapolating it. It is probably around S\$15 million per quarter. I am just wondering as you are heading towards profitability, where would that Opex¹⁰ trend, is there room for you to bring it down? Or like you said, it is more about operating leverage and just growing the revenue?

My second question is mainly on the new customer. How different is it compared to the existing customer in terms of the components or parts or processes that you are working for this new customer?

Thanks.

Kay Lim
Group CFO : Maybe I can take on the cost question from Paul and for the business side, I will leave it to my team to address.

Yes, you are right, Paul, we do actually enjoy high operating leverage because of the relatively bigger portion when it comes to fixed cost in our overall cost structure. In terms of the seasonality, we can see that we are highly profitable towards May and onwards from June, as we peak, we typically ramp up our production, particularly in the consumer sector.

Going forward, we believe it will even up but it will take some time before we see that loading when it comes to other businesses segments. Overall cost

⁹ GP refers to Gross Profit

¹⁰ Opex refers to Operating Expenditure

remains on the downtrend. It is on a downward trend as we continue progressively to optimise our cost structure.

We will be prudent in terms of investing in certain areas, such as in our sales and marketing, to strengthen our capabilities, to bring forth our products in selected, I would say, very interesting markets.

Gary Ho
Group CEO : I will take on the second question.

We are providing coating services to our new customer. The difference from the services we provide to our existing customer is that we are applying our coatings on their flagship smartphone housing, which is a big part enclosure using titanium substrates.

Bearing in mind that the titanium substrate is combined with plastic materials on the enclosure, on the coating aspect, there entails quite a bit of know-how in applying coatings on this large surface area uniformly and achieving high requirements in terms of quality.

Paul Chew
Phillip Securities : Okay, yes, thank you. That is very clear. Thanks again.

Duane Tan
Investor Relations : Thanks, Paul.

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

Lee Keng Ling
DBS : Yes, hi. Good morning, everyone.

My question is on order momentum. Firstly, from your key customer, are you seeing any new product launch for this customer? And then for the new smartphone series, do you see yourself playing a bigger role, getting more contracts from them? So that's number one.

My second question is on your new customer in the mobile space. Do you see yourself penetrating deeper into their supply chain going forward?

Thank you.

Gary Ho
Group CEO : Thanks, Lee Keng, for the question.

As I have presented earlier, we do see a good recovery in 1Q2024. The inventory rebalancing has more or less normalised. As we work on the new product, it is a very busy period for us. We are working on quite a number of NPI¹¹ projects across different product lines such as phones and wearables, that is expected to commence the production in late-2Q2024.

¹¹ NPI refers to New Product Introduction

All in all, we do see that compared to the most challenging period for us last year, we have much better visibility this year. With the inventory rebalancing normalised, we do see that we have a much better visibility in all the new product launches that is going into the peak season.

On your next question on the new customer that we have acquired, based on the feedback from our customer, they are very pleased with the performance of the product. The product has been doing well in the market, and this is the first time they are adopting coatings on a difficult material, which also has been working well.

That basically pose new opportunities for us. We expect to participate in the next version of their flagship product, and potentially expand to their other product lines, especially on the decorative components on their wearables.

Lee Keng Ling : Yes, okay. Thank you, Gary. That is very clear.
DBS

Duane Tan : Thanks, Lee Keng.
Investor Relations

We have a follow-up question from William in the chat. William is asking, what was the average utilisation rate in 1Q2024 compared to 1Q2023?

Gary Ho : For 1Q2024, the utilisation rate has slightly improved compared to 1Q2023.
Group CEO In 1Q2024, we were just slightly below 50%, probably around the 40 plus percent range. In 1Q2023, we were in the 20% to 30% range.

Duane Tan : Thanks, Gary.
Investor Relations

William is also asking a follow-up question. Can you also update on any business developments with the Chinese smartphone brands, if any?

Gary Ho : Yes. William, thanks.
Group CEO

It is a good question. If you look at the whole 3C market, the global players have been trying to also push for innovation, adopting more expensive metals like titanium.

That has also set a certain trend for the China domestic players. Having this in mind, we do see opportunity that some of these Chinese domestic players will adopt this type of materials for their higher end products, which we believe we do have an opportunity to penetrate.

To add on, a few of these local Chinese domestic customers are already customers of Nanofilm. However, based on their past product designs, they do not adopt much PVD¹² solutions, but they definitely know our Company.

Duane Tan
Investor Relations

: Thanks, Gary.

Do we have any other questions from the floor?

Se Chai Ngoi
Oaklands Path
Capital
Management

: Yes, this is Se Chai speaking. Thanks, everyone.

I got two questions here. One is on your IEBU. Do you see any sign of demand coming back that are more willing to spend on Capex¹³? Or is there any technological change that is going to drive the need for upgrade of the machines?

The second one is on the battery connector coating. I am not sure whether this will affect the customer kind of propensity to change because the copper prices are very high now and it is going higher. On the Shanghai commodities, copper prices are almost at a record high now. I am not sure whether they are more keen to get it because theoretically you would save some copper material? Thanks.

Ian Howe
Group CCO

: On IEBU, it is a long-term sales cycle that we have. Last year was quite a challenge on IEBU and that prolongs now into this year as well, definitely into the first half of FY2024.

In terms of product launches, we have one of our key core technologies in the mould coating business for high-end optical lenses. We have launched a new upgraded product, where we can coat larger mould surface areas up to 12-inches with other features that are beneficial.

Second point is that we are broadening our scope as we were not focused in many other areas in the past. We are really opening our strategy, into general industry, into automotive, into energy. Where it makes sense, we will also drive equipment sales there. Having said that, this will take some time to materialise as it is a long sales cycle.

Last but not least, we are also investing significantly into upgrading our sales team and marketing activities to drive demand. These are the main points on IEBU.

On the green plating, definitely there has been backwards and forwards. It is a new technology where we are also relying on customer qualifications which is not within our direct control. However, we are still optimistic on that application and that project. We are working diligently with key customers. In the meantime, in that specific facility in China, we are also then developing

¹² PVD refers to Physical Vapour Deposition

¹³ Capex refers to Capital Expenditure

additional business outside of that area. We can also have a plan B and a plan C while we are waiting for that business to come online.

Thanks for the questions.

Se Chai Ngoi
Oaklands Path
Capital
Management

: A separate follow-up question on the Vietnam site, as far as I understand, it is mainly a NFBU site. What are the projects that will be coming up once the new plant is completed? What are the products or services that you provide? Is it going to be different from what you do in China or is it more of a shifting of orders?

Gary Ho
Group CEO

: Thanks for the question, Se Chai.

For Vietnam, you are right that we have been operating there for more than six years and NFBU is providing its optical sensory components from our existing facility. With the new site coming on board, we have set up the coating production capability in our new plant. Our coating operations have received qualification from our major customer, and we expect to commence initial production from 2Q2024 onwards.

As the customer shifts its production out of China to Vietnam, with our new plant in place, we do see there is an opportunity for a net increase (in production activity). However, there may be some cannibalisation in the initial production due to the shifting of capacity from one location to another.

Kay Lim
Group CFO

: And just to add, our (Vietnam) plant 2 is a multi-BU¹⁴ site, this is on top of the expansion of the nanofabrication business.

Duane Tan
Investor Relations

: Thanks, Gary. Thanks, Kay.

Do we have any outstanding questions from the floor? Perhaps we can wait for a minute or two before we wrap up the session.

Paul Chew
Phillip Securities

: Just one last one from me.

Can you just elaborate a bit more on the new customer plans? Are you just working on one model? What's the trajectory like for the new customer, the smartphone customer?

Gary Ho
Group CEO

: Today, we are shipping for one of their flagship smartphone products. As what I have explained earlier, the phone itself is, based on the feedback we received from the customer, well-received by the market. This is also the first time they are adopting coating solutions for the titanium substrate.

With this success, we anticipate participating in the next generation of the flagship smartphones using a similar solution. At the same time, we do see an

¹⁴ BU refers to Business Unit

opportunity to expand this solution to their other product lines, especially on the wearables.

Paul Chew
Phillip Securities : Does that mean they want to expand this to two other phones? Or is this just going to be one phone that is going to have this titanium feature?

Gary Ho
Group CEO : It could potentially expand to more phones, more models.

Paul Chew
Phillip Securities : Okay, thank you.

John Cheong
UOBKH : I have another question on the margins. In the past, during 2021, 2022, we saw over 50% gross margins. And in the last two years, gross margins have been declining.

With the strategy of focusing more on smartphones, does this mean that the margin moving forward, the normalised margin on a full year basis, we are not going to see the 50% level or probably not even the 40% level type of gross margin anymore on a whole year basis?

Kay Lim
Group CFO : On a whole year basis, because of product mix, we do face a certain change in the margins profile, but that is not permanent. Particularly for this quarter, we saw weakness in the IEBU business which typically contributes to higher margins.

If you look at overall margins, pertaining to the last part of your question, it may still be possible to see a gross profit margin of above 40% on a full year basis.

John Cheong
UOBKH : Okay. It is also a function of volume. When you go into a high-volume period, like say your 3Q, the margin (will improve)?

Kay Lim
Group CFO : Yes, it is a function of volume. Once we attain certain revenue volume which covers the fixed cost, our gross profit margin can exceed 50%.

John Cheong
UOBKH : Okay. All right. Thanks.

Duane Tan
Investor Relations : Thanks, Paul. Thanks, John. If there are no further questions from the floor, perhaps we can wrap up the session.

In the event, if you do have other questions or require further clarifications, please do feel free to reach out to us directly.

With that, I would like to end the session today.

Thank you all once again for joining us this morning and for management team who are joining us mainly from overseas. Thank you and have a pleasant day ahead.

END.