Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2024/3 Full Year
Q&A Summary

Date of Conference: May 10th, 2024

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2024/3 Full Year, 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).*
- *This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.*

1. The Company said that SPE orders for Jan-Mar quarter exceeded your internal expectations; what were the reasons and what were the results of orders related to generative AI?

- The increase in SPE orders in the Jan-Mar quarter was due to orders related to generative AI, such as for logic/HBM (around 6 billion in Jan-Mar quarter, totaled about 8 billion yen in Oct-Mar (2nd half) compared with an assumption of around JPY 6-7 billion yen), and orders in China being higher than expected.
- The composition of orders for generative AI in the 2nd half was about 1:2 for between logic and HBM.
- Sales related to generative AI in the Jan-Mar quarter amounted to mid-5 billion yen.

2. What is the background to the decline in Metrology orders in the Jan-Mar quarter QoQ, even though they were in line with internal expectations?

- Price revisions were made for some products in CY2024. This led to a rush of orders in the Oct-Dec quarter, which resulted in a reactionary decline. There is no significant change on a half-yearly basis.

3. Please provide an assessment of the OP margin for Jan-Mar quarter.

- Sales in the Jan-Mar quarter reached a quarterly historical peak. We assess that with this level of sales, we should be able to achieve this margin.

4. Were there many cancellations of SPE orders in the Jan-Mar quarter?

- We examine outstanding backlogs every quarter and perform internal cancellations as necessary. In Jan-Mar quarter, cancellations amounted to about 1.3 billion JPY.

5. What were the trends in SPE consumables during the Jan-Mar quarter?

- Dicing blades have received relatively large orders for mobile phones and other electronic components. We plan to invest in equipment to triple our production capacity due to the need for production volume commitments.
- Grinding wheels are on the rise, particularly for SiC, but are struggling in China market due to the rise of low-cost consumables from regional manufacturers. The Company intends to counter this through the development of grinding wheels with added value.

6. We would like to hear your perception on the utilization rate of Probers at customer sites.

- It is difficult to make a general statement, but we estimate that it is around 70% for smartphone-related customers, NAND, etc. The utilization rate in Taiwan is particularly low. On the other hand, about HBM, we estimate that it is close to 100%, as the company is in the process of making capital investments.

7. The company has limited the disclosure of its forecast for FY2025/3 to the 1st half. What is the background to this?

- First, the forecast for the FY2025/3 1st half of the year was formulated on the assumption that "consumer demand will not recover".
- Nevertheless, we believe that the business environment for SPE in the FY2025/3 1st half will be at least as good as in FY2024/3 2nd half. Furthermore, we expect it to improve towards FY2025/3 2nd half.
- Over the past year, AI (AI logic/HBM), SiC, CIS and the Chinese market have continued to support the situation. In the consumer electronics sector, there has been some movement in smartphone-related enquiries at the moment.
- However, it is difficult to quantitatively estimate how much better the FY2025/3 2nd half will be at this stage, so we have limited the disclosure of forecasts to the 1st half.

8. We would like to know the background to the assumption that demand for SiC to double for FY2025/3 1st half HoH.

- We recognize that demand for power semiconductors in general is soft. However, investment in SiC is continuing in anticipation of future demand.
- Under these circumstances, the demand for SiC has so far been for substrate processing, but the current demand is shifting to device processing. For example, in surface grinding process, the thickness to be grinded devices is three times thicker than that for substrates, which provides business opportunities for the Company's High-Rigid Grinder (HRG) and CMP. For devices, there will be additional demand for Probers and Dicers. As a result, we

expect orders in FY2025/3 1st half to double HoH.

- Of note, Sales in the same period is expected to decrease (due to shipping timings).

9. We want to know about your thinking on generative AI-related demand and market assumptions in your forecast for the FY2025/3 1st half.

- We expect the order environment in the FY2025/3 1st half to be at the same level as in the FY2024/3 2nd half, but due to the timing of customer orders (orders are placed monthly basis in general), only around half of the assumed scale has been factored into the 1st half forecast.
- The assumed composition of orders related to generative AI is roughly the same as in the FY2024/3 2nd half.
- In addition, we do not anticipate that generative AI-related orders to fall off in the 1st half and beyond.

10. What is the outlook for the proportion of SPE sales to China in the FY2025/3 1st half?

- Currently, it is 40-45% of the SPE total, and is expected to remain high in 1st half.

11. What is the outlook for the SPE order backlog in the FY2025/3 1st half?

- If things go according to plan, the backlog will decline. The rest will depend on order volumes.

12. Recently, there has been an agreement on changes to memory package thickness standards, which is expected to delay the deployment of Hybrid Bonding in the memory manufacturing process. Considering this, we would like to ask you about the current situation and business opportunities related to Hybrid Bonding, as well as the expected contribution to earnings in the future.

- At the moment, we are delivering high-end grinder evaluation machines for Hybrid Bonding to a number of customers for the development of next-generation devices.
- This grinder is an extension of the High-Rigid Grinder technology developed by the Company for SiC and achieves good total thickness variations and high throughput even when grinding Silicon.
- Furthermore, as it is delivered to the front-end production line, the cleaning technology required in the front-end process is achieved by using the cleaning function of the CMP products that are also being developed. This makes the selling price of the Hybrid Bonding grinders more expensive compared to conventional products.
- We assume that Hybrid Bonding will be deployed in volume production in the 2nd half of CY2025 – 1st half of CY2026, first for NAND. After that, we assume that it will be

deployed in logic and HBM.

- We believe that the demand is very high, and the scale of shipments could be 10 units/month or more for grinders. For this reason, construction of the *Nagoya* plant has been initiated to increase the production of grinders.
- The *Nagoya* plant is scheduled for completion in FY2026/3 1st half, which is further ahead of the SPE production capacity shown in the explanatory material (140 billion yen + α in FY2024/3).
- Given the size of the anticipated market, we do not consider this to be sufficient and are already at the stage of considering the next plant after the *Nagoya* plant.

13. We would like to know the outlook for the impact of foreign exchange rates on the forecast for FY2025/3 1st half.

- The exchange rate assumption for the FY2025/3 1st half is 145 yen to the dollar, but based on actual results for FY2024/3, a change of 1 yen to the dollar has a profit impact of around 50 million yen (a weaker yen is positive). Note that the foreign exchange impact became smaller due to the decrease in foreign currency-based business transactions.
-

14. What is the status of the charge/discharge test system business in Metrology segment, and what is the outlook for the future?

- The charge/discharge evaluation system business came to profitable in FY2024/3.
- At present, EV battery development is in full swing and demand for such systems is increasing more, and in FY2025/3, we are aiming for a 20-30% increase in sales YoY.
- Over the next three years, the company aims to expand its business in terms of both equipment sales and in-house testing business, with sales around three times higher than in FY2024/3, and profit margins at the same level as for other measurement products.

15. Is your understanding that it will be difficult to achieve the quantitative targets of the three-year mid-term business plan?

- We have not given up yet, and if consumer-related orders recover by early summer 2023, we may be able to achieve them now that we have significantly expanded our capacity. Although the achievement of the quantitative target may be extended from the FY2025/3 2nd half FY2026/3 1st half, we would like to aim to achieve it.
- If the production utilization rate increases, we believe that the OP margin of 22%, which we have set as a quantitative target, can be achieved and that we can aim for even higher profit margins as our business expands.

End of Document