

Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2021/3 1st Half

Q&A Summary

November 11th, 2020

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2021/3 1st half 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) and “Metrology denotes our Metrology Business (or the Segment).*
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1. Can you summarize FY2021/3 1st half SPE booking environment and a background of exceeding 2Q booking amount from forecast?

- First of all, SPE business kept firm tone thanks to 5G demands from January to April.
- However, due to US trade restriction targeting to one Chinese Smartphone supplier led postponement of business opportunities and/or push-out mainly at Taiwanese OSATs (including their China affiliates). It negatively impacted also to our booking.
- After that, market kept gradual recovery, and booking suddenly increased in September, including special demands such as (1) Smartphone suppliers bundle TDDI to their low/mid-end smartphones to gain market shares, (2) Manufacturers those who usually outsources production to OSAT directly purchase SPE because of lowering utilization in OSAT by COVID-19. These are major reasons of exceeding 2Q booking amount than forecasted.
- Demands toward SAW/BAW filters have kept firm tone for a year.
- Street says capex in Memory suppliers seem stagnant, but we believe testing demand is good. Supplier’s stances, in both DRAM and NAND, toward investment are clearly divided into Bullish/Bearish per each.
- About Multi-chuck probing machine, installed unit count exceeded mid 2 digits.

2. How were SPE consumable parts business situation?

- Dicing blade business continued to struggle, but from August, gently recovered thanks to Smartphone-related electronic components’ demand (especially for glass cutting).
- About wheels for grinding machines, it is good because of high-utilization at SAW/BAW production and new machine businesses. We have high priority in increasing these wheel productions. Also note that demands for power devices also becomes better recently.

3. What about current utilization in SPE Factories?

- Both *Hachioji* Plant and *Miyama* Plant (both in *Hachioji, Tokyo*) keep high-production rate. We now use a part *Tsuchiura* Plant (*Ibaraki*, manufacturing Metrology products) because Metrology business is stagnant and we opened new plant (MI plant).

4. Other SPE peer mentioned “expecting SPE demand increase due to miniaturization in electronic components because of requirements for high-spec smartphones”, and street believes increase in power device related demands. Please let us know your understanding.

- An increase in Assembly machines’ exposure in both booking and sales show that such business opportunities are expanding.

5. Other SPE peer commented about Plasma Dicing. How about business situation?

- We are one of suppliers to provide a component to Panasonic to realize their entire Plasma dicing solution. Therefore, we are not in a position to comment business situation.

6. Street warns about OSAT’s “double booking (multiple OSAT companies issue purchase orders to SPE companies even upstream player is one). What do you think about it?

- We currently don’t think having such risk. Sooner or later, we will be able to identify it.

7. Please explain about your SPE outlook and its durability.

- We believe entire SPE business situation will keep firm mainly thanks to seasonality and 5G related demand until the end of FY2021/3 4Q, even though we have a concern in decrease of demand toward smartphone.
- For Memory sector, players have clear stance in investments whether bullish or bearish. We believe all of them will be “bullish” from the beginning of FY2022/3.
- In mid to long term, we believe that Semiconductors will be “Mass-production, mass consumption” led by 5G related demands. Therefore, SPE demand will increase including ones for Memory. We have various new products’ plans to increase sales.
- All of above is based on the premise that “US-China trade confliction will never be worse than today”. We should carefully watch the situation.

8. In terms 2Q OP, QoQ increase in SPE is relatively smaller than the sales; moreover, Metrology OP decreased QoQ. We would like to have reasons behind.

- In SPE, main reason is R&D expenditure, which plans in each fiscal half basis, was bigger in 2Q than 1Q. A product mix might be a secondary reason.
- In Metrology, We proceeded drastic cost reduction to not to be deficit. We don’t have QoQ analysis because the current profit is led by such effort.

9. Can you provide us business situation about Charge/Discharge testing systems?

- The markets of both Testing machines and in-house testing for LiB (Lithium-ion Battery) are about to enlarge due to rapid and faster progress of EV than originally anticipated (Street originally anticipated that it will take 5 to 10 years). Therefore, we are strengthening both businesses today.
- In addition, EV players are developing “EV Motors”. These are required to minimize sliding friction, sounds and vibrations. It implies they need to realize high-precision processing to its parts. We believe that Metrology Instruments’ demand from this innovation will increase within 2-3 years. We work with customer to catch these demands.

10. Please explain about your outlook about Metrology equipment.

- We believe that the stagnant situation in entire manufacturing industry due to COVID-19 had been bottomed out on 2Q.
- However, our major customers generally plan their capex in fiscal year basis. Therefore, business opportunities in our hands today are mainly ones for FY2022/3 (and premise that COVID-19 impact to minimize), this indicates a recovery will be in FY2022/3 or later.
- EV penetration will not cannibalize ICE measuring demands in short term. To prove it, there are business opportunities for ICEs until CY2022. We anticipate our tasks in FY2022/3 are to catch these ICE demands and proceed future business opportunity in EV.

11. Please give us backgrounds of ratifying share repurchase first time since FY2003/3.

- This ratification was made aiming to realize one of profit distribution method to shareholders. It was from among reasons such as (1) We have kept cash earned from operating activities being stable, and FCF after a completion of current capex plan will be stable, (2) Business situation is generally stable even if COVID-19 is spreading, and (3) We have more capex plan to increase our manufacturing capability and current 5G innovation proves such explanation will increase our business, and (4) Investors kept requested this repurchasing as one of profit distribution.

12. The Company postponed the end year of mid-term target by one year. According to current Metrology business situation, do you believe that SPE business covers Metrology business’s decline?

- It is unlikely to increase sales volume in Metrology in FY2022/3 back to estimated one even better than FY2020/3. Such gap will be covered by SPE thanks to the good business situation. In total, we will believe that we are able to obtain a target in FY2022/3.

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