

**Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2020/3 Interim**  
**Q&A Summary**

November 8<sup>th</sup>, 2019

- *This document is a summary of Q&A session at the Earnings Conference for FY2020/3 Interim results, held on November 8<sup>th</sup>, 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 (November 8<sup>th</sup>, 2019) 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 provide us with any changes in your recognition on SPE competition and/or market shares?**

- As we explained at past earnings conferences, we already had caught up shares of Multi-chuck Probers. We already have 2 digits’ installation base. In terms of Single-chuck prober, we believe we have over a half of the market share.

**2. Do you have any comments about SPE market situation which peers commented, their forecast revision, and/or differences in the booking momentum?**

- We think we should refrain from commenting on other peers’ understanding. We only can say that our SPE booking trend, shown on the presentation material, implies that it is on the way of recovery.

**3. Please describe selection criteria of SPE bookings of which the company made cancellation in FY2020/3 2Q, and its impacts to the profit.**

- These were selected from the we received purchase orders we received from China customers in FY2019/3 but roll-in dates are extended to FY2021/3 or beyond due to the delay in proceed of subsidy from the local governments. Although these purchase orders themselves are still valid, we internally cancelled them.
- Materials with regards to these purchase orders are transferred to others. But, due to the configuration differences, we had to have other costs for overhaul. As a result, we had nearly 100MJPY cost impact.
- To China, we usually ship products with an advanced payment. We already changed our procedure that we “commence” product manufacturing with an advanced payment. Overall

customers accept this change without concerns based on our polite request.

**4. 2Q Metrology booking declined 0.6BJY QoQ even though there were *Monozukuri* subsidy plan. How was the actual business situation?**

- We should say that the overall market was so stagnant. Customer's investment stance becomes more conservative than anticipated. Customer's investment plans are not yet cancelled, but still postponed.

**5. Please explain us backgrounds behind the minor-downward forecast revision for FY2020/3.**

- Overall, new forecast are based opportunities highly visible.
- In SPE, although demands become better. Due to the timing of sales (we recognize sales at placement of equipment at customer's site, so that new booking only whose lead time set to before February, will be counted in FY2020/3 sales), we set our forecast as minimum visible basis.
- In metrology, we revised forecast based on current softened market.

**6. How is exposure of operating profit per each business segment for FY2020/3 forecast?**

- We don't disclose the exposure

**7. In presentation material, "SPE – Sales/Orders incl. Forecasts" shows that you anticipate FY2020/3 2H booking forecast to be slight increase from 1H. If we divide it in quarters, then the booking amount to be lower than 2Q actual booking (about 14.2BJPY without cancellation). Please explain us details about it.**

- First of all, we believed SPE booking was bottomed out in February 2019. Even though there are confictions such as Huawei ban in May, Trade matter between Japan and Korea in July, but overall SPE booking demands are recovering.
- But we shall carefully monitor potential risks, such as USA/China trade confliction, saturation in 5G base-station demands and slowdown in smartphone replacement demand.
- Consequently, we set this forecast as minimum target. Please note that we anticipate that we will be able to obtain SPE booking amount as 2Q (actual) < 3Q < 4Q.

**8. What will be drivers to realize SPE booking amount of 2Q (actual) < 3Q? In addition, do you expect recovery in Memory-related investment?**

- Not only Logic device demand whose actual 2Q booking increased 30% QoQ, but we expect Memory investment at 2<sup>nd</sup> half. Investment for Memory capacity expansion is not yet materialized, but for high-speeding is continuing right now. Please also note that

purchase orders of our SPE from Chinese Memory suppliers are on increase.

- In addition, demands from China toward QFN package are buoyant.
- We shall, however, consider potential risks that these trends are mainly from China.

**9. Do you have any quantitative estimation about the growth of 5G base-station, end-user products and number of Semiconductor chips?**

- We don't have quantitative estimation. However, in qualitative, we believe smartphone demand will keep growing through replacements and high-functionality and speed-up.

**10. In FY2019/3, it is recognized that it was unlikely that AP-related investment led by AI innovation contributed to the company's business performance. Please explain us your opinion and expectation about business growth related to 5G end-user products.**

- Such investment actually had contributed. As of today, we have no signs of increase in AP related investments, but we are sure that 5G end-user demand and related investment will grow thanks to base-station investment. In addition, we expect market growth also for millimeter wave generation in addition to Sub-6.

**11. In general, FPGA device is installed in 5G base station. One Semiconductor player in USA commented that it's hard for them to ship their FPGA device to China customers due to revision of USA Entity List in May. It is estimated that the company increased opportunities thanks to Chinese FPGA supplier, and/or to OSATs from outsourced business from Chinese player. Is this understanding correct?**

- We have the same understanding. In detail, Front-end process is being done by Taiwanese Foundries and Back-end process is at Taiwan or China. We have business opportunities both from China regional OSATs and Taiwanese OSATs' subsidiaries located in China

**12. Please give us situation about 5G-related electric component's related demand and your consumable parts orders.**

- Demand for SAW filter represents as one of electric component. Demand for Capability increase (such as for our grinding machines) are limited. But investments related to Filer in-house manufacturing by component suppliers, to TC-SAW, and to High-end SAW filters are sustaining.
- In terms of consumable parts, we note that smartphone increase leads dicing blade shipment increase, because our blades are utilized at glass cutting process for face recognition and/or related sensors. Demands of blades were once stagnant but recently it increases to be close to the historical peak.

**13. About China 5G logic demands discussed so often, can we recognize that “Logic” means “ASIC”?**

- Please recognize that Logic means Logic devices in a broad sense because there is various type of logic devices.

**14. When do you expect Metrology demands to recover?**

- In general, Metrology booking trend follows Japan Machine Tool booking trend. Japan Machine tool trend is not yet bottomed out, but another bottom is unlikely to happen anyway. We estimate Metrology trend keeps following it.
- We believe it takes time to recover because an Automotive-related demand, which is our major user, is still conservative but the recovery of Semiconductor device Market triggers entire manufacturing market, then finally Metrology market will recover.

**15. Can you describe in detail about Metrology sector OP margin, and expenses/innovation costs?**

- We have operating loss in Battery testing system division, a part of Metrology sector, totaling approximately 200MJPY/FY and other expenses associated with retirement benefits in a consolidated subsidiary amounted mid of 200MJPY. These impacts are already included in FY2020/3 forecast. If I exclude these two impacts, Marginal income ratio would be same as before, so OP margin decrease is simply able to explain by decrease in sales.

**16. Can you explain us the target sales amount of Battery testing system and term of being profitable?**

- We estimate FY2020/3's Battery testing system sales to be around 2.0BJPY, and believe being profitable at FY2021/3 or FY2022/3. Because we will spend about 1 year for necessary development for upcoming EV and battery era.

**17. Do you sell this Battery testing system to the customers whom you already have business by existing metrology instruments?**

- Yes. We have strong relationship to targeted customers. We want to maximize synergy effect in Sales and in Service/Support which is mandatory to apply systems to mass productions.

**18. Can you provide us background, synergy and profit impact about acquisition of balancer business announced on October 11<sup>th</sup>, 2019?**

- A Balancer is usually bundled inside the grinding machines to rotate abrasive stones

properly and is utilized also with our non-contact sensor (to detect grinding status and let grinder stops at the end of processing)

- We acquire a company's balancer business which is highly recognized from customers for its superior quality. Adding this business, once we haven't had, we are able to realize synergy effect. In addition, this Balancer has big market share in Europe, which is able to increase our sales to Europe.
- We estimate that there will be additional cost such as amortization of goodwill for one or two fiscal years, but it is profitable. Our target will be to reach this business' margin to be closer to overall Metrology business segment's one.

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