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3Q2024 BUSINESS UPDATE BRIEFING

29 October 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
Ian Howe	Group Chief Commercial Officer (“**Group CCO**”)

Presentation Transcript

Duane Tan
Investor Relations
:

Good morning, ladies and gentlemen, welcome to Nanofilm’s Third Quarter Business Update. Thank you for joining us this morning. I am Duane from Investor Relations.

Before we start, please allow me to do a quick introduction of the management panel for this morning’s session.

We have our Group CEO, Mr. Gary Ho. We have our Group CFO, Mr. Kay Lim. We have our Group Chief Commercial Officer, Mr. Ian Howe. And, joining us online from Germany is our Group Chief Strategy Officer and CEO of Sydrogen, Mr. Gian Yi-Hsen.

For today’s agenda, Gary will be going through a quick review of our third quarter, after which he will touch on our outlook before opening the floor for Q&A. Without further ado, I will hand the time over to Gary.

Gary, please.

Gary Ho
Group CEO
:

Thanks, Duane.

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

I would like to start by giving an overview of our performance for the Third Quarter of the Financial Year 2024 and then share our outlook for the rest of the year.

In the Third Quarter ended 30th September 2024 (“**3Q2024**”), the Group reported revenue of S$60 million, reflecting an 10% year-on-year increase and a 38% growth from the previous quarter. The performance was primarily driven by the Consumer business segments within AMBU[1] and NFBU[2].

Within AMBU, the 3C[3] segment grew 11% year-on-year and 71% quarter-on-quarter reaching S$37 million. This growth was largely driven by the

[1] AMBU refers to Advanced Materials Business Unit
[2] NFBU refers to Nanofabrication Business Unit
[3] 3C refers to Computer, Communications, and Consumer Electronics

Communication and Computer subsegments of 3C customers, averaging a 27% year-on-year increase.

However, challenges in the Wearables and Accessories subsegment, impacted by the supply chain saw a decline of 20% year-on-year, which partially offset the overall performance. Production resumed in mid-September, which would help mitigate the impact moving forward.

The NFBU segment grew 8% year-on-year and a 50% quarter-on-quarter, reaching S$8 million. This growth was driven by higher allocation for the MLA[4] project, which are adopted in smart wearables.

IEBU[5] remained flat year-on-year contributing S$3 million with revenue primarily from equipment delivery and after sales services. Sydrogen reported 688% year-on-year growth from a modest base, driven by an increase in the production of coatings for hydrogen fuel cell bipolar plates. These bipolar plates utilised in the Automotive industry reflect the rising adoption of hydrogen fuel cell technology.

Moving to the next slide, I would like to provide an update on our operating performance, geographical expansion and strategic priorities.

Operationally, we faced some challenges this quarter with headwinds affecting demand generation and weaker end demand impacting the supply chain. Despite these hurdles, the Advanced Materials segment continued to grow, though partially offset by a slowdown in Precision Engineering and Wearables and Accessories subsegments. The Computer and Communications subsegments within 3C led the growth, contributing 75% of 3C revenue.

Moving on to the Company's financials, our gross profit margin for 3Q2024 was above 40%, up from 33% in the first half of 2024. Comparable gross profit grew by 66% quarter-on-quarter and 4% year-on-year, reflecting the positive impact of our strategic initiatives. Additionally, EBITDA[6] increased by 34% quarter-on-quarter and 17% year-on-year with the EBITDA margin rising above 28%, up from 19% in the first half of 2024. Importantly, we reversed the losses from the first half of 2024, achieving profitability in 3Q2024 and for the nine months ended 30 September 2024.

In terms of our strategic footprint, we are aligned closely with the China Plus One strategy, positioning us favourably for growth in China and globally.

In Vietnam, Plant 2 has begun small scale production of coating services for 3C customers while ongoing development projects for both 3C and NFBU initiatives are progressing.

[4] MLA refers to Micro Lens Array
[5] IEBU refers to Industrial Equipment Business Unit
[6] EBITDA refers to Earnings before Interest, Taxes, Depreciation and Amortisation

In India, we are in the qualification phase and expect to start small batch production for a key customer by end-4Q2024[7] or 1Q2025[8].

Additionally, we are focused on expanding our reach in the European market through AxynTeC[9] and utilising our integrated product offerings. This strategy will create a robust platform in Europe, enabling us to deliver our unique solutions to customers in the region. By leveraging our core technological capabilities, we continue to be a leading partner in material science for surface reengineering, collaborating closely with customers to support and advance their product development roadmaps.

In closing, I would like to discuss the broader market environment and key growth drivers that will shape the Company's future.

The global Consumer Electronics market is seeing promising year-on-year improvement, driven by premiumisation trends and the increasing adoption of generative AI[10]. Although industrial output in Asia and Europe remains soft, there are indications of gradual recovery that could help mitigate some of the challenges faced by our Industrial Equipment business.

Additionally, advancements in the New Energy sector, particularly Sydrogen's innovations in hydrogen fuel cell technology, offer significant opportunities as global green clean energy infrastructure continues to evolve.

As we look ahead, our focus remains on optimising our cost structure through operational excellence to enhance productivity. Although we anticipate lower full year capital expenditure ("**CAPEX**") in infrastructure investments, we are committed to expanding our coating equipment capabilities to facilitate growth in Southern China, Europe and the Corporate Lab.

With these initiatives in place and barring any major unforeseen events, we are confident in our continued growth momentum heading into the Fourth Quarter. The Group is well positioned to achieve higher revenue and profits in FY2024 compared to the previous year as we capitalise on market trends and leverage our strategic global positioning.

With this, I will open the floor for Q&A.

Thank you.

[7] 4Q2024 refers to the Fourth Quarter of the financial year ending 31 December 2024
[8] 1Q2025 refers to the First Quarter of the financial year ending 31 December 2025
[9] AxynTeC refers to AxynTeC Dünnschichttechnik GmbH
[10] AI refers to Artificial Intelligence

Q&A Transcript

Duane Tan
Investor Relations
: Thanks Gary.

We will now open the session to Q&A. 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.

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

Zhiwei Foo
Macquarie
: Sure. Thanks.

Thank you, Management, for the presentation, I have two questions. The first question is on your NFBU. You cited a higher allocation of MLA. I would like to understand, was this a one-off allocation or was it a permanent increase? And what would your wallet share be?

The second question is on your 3C business. Could you just share a bit about what the approximate split of your Communication, Computer and Wearables and Accessories is within that 3C revenue segment? And can you also talk about the outlook of your Wearables and Accessories - do you see a bottom, and can it improve? As well as the outlook for your smartphones - do you see it ramping up from here?

Thanks.

Gary Ho
Group CEO
: Thanks, Zhiwei, for the questions.

I will take on the first question and perhaps, Kay you can cover the second.

For NFBU, as you may recall, we had entered the space for this very strategic component for smart wearables a couple of years ago, coming in as a challenger to a reputable global supplier that has been working on this component.

We came in with a value proposition to drive innovation in the development and production for this product. Since then, we have continued to prove ourselves with solid track record that our solution is better in terms of performance, quality, delivery and of course, cost competitiveness.

Since then, we have continued to gain market share and at the same time, the offering that we have basically serves as a one stop, end-to-end solution for our customer whereas their incumbent's solution required them to pass the component to another company to complete the die cutting process prior to final assembly.

Thus, this increases allocation (to Nanofab). I would say that the allocation spans over a period of time, and that it is going to stay as we believe that we have a proven track record. Further, we have demonstrated to our customer that our solution is better in comparison to the incumbent's.

Kay Lim
Group CFO
: Thanks, Gary.

On the AMC[11] split among the subsegments, an approximate figure of smartphone contribution, which is under the Communication subsegment, forms about 40% of the total 3C coating business. The Computer subsegment forms another 40%. The remaining 20% revenue is contributed by the Wearables and Accessories. The total 3C coating business makes up about 60% of the total Group revenue

Zhiwei Foo
Macquarie
: Thanks.

What about the outlook for your smartphones? How do you see the outlook for your key customers like Customer Z, do you see it improving from here? And then can you talk about where you see the Wearables and Accessories? Is this the bottom and do you see your customer putting out more orders or is it still very consumer demand dependent, which we know is weak?

Gary Ho
Group CEO
: Looking ahead to 4Q2024, our 3C segment will continue to be the main revenue contributor in 4Q2024 and this will be very much dependent on the end consumer demand.

For Wearables and Accessories, there were some supply chain challenges in the last quarter, such as one of our upstream vendors faced some production issues. However, this issue has been predominantly resolved and production has commenced since the mid of September. Production will continue but it will be also very much dependent on the end consumer demand.

Zhiwei Foo
Macquarie
: For smartphones?

Gary Ho
Group CEO
: For the outlook of the smartphone, the production is ongoing, and this will continue into 4Q2024 till next year. However, the smartphone business is already past the peak ramp up season and it is now back to the normalised level. The coming volume is still very much dependent on the end consumer demand.

At the same time, as we have shared earlier, we are participating in projects for the new flagship products of two new customers. One is a leading Asian customer; the other is a leading China customer, and the production has commenced in the late 3Q2024 and some slated in the mid of 4Q2024.

This is something that is very encouraging as it is complementary, given the different launch cycle. Production is very much on track, according to the

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

customers' schedules, and this is going to contribute further into the beginning of next year.

Duane Tan
Investor Relations
: Alright, thanks Gary. Thanks, Zhiwei.

We have a question from Paul, would you like to unmute yourself and ask your question?

Paul Chew
Phillip Securities
: Thanks so much for the presentation, just a few questions for me.

Firstly, on the new customer, the Asian and Chinese smartphone players, can you maybe touch on how much they contribute to total revenue? And secondly, will they split to more products, I mean the usage of your coating services or will they launch that type of material into more products? That's my first question.

For IEBU, what can help return this segment to growth, excluding macro recovery? I was wondering if there have been any discussions with your customers, I mean if we do get some massive tariff hikes either in China or across the board, like any discussions with our customers right now?

Thanks.

Gary Ho
Group CEO
: Thanks for the questions, I will take the first one.

For the new customers, as I have shared in my presentation, we do see that many of these players are pursuing the premiumisation trend. We are also glad to share that we are in their new generation of flagship smartphone models that utilise our unique coating solutions for the titanium substrates.

We expect that these new customers will contribute approximately 5% to 10% of our total revenue in 2024. As we continue to build our track record in participating in all these flagship products, we do see potential in participating in other smartphone models as well as penetrating into other consumer electronics devices, for example smartwatches.

Ian Howe
Group CCO
: Thanks for the question, Paul.

On IEBU, as we have stated several times, the sales cycle is long. We have one area on the new generation of mould coaters, which we are pushing to the existing customer base who are looking to replace older machines that are in the field.

Additionally, we are widening our global reach, not only looking in Asia, but also working in Europe and beyond. We have some work going on in the R&D[12]

[12] R&D refers to Research & Development

pipeline for new areas such as Solar and New Energy, and hydrophobic solutions for Consumer, Electronics and other areas.

The key is enhancing what we have from the past with the mould coater and the optical business, and pushing harder and investing into new application areas to sell more equipment. That is the high-level strategy that we are employing.

Duane Tan
Investor Relations
: There is one other question on the potential tariffs, asking whether we have any discussions with our customers on any potential tariffs that might arise.

Kay Lim
Group CFO
: We have had discussions with our customers on signals regarding potential tariffs, given the US situation.

Gary Ho
Group CEO
: Nanofilm is very well positioned to capture all these opportunities, being a Singapore listed company, and we have been pursuing the China Plus One Strategy that gives us all the necessary footprint to address these tariff challenges.

We do have a strong base in China where we are serving all our customers. At the same time, our new plant in Vietnam and India are also coming on board. Further, our expansion into Europe gives us a good position to capitalise on these potential opportunities.

Paul Chew
Phillip Securities
: Can I ask a quick follow up on the smartphone? On the smartphone, the new customer, does it have to be linked to just titanium, or you could see yourself doing coating for other types of materials?

Thanks.

Gary Ho
Group CEO
: Thanks for the question.

We do have a full suite of coating solutions for different substrates and different materials. As you may know, in the overall smartphone or the Consumer Electronics industry, Customer Z is setting the trend, especially for premium products utilising different materials and they continue to push the trend.

We do see that there are many other leading players that are also pushing this trend in terms of utilising some of these expensive materials, which will also require our coating solutions. Titanium is one of the substrates that requires good coating solutions to provide the touch and feel, and give an overall premium look for the product.

However, our solutions are not limited to this. If this trend continues, we believe it will give a good potential for our Company to drive continuous growth into these new customers.

Gian Yi-Hsen
Group CSO
: Just allow me to jump in on the tariff, in terms of Nanofilm Group's exposure to tariff related issues. If you look at our product mix, a lot of it is in the Consumer Electronics segment that is generally very unlikely to be hit by tariff related issues, given that the Company is involved in this particular segment and the spread of production.

Furthermore, as Gary has already mentioned, our geographical expansion allows us to be quite confident that regardless of what happens on the tariff front, we have the ability to respond to the needs of the market.

Duane Tan
Investor Relations
: Thanks, Paul.

We have a question on the chat from Onkar.

He is asking, firstly, on a quarterly basis, NFBU revenue was quite good. Is this the new runway? Secondly, he is asking if we could throw some colour on who are the customers for IEBU?

Gary Ho
Group CEO
: Thanks for the questions, I will touch on the first one, perhaps Ian you can take the second question.

On NFBU, for the moment, the main revenue contributor is the MLA project which I have mentioned earlier, a very critical component that goes into the smart wearable device. Given its importance, the lifespan of this component is likely going to stay for several years. At the same time, we are also working on the next generation of components, which is going to be more sophisticated as our customer is pursuing more functionality into the next generation of smart wearables.

This MLA technology that we have developed has a lot of potential, not only in Consumer Electronics devices, but also in other industry applications as well. While we continue to build up a strong base in the Consumer Electronics industry which is quite seasonal, we will also concurrently look to build the opportunity pipeline in other applications.

We will continue to grow with our existing key customers with their new generation of products and, at the same time, utilise our technology to make inroads into other industries and customers.

We expect that our NFBU business will continue to grow steadily as we look forward.

Ian Howe
Group CCO
: On the IEBU side, the main customers for this year and early next year are still in the Optical space and we also have some inquiries in the Semiconductor space.

Moving forward, for next year, as mentioned, we are looking into new areas in Consumer Electronics on hydrophobic coatings and in areas such as Solar and New Energy. In the longer term, we are also looking to other optical types of industries.

Unfortunately, we cannot mention the customers, but these are the segments and application spaces that we are moving towards.

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

We have a question from Gerard. Would you like to unmute yourself and ask your question?

Gerard Ahhot
Holt Asia Investment
: Hi, good morning, management team.

I have some questions regarding the new facilities in Vietnam and India. The first question is in terms of timeline, when will these new facilities be fully operational in terms of capabilities and capacity?

In terms of capabilities, are there differences between the two facilities?

On the third question, that is in terms of global capacity in the medium term, how much will these new factories represent in terms of capacity compared to the total capacity of the Group maybe within the next two to three years.

And the last question is in terms of customers, if you could share with us, are these plants mainly for existing key customers or is it open to also other customers?

Thank you.

Gary Ho
Group CEO
: Thank you for the questions.

Coming to the new facility, we have completed our Vietnam phase one since the end of last year. We have completed all the certifications and qualifications by our customer. In this campus, we anticipate there is going to be a multi-BU[13] campus in the long run. With the new plant coming on board, we have put in new capabilities, particularly on the coating services. Our NFBU has been set up and established over there with a strong local team since about six years ago. As we move along, we are going to expand more into these new facilities and are going to grow with our existing key customers. At the same time, the facility will also support other new customers and new applications for other BUs.

For India, we are adopting a factory-in-factory approach. It is not as large a facility as compared to Vietnam; it is a small facility for a start in India. We are housing our production operations within one of the key metal vendors' site within the supply chain. The operation site has been qualified by our customer and we are currently in the qualification development phase for the new

[13] BU refers to Business Unit

product that is being planned for India. We anticipate that small batch production will commence by December 2024 or early 2025.

Looking ahead, today Nanofilm is very well positioned in terms of our R&D production capacity in China and globally.

In China, we are very well-positioned. We do have large campuses in Shanghai, where we have been serving our customers over many years in Consumer Electronics, as well as in many other industries and applications. It is a multi-BU campus that is proven to have been running effectively. Within China, we have also set up other locations; in the South, we do have some operations, in the East for the Automotive segment, and within the Central West, we have AMI[14] operations for functional coatings.

Outside of China, our next Mega campus will be in Vietnam. I had mentioned earlier about India. We also have made inroads into Germany for the European market.

All in all, we are equipment manufacturers. We design, develop, and build equipment and today, we have a strong installed base for different types of equipment serving different applications. As our business continues to progress, we will continue to keep up the capacity to serve our customers' needs. However, in the short term, what we are looking at is to have a holistic view of overall capacity, how we can re-deploy them. As I mentioned earlier, our equipment is versatile. They can be easily reconfigured for different types of applications which we have been doing actively this year, especially re-deploying equipment for our facilities in Vietnam, in India, and in some of the other countries. This will help to improve on our OEE[15] and also our equipment utilisation and reduce the CAPEX.

Gerard Ahhot
Holt Asia Investment
: Thanks for the details.

Maybe in terms of breakdown of revenues in the next two to three years, is it possible to have an idea between China and the other countries, what could it be for the Group?

Gary Ho
Group CEO
: Looking ahead, we believe that China continues to be a very important market for us. The supply chain is very established and Nanofilm has established a strong foothold over there. We believe that as the economy continues to recover and make progress, China will continue to stay as the strongest and largest market for us, especially in the foreseeable future.

However, we do see that there is a great potential for the rest of the world and that is why we took this initiative to adopt the China Plus One strategy to get ourselves well-positioned for other critical markets such as in Vietnam, India and Europe. We have invested and incurred set up costs to build our

[14] AMI refers to Advanced Materials – Industrial (Industrial end-market within AMBU)
[15] OEE refers to Overall Equipment Effectiveness

capabilities in these locations; however, we believe that in time, we will be able to capitalise on this first mover advantage. As the volume continues to pick up, we will be able to enjoy some of this operating leverage that positions Nanofilm well for sustainable growth moving forward.

Kay Lim
Group CFO
: Just to add, it is basically a two-pronged growth strategy, one is in China and one outside of China. Regarding the pace of growth in China, with a larger base today contributing more than 80% of our revenue, while it is growing, we do not expect it to grow as fast as our regions outside of China on a relative basis. As both areas are growing in parallel, it is difficult to pinpoint in terms of mix as we calibrate our strategy. This is because for some of these supply chain moves, as well as expansion, it is predicated on our end customers.

I would like to add to Gary's earlier comments on our infrastructure. We have a strategy surrounding our infrastructure building, meaning our fixed assets, our plants. There are basically three options for Nanofilm.

One, we own our plants. The owned plants are the likes of Shanghai Plant-1 and 2, our Vietnam Plant 1 and 2, as well as our Tai Seng headquarters in Singapore.

Then we have another two options. One is our factory-in-factory where we are strategically positioned in our customers' workshops or our customers' premises, which is also part of the growth strategy to expand our customer base. In certain strategic locations, we are tying up with our customers to turnaround certain solutions in a coordinated, entrenched manner.

The third option we have is factory-by-factory where the supply chain or where the market catchment is. We would like to be located in that area as it is like a magnet that basically attracts the localised market and opportunities in that particular area. We do have factory-by-factory in certain spots in China as well as now in Europe, Germany.

Gerard Ahhot
Holt Asia Investment
: Thanks for sharing.

Just the last one in terms of customers. Are we right to understand that Vietnam and India are mainly, in the short term, for Customer Z?

Gary Ho
Group CEO
: Yes, for the beginning stage, Customer Z is going to be our key customer for Vietnam and India, but we are also in engagements with other potential customers. We believe that we will continue to evolve and grow with Customer Z; however, as we do not have any exclusive arrangement with Customer Z, we will also look to develop new customers in these new areas.

Kay Lim
Group CFO
: This follows on to the earlier point that we made about factory-by-factory. Our Vietnam plant is strategically located in a certain supply chain in that area. Without stating the customer's name, the leading Asian player has a very

strong presence in that country which will be one of the key opportunities we are tapping.

Gerard Ahhot
Holt Asia Investment
: That is great. That is all for me.

Thank you very much.

Duane Tan
Investor Relations
: Thanks, Gerard.

We have a question from John. John, would you like to unmute yourself?

John Cheong
UOBKH
: Hi management, congratulations on the good results.

On the outlook, it was mentioned that the positive growth momentum is expected to be carried into 4Q2024. Is this an indication that the Fourth Quarter is expected to do better than the Third Quarter?

Kay Lim
Group CFO
: We expect it to be range bound. If you look back at our history without all the supply chain disruptions in the past, 3Q typically is our peak quarter because of the ramp up of Customer Z demand.

Given what Gary has brought up, a few points with our expanded customer base, where we have non-Customer Z. The two are basically leading players in their own rights. Note that their flagship products have not been launched because of varying product launches.

Based on what you see in the market today, the foldable ones are the prelude because those are not the mass volume. On the relative basis, the flagship products will command a bigger volume compared to the non-foldable series. The flagship products will be launching in 4Q, which is why now in the late-3Q as well as now going to 4Q, we are ramping up for those models. Henceforth, that gives us a nice even spread. Without this expanded customer base, we would result in a flat, if not a down quarter.

On top of that, certain activities in other BUs, although smaller in terms of contribution, are getting meaningful traction. With that, we are calling the outlook of continuing growth momentum into 4Q, which is range bound if compared to 3Q.

John Cheong
UOBKH
: The base case we can look at is comparable to 3Q, right?

Kay Lim
Group CFO
: Yes, that is right.

John Cheong
UOBKH
: In FY2024, we see that the first half was hurt by low seasonality and that is why you are not able to cover the fixed costs and hence suffered a loss.

Going into the first half of FY2025, do you foresee the same type of problem that we see in the first half of 2024 where because of low volume and seasonality issues, you are not able to cover your costs?

Gary Ho
Group CEO
: Looking ahead to next year, the first half typically is a low season for the Consumer Electronics segment. However, next year we anticipate it to be better as we have made some progress in this area.

With Customer Z, we continue to participate in their NPI[16] projects that will carry on into next year. For projects we are currently ramping, production will continue next year as well. However, volumes are very much dependent on the end market demand.

The next year will be a bit different as what we have shared earlier, since we have successfully made inroads into these two leading customers, and they are ramping up their products more in 4Q. We believe that this probably will continue to roll into the first half of 2025 and will continue to contribute more meaningfully. These are add-ons to Customer Z contributions and next year, these should be the one big growth driver.

At the same time, our new sites in Vietnam and India require initial investments. We need to put all the infrastructure in place which has high startup costs, including having the team in place. After the initial setup phase, we would have then gained all the qualifications, and commence some production. We believe that this is going to build up and make progress going into next year.

In our other segment, Advanced Materials in the Industrial segment, we have successfully completed the post-merger integration of AxynTeC. We continuously make progress with the various opportunities in the pipeline, and we believe that this business is going to continue to grow steadily with our footprints in Europe, in China and in Singapore for Southeast Asia.

IEBU, in the short term, is still a drag in our total business performance. As Ian had shared earlier, this business has a very long sales cycle. However, we believe that with our upgrade on our mould coater solution, it will get interest and traction from our existing customers. We do have quite a big installed base that will be able to boost growth in that area, and that may happen as soon as from 2025 for the IEBU business.

For Sydrogen, we are starting from a low base, and especially in China, we do see a large growth with these government incentives and many of these big automotive customers have a view that our coating solution is the best, especially for the fuel cell bipolar plates. That has gained a lot of interest, and

[16] NPI refers to New Product Introduction

we do see a pickup in the volume, although it is still in the early stages. We believe that this trend is going to continue into 2025.

Gian Yi-Hsen
Group CSO
: As Gary mentioned, the government incentives seem to have really kickstarted the market as we believe Sydrogen in the Chinese market is one of the largest coating service providers for bipolar plates.

At least for this quarter and moving into the first quarter of 2025, we anticipate that we will continue to have good volumes but from a very low base in the preceding year. We also hope that outside of China, we can start to have a little bit of traction in Singapore and other locations as well.

Kay Lim
Group CFO
: On the inter-relationship between financial numbers, I would like to call out EBITDA. From the EBITDA basis, as John correctly pointed, we have high depreciation and amortisation as a result of the fixed infrastructure, especially the plants to enable production as well as our R&D spend over the past few years as we continue to innovate into different verticals in areas surrounding our coating applications and nanofabrication.

What the market sees in our results today is that it is bifurcated. We have strong EBITDA growth in 3Q2024 where we grew 34% quarter-on-quarter and 17% on a year-on-year. For the nine months ended 30 September 2024, our EBITDA grew 40% year-on-year.

However, when you flow down to the net profit, even though we reverse the net losses of S$4 million in the first half of this year with 3Q2024 results, we are impacted by depreciation and amortisation. Having said that, we cannot ignore these measurements. We cannot say that depreciation and amortisation are fixed, non-cash items. We need to run our assets to good returns. We hold the potential of turning on the different levers to drive the economies of scale though we are not currently there yet. If you look at our revenue, it is still far from the peak before we expanded our capacity.

The team is working hard in terms of the different strategies that may take a certain path, as we have seeded to take place, such as in the IEBU business. We continue to rejuvenate the business over this one and a half years. We are starting to see good results in terms of closer customer engagements because we have different sales stages. Some are more towards the tail end of the sales cycle, meaning to say closer to landing certain contracts.

With that, we like to point out that in the first half, we do have depreciation and amortisation, but the pace should peak this year as we no longer invest in big CAPEX. Like what Gary said, layering the base with Customer Z then with our expanded customer base, with IEBU as well as all other segments including our European expansion, we are hoping to achieve profitability in the first half of 2025. That is based on our target that we are moving towards, without committing to any specifics.

John Cheong UOBKH	:	Can I follow-up with just one more last question, this is a bit of housekeeping forecasting. For the net margin this quarter in the Third Quarter, I did a bit of back of the envelope calculation based on the EBITDA margin. Did your net margin achieve a double-digit figure? It appears so based on my back of the envelope calculation.
Kay Lim Group CFO	:	That is correct.
John Cheong UOBKH	:	The 10% to 15% range, does it sound reasonable?
Kay Lim Group CFO	:	We cannot comment on that, but we can say that in terms of consensus from the active analysts, we will be range bound, in that region.
John Cheong UOBKH	:	Alright, thanks.
Duane Tan Investor Relations	:	Thanks John. We have about five minutes left before we are on the hour. We have a question from Chih Hong on the chat and we also have a question from Lee Keng, perhaps we will attend to Chih Hong's question first. He is asking in relation to the new customers, is Nanofilm the sole supplier or are there existing suppliers? How did Nanofilm penetrate and win those customers? Can we expect another one to two new customers next year? Following on, he is also asking what the potential addressable market and revenue from these new customers are, say if you look at their market share in the premium 3C market compared to your largest key customer. You mentioned new customers form 10% of revenue this year. By your estimate, what would it be next year?
Gary Ho Group CEO	:	The other non-Customer Z players are moving towards this premiumisation of their new flagship product. In the past, they did not adopt a lot of these more expensive or higher-end materials, but since last year, especially the Asian leading player, they had started to have success in their AI-enabled smartphone that is using the titanium substrate, which continued to push this trend forward.

At the same time, the Chinese leading players have re-entered the market and continue to push the envelope into new innovations and they have decided to adopt this premium solution for the new flagship product as well.

As for how we entered into this business, Nanofilm does have a solid track record and we have been in the supply chain for more than a decade. Over the years, we have built a strong track record within the supply chain that we are a very capable solutions provider, especially providing unique solutions for coatings and for nanofabrication type of products.

We entered this business by partnering with leading metal vendors that are already entrenched in the supply chain. To capture this opportunity, we are adopting what Kay has shared earlier, the first is a factory-in-factory approach. Putting a coating facility within our partners' premises to offer an end-to-end solution for our end customers. That is very much for the China leading players and at the same time for the Asian leading player, we do have a small site in Huizhou in Southern China that has been serving the current AI-enabled flagship product for the last one year.

In the meantime, we are putting up a new facility in Dongguan which is a factory-by-factory approach with a metal vendor to offer this solution with a much closer proximity.

We came in one year ago, as a new player in this area, and after one year of development, we have proven ourselves, gained a track record and currently, we are one of the main development partners. Our end customers do have other suppliers in the supply chain. However, we believe that as we continue to perform, we will have the opportunity to participate in their new products and possibly expand into other devices as well.

This year, we anticipate that this new business will contribute about 5% to 10% of our total revenue. Going into 2025, we anticipate that our overall business, including these new customers for the 3C segment, will continue to grow. If we are able to grow at a much faster pace, the percentage of the contribution will continue to grow. I hope I have answered your question.

Duane Tan
Investor Relations : Perhaps we can take the last question from Lee Keng. Would you like to unmute yourself?

Lee Keng Ling
DBS : I am Lee Keng from DBS, just a quick question to understand your utilisation, in terms of your floor space for your various factories. And I also understand that you have this factory-by-factory approach. I just want to assess how much more room you have for expansion.

Gary Ho
Group CEO : Coming to the floor space for Shanghai, we do have Plant 1 and Plant 2. They are located together, and it is a multi-BU campus. For the Shanghai plants, we have this space planned for all the different BUs, I would say that is probably about 80% to 90% utilised, but there is still some room to grow.

For Vietnam, we have completed phase one in our new plant which has 15,000 square metres of production space. We have partially occupied level one for the coating production and level three for the nanofabrication expansion for the new product. The utilisation is probably about 20% to 30%, so we still have a lot of room for expansion.

Kay Lim
Group CFO
: We still have another two more parcels of land within that same location. We are done with phase one expansion as Gary said, so we still have two more phases, if we want to trigger that.

Gary Ho
Group CEO
: For the rest of those factory-in-factory approach, it is very much product specific. We do have a clear indication, in terms of the capacity that our end customer basically expects us to build, and we have installed all the needed resources over there within our partners' premises.

It could be ranging from five machines to 10 or from 20 to 30. Through rationalisation of our overall capacity, we re-deploy some of this equipment for our existing sites. Overall, if there is insufficient equipment, as we are the equipment manufacturer, we can turn around within a short period of time.

Kay Lim
Group CFO
: In short, we do have space, Lee Keng, because in the strategic locations that we own, for example in Vietnam, we still have space for expansion whereas the land in factory-in-factory and factory-by-factory arrangements are leased.

For leases in industrial hubs in established manufacturing supply chains in countries like China, we do have the flexibility to expand, but ultimately, it is how we align ourselves with our customers' as well as strategic suppliers' or partners' roadmaps.

Lee Keng Ling
DBS
: So, when you say Shanghai Plant 1 and 2, 80% to 90% floor planned already, so have you already installed the machines?

Kay Lim
Group CFO
: Yes.

Duane Tan
Investor Relations
: Alright, thanks Lee Keng.

We have just crossed the hour, if you do have further clarifications or questions, 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. With that, I would like to close the session and have a pleasant day ahead.

END.