

Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2022/3

Q&A Summary

May 10th, 2022

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2022/3 results, held on aforementioned date, edited by Tokyo Seimitsu Co., Ltd.*
- *This information contains “forward-looking statements” that are based on best available information as at the date of Conference and policies. There are various factors such as world economic conditions and semiconductor/automobile market conditions which will directly and indirectly impact the Company’s results in the future. As a result, future outcomes may differ from those projected in this document.*
- *Unless otherwise noted, “SPE” denotes our Semiconductor Production Equipment Business (or the Segment), “Metrology” denotes our Metrology Business (or the Segment), and “DDIC” denotes Display Driver IC.*
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<Q&A Session for FY2022/3 Business Results and FY2023/3 Forecast>

1. The company assumes that there will be a short-term adjustment in orders for SPE in FY2023/3. We would like to know if there are any specific signs of a slowdown and the current demand trends by product and application.

- The overall environment remains favorable, but there is a sense that Dicers have been falling for several months. Back-end equipment demand tends to depend mainly on the number of Wafers and Semiconductor chips, but we feel that Probers (Testing Process) continue to do well due to longer test times.
- While the impact of the China lockdown and stagnation in the Smartphone and PC markets have been reported, there continues to be no over-the-counter inventory of PCs when visiting shops. This is because wafer output from Front-end manufacturers to Back-end manufacturers has not increased as expected, which we believe has led to Back-end manufacturers holding back on investment.
- By Application, the overall market is also good. In particular, Power devices, SiC-related, high-end logic, and image sensors are performing well. Demand for DDICs seems to be declining in some areas due to the stagnation of Smartphones and PCs, but demand for DDICs for Automotive applications is increasing, and orders are coming in for Probers.
- Sales of grinding equipment were firm in general. Polish grinders for silicon are performing particularly well, as are SiC grinders, and sales of CMP and Edge Grinders as a set are increasing.

2. The Company mentioned that sales fell 2.0BJPY short of the internal plan due to the lockdown in China. Do you mean that this happened in the FY2022/3 4Q?

- Yes, Shanghai was locked down in the latter half of March 2022, and about 2.0BJPY of the projected sales opportunity could not be realized due to the delay in shipment, start-up, and/or customs clearance, or because they were held up at the warehouse.
- 3. Is there any one-off event that affected FY2022/3 4Q SPE Operating Profit?**
- Special bonuses were paid to employees, amounting to about less than 1.0BJPY for the Group. Of this amount, about 600 million yen is linked to an increase in SPE expenses.
- 4. What is the current delivery schedule for SPE products?**
- The delivery time for 12-inch Probers is approximately 10 months, and 12 months for 8-inch Probers. Delivery time for Dicers has been shortened to about 5 months. Generally, orders for advanced logic products in Europe and the U.S. are being placed a year in advance of delivery.
- 5. What is the current procurement situation for parts and materials, the Company's response measures, and the expected time frame for resolving the situation?**
- In both business segments, semiconductor devices are the most difficult to procure, followed by plastic products such as connectors. We are trying to overcome the situation by obtaining stock from the market and changing the design of electrical boards so that we can substitute easily procurable materials. Electrical design engineers are spending man-hours and making considerable design changes.
 - We believe that we must be prepared for this situation to continue for more than a year. However, since the lockdown in Southeast Asia was the main cause of the tightness in connectors and other plastic products, it is reasonable to assume that the situation will improve once the COVID-19 pandemic is under control.
- 6. Is there a plan to pass on higher component prices to product prices?**
- SPE, in principle, is difficult in this because of highly competitive industry.
 - We are considering price revisions in the area of Metrology, and we have included some of these in our forecast for FY2023/3.
- 7. What is the current status of the Charge/Discharge testing system business in Metrology?**
- We are focusing on the in-house testing business, which has finally reached a level where profits can be recorded.
 - We are also developing new equipment, which we hope to bring to market by the end of FY2023/3 to generate profits.

8. We would like to hear about any variable factors other than the sharp rise in material prices (approximately 2.0BJPY) that may affect your forecast for FY2023/3. Also, can we consider the special bonus for FY2022/3 as a factor that will reduce expenses in FY2023/3?

- Other than the sharp rise in material prices, our profit forecast is somewhat conservative, assuming higher logistics costs and the cost of renting an external warehouse to secure production space.
- Although expenses equivalent to special bonuses will decrease, we anticipate decrease profit due to Forex assumptions and increases in R&D expenses, depreciation, exhibition expenses (advertising expenses), and travel and transportation expenses in anticipation of the post COVID-19 pandemic.
- In addition, we estimate an increase in expenses related to recruitment and employee dormitories in connection with the *Hanno* Plant, which will start operations in FY2024/3, as well as sales expenses due to higher sales, which will affect the profit margin.
- Based on the above, we assume increases in expenses of 1.0BJPY, personnel costs of 1.0BJPY, and selling expenses of about 1.0BJPY.

9. Please explain the sensitivity to Forex.

- At 1 yen to the dollar, Operating profit will be affected by 80MJPY/FY (JPY depreciation is a gain).
- The Forex at the end of the accounting period is applied in the Consolidated financial statements. (End of March: 1US\$=approx. 122JPY)
- The Forex assumption for the FY2023/3 forecast is 1US\$=115JPY.
- Of note, the Forex for Consolidation will be changed from the end-of-period rate to the average rate during the period, starting from FY2023/3.

10. We would like to confirm the current sales level of SPE consumables.

- Sales of consumables resulted to around 5.0BJPY in FY2022/3, with sales of grinding wheels for grinding products in particular growing; it is expected to be around 7.0BJPY in FY2023/3.
- Sales of Edge grinder consumables are currently around 100MJPY/month, and are expected to increase to around 200MJPY/month.
- In terms of SiC-related consumables, which consumes a large amount of grinding wheels, is expected to lead to an increase in sales of consumables.

11. What are the trends in orders for semiconductor-related industries and what is your view of future profit margins in the Metrology business?

- Orders from the semiconductor-related industry increased in the FY2022/3 3Q and

declined in the 4Q. This was due to the concentration of orders for subsidy-related projects in the 3Q, and orders for the second half of FY2022/3 as a whole are on an increasing trend. In FY2023/3 and beyond, we will continue to work on market development and increasing the number of potential customers.

- Regarding OP margins, after peaking in FY2019/3, market conditions deteriorated and profit margins declined amid the Company invested in business acquisitions, plant construction, and other growth-oriented investments. Currently, the market is on the road to recovery, and through the activities outlined in the new medium-term management targets, we hope to raise both the profit margin and the amount of profit to levels that exceed the previous peak.

<Q&A Session for FY2023/3 – 2025/3 Mid-Term Business Plan Briefing>

12. We would like to confirm the areas that are expected to drive performance in the medium-term management plan for FY2023/3-FY2025/3 and the risks involved in achieving the plan.

- Of the sales target of 170.0BJPY, 132.0BJPY is for SPE and 38.0BJPY is for Metrology. As I explained today, we expect drastic growth in the Semiconductor market. In Metrology, we expect business opportunities from the shift to EV (battery measurement), semiconductor market, and a synergy effect with our SPE.
- There are various risks, such as natural disaster risk and geopolitical risk, which are difficult to quantitatively factor in. We believe that we can achieve this level unless unforeseeable risks occur.

13. The Company has indicated a CAGR by SPE product, which is the premise for the mid-term business plan. Is this assuming growth above the market average? We would like to hear the factors based on the current market share.

- Consumables: We set this figure in anticipation of the development of our proprietary Dicing blades and the large business opportunities for SiC-related consumables.
- Assembly equipment: We assume that we will enter the Ablation Dicer market. We also expect demand for High-rigid Grinders (HRG) for SiC to increase, and demand for slurry-free (less environmentally hazardous) grinding to expand.
- Probers: The company has a reasonable share of the Single-chuck prober market but has fallen behind in the market for Multi-chuck probers for memory. We have been catching up reasonably well, but we would like to further increase our market share.
- The reason for estimating a higher CAGR for Assembly equipment than for Probers is that the company does not have as large a share of the Dicer market as it does for Probers,

which means that it has a large upside, and it is entering the Ablation dicer market.

14. What specific processes are you working on for Ablation dicers?

The market for Low-k film removal processes is large, so we will start with this process. This does not mean that we will enter new applications and processes.

15. How do you plan to expand the production scale of consumables for Grinders and introduce external technology to increase sales?

- We will consider expanding the scale of production if demand grows more than expected in the future. For the time being, our priority is to secure volume rather than technology.

16. The strategy for consumables is “Develop and expand sales matching customer needs”. What exactly does this mean?

- The performance of Dicing blades varies depending on the material composition. It means that we want to make full use of this know-how to propose optimal blades to our customers.

17. In your Mid-term management plan, you state that you will develop various fields of business in the area of measuring instruments. Based on this, it is our understanding that the Company will not only develop measuring instruments but also peripheral technologies. If so, will R&D expenses increase?

- With the shift to NEVs, we intend to respond to a wide range of needs, including new demand for surface measuring in addition to dimensional measuring, automation needs, and non-automotive fields. Therefore, the entire Metrology segment will respond to this trend.
- Therefore, it is expected that the level of R&D expenses will rise in the future. In addition to hiring additional personnel, we will flexibly make adjustments according to customer demand and priorities.

18. How do you estimate that the demand for measurement per vehicle will change with the shift from ICEs to EVs?

- Although it is difficult to convert on a per-vehicle basis, there is concern that the demand for engine component measurements will shrink due to the shift to EVs. On the other hand, the shift to EVs will lead to an increase in the number of parts that require higher-grade, high-precision measurement, such as motors, shafts, and gears. In addition, the demand for quietness will lead to a shift to surface measuring in addition to dimensional measuring. We believe that there are ample opportunities for our metrology business in the EV market.

19. In your mid-term business plan, you mentioned that you are considering investing in your next plant.

- The *Hino* Plant is currently undergoing an environmental assessment, but since this will take time, we will explore various options.

20. What is the current tight production situation due to labor shortages and future hiring?

- First of all, the current production crunch is largely due to the supply of parts and materials rather than a shortage of labor.
- Currently, we are increasing the hiring of human resources. We have been hiring high school graduates for the *Hanno* Plant for some time. In addition, the company has created an environment conducive to hiring, such as by securing dormitories for employees.
- We also believe that it is natural to reward employees with extra bonuses when a company makes a profit. In FY2023/3, we raised the base salary to an unprecedented level.

21. What is SPE's policy for dealing with competitors in emerging countries?

- We have confirmed that there are two-digit number of competitors in China. We are the only manufacturer of semiconductor production equipment with a metrology business, and we would like to differentiate ourselves with synergy with Metrology technology.

22. What is the company's most promising area of opportunity for SPE?

- The current order backlog includes orders with long delivery times, so in order to increase sales, we need to take in orders and sales with short delivery times to a certain extent in each fiscal year.
- High-precision logic semiconductors such as HPCs. I would like to see the expansion of business opportunities such as longer test times and testing while performing heat absorption at the wafer level.

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