

Tokyo Seimitsu Co., Ltd. Earnings Conference for 2nd quarter of FY2025/3

Q&A Summary

Date of Conference: November 1st, 2024

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for 2Q FY2025/3, 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).*
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1. Please comment on the SPE order volume related to Generative AI-and power devices for the July-Sep quarter.

- SPE Orders for Generative AI in the July-Sep quarter were at the level we mentioned at the previous briefing. Of note, from a competitive perspective, the Company has decided to refrain from providing quantitative explanations about Generative AI related businesses.
- Orders for power semis accounted for 9-10% of SPE orders, of which SiC accounts for around 7%. Compared to the past, the ratio is decreasing, and we anticipate orders to continue slowing down.

2. Please explain why there is a significant improvement in SPE OP margin in the July-Sep quarter compared to the April-June quarter.

- The main reason is the increase in sales, and not due to factors such as the product mix.

3. Please explain the backdrop to the upward revision of the SPE sales forecast for FY2025/3 2H and an increase in SPE orders forecast than previous half (HoH), as well as the market assumptions.

- The main reason is that, while consumer application demand is weak, demand for Generative AI and China is holding firm.
- Going forward, we expect technology-buy to continue as generative AI devices, HBM, etc., continue to progress generational change.

4. We would like to ask about your assumptions for the order level of upcoming Generative AI related equipment and composition ratio in FY2025/3 2H.

- We estimate generative AI-related SPE orders to increase by approx. 20% HoH. However, this is a conservative estimate, and there is also the possibility of an increase of around 50% based on current business talks.
 - In addition, we assume order mix for grinders for AI logic device, which are currently performing well, to increase as well as for HBM applications. Therefore, we anticipate the composition of AI orders for FY2025/3 2H to be 65:35 for AI logic and for HBM.
- 5. How is SPE orders when you separate FY2025/3 2H order guidance per each quarter?**
- For SPE as a whole, quarterly order amount is planned to be almost flattish.
- 6. Please comment on the distribution of outstanding backlogs by delivery date and lead-time of SPE products.**
- Firstly, the lead time at present is generally around 2-4 months for probers and dicers and continues to be over 6 months for grinders.
 - On top of that, of the SPE order backlog at the end of Sep 2024, we expect around 60% to be recorded as sales during FY2025/3. The remaining 40% will be in FY2026/3 or later and includes many grinders with relatively long lead times.
- 7. I would like to confirm the Company's outlook for the timing of the application of SPEs for Hybrid Bonding.**
- Customer evaluations are currently underway and are progressing smoothly.
 - We maintain our assumption that the initial lot order will be received in FY2025/3 2H, but there is a possibility of it being received in FY2026/3.
 - We estimate that equipment deliveries for initial production will begin in CY2025 2H. It is unclear whether mass production will expand CY2026 1H.
- 8. The Company seems to believe that the Generative AI related SPE market to continue expanding. Please explain more in detail.**
- We know that market is concerning about slowdown in HBM-related SPE market due to an oversupply of HBM, but HBM is currently undergoing a generational change, and testing-time increase associated with this could lead to an increase in demand for probers.
 - Furthermore, the requirements to control the temperature of wafers with high precision during measurement is increasing with each new generation. This is expected to lead to an increase in demand for prober.
- 9. Please give the Company's views on the SPE OP margin for FY2026/3 and beyond, including the risk of a deterioration in margin and an improvement due to the expansion**

of the generative AI business opportunity.

- In recent years, when only some device markets, such as generative AI, have been strong, there has been downward pressure on sales prices due to intensifying competition.
- While soaring component prices and outsourcing costs are headwinds on margins, the Company is continuing to make design changes and process method changes, and we have a good idea of how to improve profit margins.

10. Please give your views about conventional instruments belongs to Metrology segment such as general-purpose measurement and automatic gauges, and possibility of growth of charge/discharge testing systems amid capturing new business opportunities.

- The orders trends of Machine tools, which are substantially an indicator, is at a challenging level. However, there are signs of recovery in these conventional instruments, and it is approaching the level before the COVID-19 pandemic.
- In the charge/discharge testing system business, opportunities are increasing in both equipment sales and in-house testing businesses. There has been no change in the major trend towards electrification of vehicles, and there are possibilities for market expansion in secondary batteries as a whole due to factors such as the energy-saving measures being taken by society as a whole. Furthermore, there is significant government supports for capital investment, and customers' appetite for capital investment is high.

11. Please comment on the level of capital investment of the Company going forward.

- The capex plan for FY2025/3 year remains unchanged at 9.5BJPY. This includes investment in the *Nagoya* Plant, which is scheduled to be completed in July 2025, and even small, the construction of a factory for Balancer at the US subsidiary.
- In addition, we consider an investment plan to further expand capacity after the completion of the *Nagoya* Plant as an issue.

12. Some front-end SPE peers imply that there is a possibility of a slowdown in demand in China. What is the Company's view?

- At the moment, demand for power semis is obviously slowing down.
- On the other hand, Chinese manufacturers are focusing on AI and high-end semis production, and related demand is increasing, particularly for probers. Although we need to consider the risk of US-China trade friction, demand for probers and grinders is strong at the moment.

13. The company has commented that business opportunities for AI-related probers are mainly for the memory area, but is it correct to assume that there is also potential for

expansion in the logic?

- That is correct.

14. Is my understanding that “The company expects an increase in orders for grinders from FY2025/3 2H onwards” correct? Also, please explain us supply risk in the event of a rapid increase in demand, taking into account the Company’s capacity.

- We believe there is a possibility to increase orders in the future.
- We also believe that a shipment level of 10 units/month may likely happen at the timing when the mass production deployment of Hybrid Bonding is in full swing.
- Even if demand exceeds the Company’s supply, the Company believes that it would be able to cope for the time being by utilizing the space available for SiC-related grinders, which have been softening recently.

15. Please comment on the capital market's evaluation of the Company.

- We believe that the most important thing right now is to achieve business growth and a rise in the share price by steadily implementing the measures that need to be taken.
- We are confident that our target market to expand. From that perspective, we are working on the most important issue of making investments to secure the capacity to meet demand.
- In addition, we would like to expand our collaborative relationships in areas where collaboration with other companies is possible.

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