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1H2024 RESULTS BRIEF

14 August 2024, 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 Energy Pte. Ltd. ("**Sydrogen**")
Ian Howe	Group Chief Commercial Officer ("**Group CCO**")

Presentation Transcript

Duane Tan
Investor Relations
:
Good morning everyone, and welcome to Nanofilm's Results Brief for the First Half of 2024. I am Duane from Investor Relations, and we are delighted to have you here this morning as we provide updates on our first half performance.

Before we start the presentation, please allow me to introduce our presenters from management for today's session. Dialling in from Shanghai, we have Mr. Gary Ho, our Group CEO, and we have Mr. Ian Howe, our Group Chief Commercial Officer.

Dialling in from our headquarters in Singapore, we have Mr. Kay Lim, our Group CFO, and Mr. Gian Yi-Hsen, our Group Chief Strategy Officer and CEO of Sydrogen.

For today's session, we will have Gary provide us an overview before passing the time to Kay, who will elaborate a little bit more on our financials, before Ian, Yi-Hsen, and Gary cap things off with our outlook.

Before Gary starts the presentation, Kay has a quick clarification he would like to make before passing the time to Gary.

Kay Lim
Group CFO
:
Thanks, Duane. Good morning, everyone.

Before we start off the presentation proper, we would like to clarify a note released by an analyst which came to our attention last night, post our results announcement. While we typically do not comment on analysts' views, we are of the opinion that we should this time as the direct party involved is the Company.

It is stated in the note:

"*In its outlook, Nano expects full-year 2024 earnings to be comparable with 2023's S$3 million, indicating a second-half 2024 earnings of S$6 million, below second-half 2023 earnings of S$11 million*."

We would like to clarify, Nano, in this case, our Company, did not make any guidance with reference to this note. As the analyst is not expressing the view in the note as his or her own opinion, we think it is important to make clear that the guidance in the note is not from the Company. The guidance later will be explained more in detail by our team.

Okay, I will now hand over to Gary.

Gary Ho
Group CEO
: Thanks, Kay. Thanks, Duane.

Good morning, ladies and gentlemen. I am pleased to begin our presentation by giving you the performance overview of the first half of 2024, which has been a period of notable achievement and strategic evolution for our Company. I am pleased to share the progress we have made. We are witnessing a rebound in our business, driven by the recovery in 3C[1] and an extension of our customer base. Our growth is a result of our commitment to innovation, strategic partnerships, and our ability to adapt to evolving market demands.

In the first half of 2024, we recognised a 13% year-on-year increase in Group revenue, reaching S$83 million. Our adjusted EBITDA[2] over the period was S$17 million, a substantial increase of 61% year-on-year, driven by our ongoing cost measures. Correspondingly, we narrowed our first half net loss by more than 51% year-on-year. Our cash balance remains healthy at S$134 million. As an appreciation to our shareholders, we are proposing an interim dividend of 0.33 Singapore cents per ordinary share, which will be paid out in early September.

The revenue growth was primarily driven by the AMBU[3] segment, which remains the largest contributor to our revenue. Within AMBU, the 3C segment has demonstrated ongoing growth of around 17% year-on-year, with contributions from both existing and new customers. In the industrial segment within AMBU, growth was mainly attributable to both the Automotive and European markets. AxynTeC[4] has played a crucial role in driving this growth in Europe.

Despite the slower pace in the Chinese market, we are optimistic about enhancing sales performance moving forward. Additionally, the NFBU[5] segment experienced a remarkable 50% year-on-year growth, driven by the increased contributions from the MLA[6] project. However, the overall gains

[1] 3C refers to Computer, Communications, and Consumer Electronics
[2] EBITDA refers to Earnings before Interest, Taxes, Depreciation and Amortisation
[3] AMBU refers to Advanced Materials Business Unit
[4] AxynTeC refers to AxynTeC Dünnschichttechnik GmbH
[5] NFBU refers to Nanofabrication Business Unit
[6] MLA refers to Micro Lens Array

were partially offset by a 56% decline in IEBU[7], attributed to our customers' continued cautionary spending on equipment and an extended sales cycle.

Our ongoing efforts in cost optimisation and automation have resulted in a reduction in administrative expenses due to the reduction in total staff costs. We continue to focus on enhancing efficiency through process streamlining and automation.

Despite a challenging environment last year, our business was able to sustain, and we are making steady progress in controlling costs. We have invested S$21 million in property, plant and equipment, including completion of Phase 1 mega plant in Vietnam. We have also allocated funds for maintaining our existing facilities for new production and testing equipment in Vietnam and India. These capital expenditure initiatives are designed to maximise the utilisation of our existing assets and seize new opportunities. Despite the challenging geopolitical climate, our strategic expansion aligns with the China Plus One strategy and positions us well for increased opportunities both within China and globally. Leveraging on AxynTeC, we are hopeful that we will be able to make a meaningful penetration into the European market.

We are also seeing promising developments in our new energy sector. Sydrogen is ramping up production for automotive customers and has also secured a technology partnership with Shanghai Hydrogen Propulsion Technology Co., Ltd. to pursue the maritime power module market. With our commitment to continuously advance our technologies, such as through our collaboration with NTU[8] and expanding our customer base, we are well positioned to sustain and drive future growth.

I will now pass the presentation over to Kay, who will bring you through the financials.

Kay, please.

Kay Lim
Group CFO
: Thanks, Gary.

To further elaborate on our revenue, the momentum in our revenue recovery continues into the first half of 2024 and what that constitutes on the bottom left table is our BU[9] split in revenues.

Within AMBU that grew 20% year-on-year, 3C grew 17% with higher contributions from existing and new customers. Additionally, we have expanded our revenue base with a leading Asian player. On an ongoing basis, we also engage leading local Chinese players on projects that are currently under project development stages. However, we have a few 3C projects supposedly (scheduled) to ramp up in 2Q, end of 2Q, which have encountered delays, moving the mass production ramp up to the second half of this year.

[7] IEBU refers to Industrial Equipment Business Unit
[8] NTU refers to Nanyang Technological University
[9] BU refers to Business Unit

The magnitude of the delays in terms of proportion to our 3C business is in the north of more than 10%.

The industrial business within AMBU grew 26%, largely led by our increased contributions from our automotive sub-segment, as well as our European business through AxynTeC. AxynTeC's contribution, which some of you may have a follow-up Q&A question on, is less than 5% of our total revenue for the first half of 2024.

NFBU grew 50% from an increased contribution from our existing MLA project, which we have secured better allocation and we are the clear leader in terms of our market share. In the first half, as what Gary has provided in the overview, our IEBU saw a decline in our sales, driven by the relatively longer sales cycle, even though we have won a couple of orders that we have stated in our outlook.

Following on to our expenses, we would like to dive into the core expenses of the Group. For this particular page, we will be covering the cost of goods sold ("**COGS**"), which is a reflection of our operational performance, followed by our administrative OPEX[10], then the sales spending. In the subsequent page, we will be covering our R&D[11] and Engineering. Altogether, these form our operating expenses, as well as COGS.

Coming to this particular slide, on the left top chart, we have COGS and the resulted GP[12] margin. In terms of the half-on-half, as well as the year-on-year, we have shown improvement when it comes to year-on-year performance but performance in the first half of the year is not comparable to the second half, during which we would typically have a stronger financial performance because of the operating leverage.

GP margin grew from 32.0% to 33.5% - a 1.5% increase, due to a stronger business operational performance from AMBU and NFBU, offset by the operating losses from IEBU and Sydrogen. The first half GP margin was also impacted by a year-on-year increase in our direct depreciation and amortisation, with a delta increase of S$2.3 million.

Following on to the administrative OPEX, with our continuing cost optimisation through simplifying our business processes, we have reduced our ongoing staff costs by S$1.0 million, and that resulted in our administrative expenses decreasing by S$700,000 to S$21.2 million - a 3.3% decline, offset by an increase in professional costs of S$500,000 incurred for legal fees related to M&A[13] , as highlighted in our results.

We continue to invest in strategic areas such as sales which is our front engine to drive our revenue. We have continued to invest with higher sales and

[10] OPEX refers to Operational Expenditure
[11] R&D refers to Research & Development
[12] GP refers to Gross Profit
[13] M&A refers to Mergers & Acquisitions

marketing expenses of S$4.7 million in the first half, marking a 28% increase year-on-year. This is driven by our larger sales staffing costs as well as sales activities expenses, which is part of the strategy to boost our current sales as well as on a medium and longer-term basis.

Moving on to technology and innovation, as a deep tech company, we continue to invest a substantial portion of our revenue into R&D and Engineering. The top bars show the expenditure made in the first half as well as the second half of last year, followed by first half 2024. The dark bars are R&D and Engineering expenses that have been expensed in our P&L[14], followed by the white dotted bars on top of the respective periods. These are the capitalised portions of our spending in R&D and Engineering which are reflected in our cash flow statement under investments in intangibles for investing activities as well as additions to intangibles in our balance sheet.

R&D and Engineering spend remains relatively stable compared to last year, although we have a higher capitalisation rate as a result of an increased number of development projects moving closer to commercialisation. Indeed, our NPI[15] expenses, which increased 6.6% year-on-year is a reflection of an increased number of higher quality projects on development with our customers. Some of these projects will eventually enter into mass production in the second half this year as well as in 2025.

Next, after reviewing our revenue and costs, our profitability has shown improvement in terms of the trend.

For the Profit After Tax and Minority Interest ("**PATMI**"), we have narrowed our losses by half, driven by the factors that we have elaborated on previously in the slides. In the first half, net losses of S$3.7 million were also impacted by an increase in fixed costs, depreciation and amortisation of S$2.0 million and one-off M&A-related professional fees of S$500,000 related to AxynTeC. We also incur operating losses as an ongoing investment in business activities of Sydrogen of S$700,000, as well as slight losses in IEBU.

With that, our first half EBITDA grew 61.4% after we adjusted for fixed costs, depreciation, amortisation, interest and tax. It stood at S$16.7 million, with improved margins from 14.2% to 20.2% on a year-on-year basis. This is attributable to better business performance in AMBU and NFBU, offset by the operating losses from IEBU as well as from Sydrogen, which we will cover more in the outlook in the subsequent slides.

Next, in terms of our CAPEX[16] that we have spent for the past 1 year as well as the first half this year, we have been guiding the market that we expect a lower CAPEX spend because we are more or less done with the key infrastructure assets. That means our plants, in strategic areas such as in Vietnam and Shanghai, and subsequent expansion into different spots

[14] P&L refers to Profit & Loss
[15] NPI refers to New Product Introduction
[16] CAPEX refers to Capital Expenditure

strategically required by our customers, are done through a ramping model, as well as through factory-in-factory. That will basically cater for lower CAPEX.

The S$21 million that we spent in the first half, is largely due to the S$9.0 million in our Phase 1 completion of our Vietnam Plant 2, the completion of our automated warehouse in our Shanghai Plant 2 and the CAPEX spent for maintenance of existing facilities in China and Singapore. We incurred depreciation and amortisation expenses of c.S$35 million to S$40 million, slightly upwards in the S$40 million range. As this is forward looking, I provided a range that will give a sense of our maintenance CAPEX, but not on a like-for-like basis based on depreciation useful life because our assets are relatively new. We also have additions to our production and testing equipment that is required as we build the sites in India and Vietnam. We have equipment additions as well for R&D purposes related to our commitment to the Corporate Lab. We maintain ongoing efforts to drive the returns of these assets to optimise the utilisation of our existing asset base.

On our operating cash flow, the Company continued to generate positive operating cash flow, reflecting our business resilience. On the first half of this particular waterfall chart from the left is our beginning cash balance of the year, followed by the subsequent movement in our cash in the various categories. We have generated a positive operating cash flow of S$21 million, followed by investments in PPE of S$20 million, as stated in the previous slide, investments in activities of S$23 million comprising S$10 million in the acquisition of AxynTeC, S$7 million in intangibles that we had capitalised, as well as a bank deposit of S$6.5 million into a structured deposit that we have also marked out in the ending cash balance. In the ending cash balance of S$134 million, it excludes the S$6.5 million short-term capital deposit with a local Singapore bank. Due to accounting treatment, we cannot classify them as cash and cash equivalent, but our management views this as a cash equivalent because it is a very short-term, three to four weeks kind of hold-to-maturity instrument, a position which we have already unwound.

Next, we will be covering the outlook, which I will hand over to my colleague, Ian.

Ian Howe
Group CCO
: Thank you, Kay.

On the business outlook for AMBU, we have positive growth. On the consumer side, we have invested heavily into the strategic footprints and the alignment of the China Plus One strategy. We are now well positioned for business development in China, Vietnam and India.

For the second half of this year, we expect and see the pipeline bringing higher year-on-year revenue growth. We are currently in the ramp-up phase on NPI projects. Many of these projects will provide not only the growth for second half of this year but will continue into 2025 as well. As mentioned earlier, we also are expanding the customer base on the consumer business. We are starting smartphone projects with leading Asian consumer brands and with local Chinese supply chain partners for such brands.

On the industrial side, we are also investing and anticipating stable to moderate growth for this year. In Singapore, China and Japan, we are investing into the sales teams, as mentioned earlier, which is apparent from the OPEX increase. We are driving growth in the automotive business in China and also the market expansion into Europe. On the M&A side, we completed the AxynTeC acquisition in February this year, and we use that now as our platform to drive and accelerate the growth into the European market.

On the IEBU side, it is still a challenging environment. In the past, we had a focused and concentrated product line on the glass lens mould industry. This is still an important market for us, but it did reach saturation. In the China market, we see some slower activity from customers in general on CAPEX as a result of cautious spending based on the economic situation. What we really focus on now is hiring additional sales team, and also building a strategy where we diversify the application space and customer space. In addition to focusing on our core business in IEBU, we will drive new markets and new applications there. This year will remain a challenge for IEBU but we hope to see improvements based on the new investments and strategy from next year onwards.

On NFBU, we are still an emerging player with unique capabilities for developing our next generation consumer devices. In the second half of this year, we see mass production projects coming online for MLA application, consumer wearables and Fresnel lenses for smartphone sensors. Also, we have many projects running on the next generation of upgrades. We are also integrating more sophisticated optical technologies for enhancing consumer devices.

I will hand over to my colleague, Yi-Hsen, to comment on the outlook for Sydrogen.

Gian Yi-Hsen
Group CSO
: Good morning, everyone. This is Yi-Hsen.

On the Sydrogen front, through the support from the Chinese government, we have continued to see the Chinese fuel cell market mature. As mentioned by Gary, we have added a new automotive customer in the first half of 2024, and we are looking at adding one mass production customer in the second half of 2024.

On the product development front where Sydrogen is developing in-house products for the fuel cells market, we have also mentioned that we secured a partnership with Shanghai Hydrogen Propulsion Co., Ltd earlier this year, so work is underway. We expect to be ready for demonstration projects in 2025.

On our own closed cathode air cooled fuel cell, we have delivered a prototype to a Japanese customer earlier this July, and we expect to complete our own

2.5-kilowatt system by the end of this year. We are getting ready for mass production in our Shanghai plant.

Overall, there continues to be growth and momentum for Sydrogen, although the contributions are small in the context of the Group.

With that, I end of the update on Sydrogen. Thank you.

Gary Ho
Group CEO
: Thanks, Yi-Hsen.

As we look forward to the remainder of FY2024, it is crucial that we align our strategies with the evolving market environment and capitalise on the opportunities ahead. The overall macro environment remains uncertain, yet it offers promising prospects driven by increasing 3C consumer demand. The ongoing upgrades in AI[17] -enabled products may help enhance our performance and drive future growth. We have successfully expanded our customer base, notably among leading Asian and Chinese companies. Additionally, we anticipate that the delayed projects from the first half of the year will gain momentum in the second half of 2024.

We anticipate steady performance from the Precision Engineering sub-segment with continuing growth from Printing and Imaging, Automotive and market expansion in Europe. The ramp-up in production of Sydrogen's BPP[18] coatings for automotive customers marks a significant milestone towards the adoption of our solutions in the new energy sector. We will continue to drive initiatives to optimise our cost structure through continuous process improvements, automation and strategic procurement initiatives. We expect full year capital expenditure to be lower year-on-year but anticipate additions to our coating equipment in view of business requirements.

Looking at our financial performance, we are optimistic about the second half of the year. We anticipate higher revenues and profits year-over-year, provided there are no major unforeseen events. Our focus will be on executing and delivering our pipeline projects in the second half, which will be key to achieving our financial targets.

Overall, as a management team, we remain optimistic about our long-term outlook for the Group. We are diligently focusing on optimising our operations to enhance efficiency and effectiveness in the present. Our dedication to long-term growth and resilience ensures that we will be well prepared to seize new opportunities and drive success as market conditions improve.

With that, I will end the presentation and open the floor to Q&A. May we have the first question, please?

Thank you.

[17] AI refers to Artificial Intelligence
[18] BPP refers to Bipolar Plate

Q&A Transcript

Duane Tan
Investor Relations
: Thanks, Gary.

For the Q&A portion, if you have any questions, please do feel free to use the raise hand function if you are on Teams or you can type your questions on the chat, and we will attend to them.

I see we have a question in the chat from Onkar. Onkar is asking, could you throw some colour on the new Chinese customer and what is the revenue potential here in the long term? Was there any revenue from them in the first half of 2024 and what is the expectation from them in the second half of 2024?

Gary Ho
Group CEO
: Thanks for the question.

In the first half of 2024, the new customer that we mentioned is an Asian leading smartphone player which we have also shared with the market that we have secured this customer at the end of last year. The product continued in production through to this year. That contributed about 5% of our total revenue in the first half. In the second half, we anticipate that we will have increased contribution from this Asian leading smartphone player.

At the same time, we have also secured a new flagship product from a leading Chinese smartphone player. We anticipate that for the full year, these new customers and the new projects that we have secured will likely contribute about 5% to 10% of our total revenue.

Kay Lim
Group CFO
: Adding on to Gary's point, the Chinese player has not contributed to our first half revenue as we are going through NPI for them.

If we map out our customers' product launches, the varying product launches will then call for variations in terms of our NPI to mass production stages. So, it is a slightly different cycle compared to Customer Z.

Duane Tan
Investor Relations
: Thanks, Gary. Thanks, Kay.

We have a question in the chat from Gerard. He is asking, what are the main reasons for the delays during the first half of 2024? I believe he is alluding to the delays that we mentioned in the 3C space.

Gary Ho
Group CEO
: The delay in the new product, which is in the peak season, is due to the introduction of new colours which has increased the complexities. The customer had decided to push the launch out by 1 to 2 months from the original plan. However, we have already entered the ramp up phase. With the AI-enabled feature, we anticipate that this will spur volumes for the smartphone devices.

At the same time, we are also working on new projects for wearable devices.

Duane Tan
Investor Relations
: Thanks, Gary.

Do we have another question from the participants? Please do feel free to use the raise hand function on Teams.

Lee Keng, would you like to unmute yourself and ask your question?

Lee Keng Ling
DBS
: Hi, morning.

I just want to find out the order momentum for your key customer, Customer Z. What is the contribution like in first half? That's question one.

The second question is on the contribution from the second mobile customer. How big is the contribution now and what are the NPIs that we can look forward to?

Gary Ho
Group CEO
: Kay, maybe you can touch on the revenue contribution, and I can provide more details.

Kay Lim
Group CFO
: For the revenue contribution of Customer Z, we can only provide a range. It is between 46% to 55% of the total first half revenue.

Gary Ho
Group CEO
: For the new customers, specifically the leading Asian company that we discussed, we have secured the next generation of its AI-enabled smartphone device. We are participating in the coatings for the key components for the product.

At the same time, we mentioned that we are also working on the NPI and have secured new projects for a leading Chinese customer. These 2 projects will commence mass production in 3Q and 4Q of this year, second half of this year.

With the increased contribution from the new leading Asian customer and the addition of this Chinese customer, we anticipate this new business will likely contribute about 5% to 10% of our total revenue for the full year.

Lee Keng Ling
DBS
: So, the 5% to 10% is from the Chinese player or will it include other mobile players?

Gary Ho
Group CEO
: Both.

Also, bear in mind that all these projects will continue into 2025. At the same time, we are also working on other devices, which are currently also in the NPI development stage.

Duane Tan
Investor Relations
: Thanks, Gary. Thanks, Kay.

We have 2 questions in the chat in relation to Sydrogen.

The first one is from Onkar. He is asking if we can provide some colour on the application of the 2-kilowatt fuel cell that we are building in-house. What is the revenue potential here?

Gian Yi-Hsen
Group CSO
: We're looking at several different markets, mostly in portable gen-set market. These are typically used in places like construction sites and off-grid locations where they require power. We are also designing the system to be able to stack up so that multiple systems up to 10-kilowatts can be used in different types of configurations.

In terms of revenue potential, it is still early days. The major constraint comes with the level of availability of hydrogen in the different markets and applications. We will get a clearer picture probably towards next year when we gain traction from our market channels and distribution network.

Thank you.

Duane Tan
Investor Relations
: Thanks, Yi-Hsen.

Gerard has a follow-up question on Sydrogen: could you elaborate on the new automotive customer for Sydrogen? What is the nature of the project and what contribution could we expect this year and in 2025?

Gian Yi-Hsen
Group CSO
: In terms of contribution, we expect to see significant improvements over last year. However, as mentioned earlier, we do not see it as being material in the context of our Group. Yes, maybe that is a good way to put it.

Duane Tan
Investor Relations
: Thanks, Yi-Hsen.

We have a question in the chat from Chong who is asking, if we have any business with the South Korean mobile player? If so, what is their contribution?

Gary Ho
Group CEO
: The leading Asian customer that we are referring to is not a Chinese company. It is the South Korean company that you are referring to and it has contributed to the new customer contribution for our 3C segment.

We are continuously engaging them for the next generation of AI-enabled devices. This project will continue production to the second half. At the same time, the new project is anticipated to launch in 4Q of this year.

Concurrently, besides the smartphone project, we are also working on other devices that is going to adopt our unique coating solutions.

Duane Tan
Investor Relations
: Thanks, Gary.

We have a question from Wern Juan, would you like to unmute yourself?

Wern Juan Chng
HSBC
: Thanks, Duane, and thanks, everyone, for taking my question.

I have only one question. You mentioned that the magnitude of the delay is about a 10% impact. I am trying to tie that to the fact that for the full year, it may be about 5% to 10% of overall revenue from the new customers. That seems to suggest that at least if you just back out 5% from that 10%, your Customer Z uplift into the second half of this year is quite small relative to what we are seeing in the rest of the supply chain. I expect the bulk of that 5% to 10% to be recognised in the third quarter of this year. So, my question is: will you see any upside to that guidance? or what you are seeing from Customer Z in terms of the internal production that you are doing now in the fourth quarter, only when they sell, you will see sell through numbers in the smart phone?

Thanks.

Kay Lim
Group CFO
: Maybe I can take the question first, and my team can provide more details later.

Regarding the delays in projects in the magnitude of about 10% of our AMC[19], (i.e., our 3C consumer business within the AMBU), the 5% to 10%, as Gary mentioned, pertains to the total revenue impact from the new Asian as well as the Chinese player. I apologise for the varying denominator. That is why they may be causing some confusion.

Why we mentioned that 10%, or basically higher for the 3C business, is because 3C overall grew about 17% year-on-year, which we have disclosed earlier. That is to connect the dots in terms of our real growth rate, if not for the delay. As you are aware, we have released our revenue split in 1Q business update.

2Q was relatively flat in terms of performance from Customer Z, which aligns with Customer Z's financial releases as well as business updates. Certain subsegments within those 3 categories that we cover: smartphone, wearables, and tablets are not growing as expected as well, though we will not dive into the details due to sensitivity.

If we connect it with our end customers' guidance, there is a lot of anticipation for new models, which caused certain projects to delay. Some of these projects are carrying us through into second half. As we ramp up, we are seeing a pickup in demand from Customer Z, which is in line with their guidance.

[19] AMC refers to Advanced Materials – Consumer (Consumer end-market within AMBU)

Moving on to the part on new customers. Due to the varying mass production cycle in 2Q, the contribution from this leading Asian player is not significant because it is nearing the end-of-life of their current model. As it is at its end-of-life, the new model launch will only go through the ramp in 4Q, either early 4Q or late 3Q, which contribution will then fall into 1Q of 2025, and this is what we have experienced this year.

However, what is different this year compared to subsequent periods is that we have smaller allocation. We are a new player in 1Q this year. As a new player, our allocation will definitely be compromised. We are proving ourselves, but we are cautiously optimistic. It is not a done deal yet. We are cautiously optimistic that we will grow our market share within this space with this particular Asian player.

Without going into further into the guidance, I hope this provides you some insight in terms of our momentum, not just for second half, but also for 2025.

Duane Tan
Investor Relations
: Thanks, Kay. Thanks, Wern Juan.

We have 2 questions in the chat. I will tackle the first one from Zhiwei first. He mentioned that in general, there has been plenty of positive sentiment to the smartphone upgrade cycle for Customer Z. Could you share if you see the same based on your production outlook and how it compares against your 2021 production levels?

Gary Ho
Group CEO
: As we have shared earlier, we have entered the ramp-up phase and our solutions have been adopted across the devices for our major customers. Coming to the tablet and the portable devices, at the moment, we are entering the peak season, and we expect that this will continue towards the major part of the second half.

For smartphone devices, we also read the news that our customer had increased chip orders in anticipation that there will be a possible uptick in demand for this new device. We have already commenced the ramp up for all the coating components for this next generation smartphone device. That will very much depend on the end-market performance.

On the wearable side, we are involved in new components for the next generation of devices. We have seen some delays in this segment. However, we are positive about the NPI projects that we are working on, not only for this year, but also that will continue to carry on to the next year.

All in all, we are cautiously optimistic, on the second half ramp up, although it may not reach the 2021 level. But comparing year-over-year, we anticipate that there will be an improvement.

Duane Tan
Investor Relations
: Thanks, Gary.

We have a question on AxynTeC from Gerard in the chat. He is asking if it is possible to share some colour on the type of customers that AxynTeC brings to the Group, the potential of new revenues for the Group, and what are the cross-selling opportunities? Perhaps, Ian can take this.

Ian Howe
Group CCO
: Thanks for the question, Gerard. Happy to answer that.

The whole point of the AxynTeC acquisition is to provide the platform in Europe for us to start the business development. The first synergies we have on sales is really with the existing customer base in AxynTeC. One leg of that is the decorative business, especially in home appliances and some consumer electronics brands. Without mentioning names, the type of application includes kitchen knives, high-end knives and cutlery, mostly kitchen appliances, things like coffee machines, cookers. So, this is one area.

For cross-selling, we can bring Nanofilm's technology platform across. We are in the process of doing that now on transferring FCVA[20] technology and looking to penetrate more applications with those customers.

In addition to decorative, we also have the MedTech[21] customer side. That is mainly on medical instrumentation type of applications. So, we can also accelerate sales there.

Last but not least, we have the functional coatings business, which is more aligned with the general industrial base, things like machine tools and high-end applications in general industries. So, there is plenty of potential and this is the whole rationale behind going into Europe.

Duane Tan
Investor Relations
: Thanks, Ian.

We have a question from C.H. in the chat in relation to the EBITDA margin. He mentioned that EBITDA margin of AMBU in first half of 2024 has improved by a lot compared to the first half of 2023. Could you comment on the sustainability of this margin? In the second half of 2024, will you be able to guide us on the half-on-half and year-on-year revenue and margin trend of AMBU?

Kay Lim
Group CFO
: Let me take this question. The EBITDA margin of AMBU grew from 15% to 21% on a year-on-year basis, driven largely by the 3C business. 3C has commanded a better margins profile as we gain revenue volume because of the leverage that we have. Bear in mind that EBITDA excludes our depreciation and amortisation.

With that, in terms of sustainability of this margin, we had in the past recorded better margins which you can relate to. In terms of the guidance of a half-on-half, we will be expecting better margins, better GP margin, better EBITDA

[20] FCVA refers to Filtered Cathodic Vacuum Arc
[21] MedTech refers to Medical Technology

margin, better net profit margin. Net profit margin for half-on-half is not entirely comparable given that in the first half we are still making losses.

In terms of the margins, we expect it to be better year-on-year, taking second half 2024 versus second half of 2023, backed by the revenues that we expect to generate from the pipeline projects that we have good visibility about.

What we have lesser visibility, as we have always guided the market, is in 4Q for certain customers like Customer Z because we do not know what the end demand for their product is.

This year round the vibes that we are getting are generally positive in terms of the product launches across different categories. It is supplemented and supported by our mass production ramp, in 4Q for the Asian player as well as the Chinese player.

We are addressing solutions as what Gary, and the team have mentioned. We are addressing solutions in their flagship models. We are cautiously optimistic that there will be good revenue momentum coming from these players. We are providing solutions on larger components, instead of small components for Customer Z.

We do have a good chance in terms of operational excellence for this kind of a standard application as we ramp up. That is the strength of Nanofilm, both the technology as well as ability to do high-mix, high-volume kind of production.

However, the kind of application for the Asian and the Chinese player, is not considered high mix production, it is low-mix, high-volume production. Hence, it is relatively straightforward. However, it carries certain engineering challenges and difficulties. We are not trying to simplify things but there will be challenges. However, we believe that we have the strength and unique value proposition to address those challenges.

Coming to Customer Z, the flattish kind of a trend in 2Q is because of the complexity of the projects. The new product launches carry certain features and certain colours which we have addressed, and we are moving towards mass production in the second half. The margin trends are expected to be better in the second half.

Duane Tan
Investor Relations
: Thanks, Kay.

We are just about on the hour for today's session. Perhaps you can take the last question in the chat from Gerard. He is asking whether the margins for Customer Z this year remains consistent compared to past projects?

Kay Lim
Group CFO
: In respect of the margins for Customer Z, due to the additional new projects, coupled with our operational excellence, the margin profile that we are getting is better compared to last year.

Gary Ho
Group CEO
: I would like to make an additional point. When you look at our business, the cost structure has changed, comparing to where we are now and about 2 to 3 years back. We have more sites and a higher cost base now but these position us well to capture new opportunities. Once the market condition improves and the volume recovers, we will have a good chance to enjoy this operating leverage.

Duane Tan
Investor Relations
: Thanks, Gary. Thanks, Kay.

We are about on the hour. I would like to conclude today's briefing.

If you do have any other follow-up questions or clarifications required, please do feel free to reach out to us. We will be happy to take it offline.

Thank you once again, for joining us this morning and for your time and attention.

With that, I will bring this session to a close. Have a wonderful day ahead.

END.