

Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2019/3 Interim

Q&A Summary

November 13th, 2018

- *This document is a summary of Q&A session at the Earnings Conference for FY2019/3 interim business results, held on November 13th, 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 13th, 2018) 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 Segment, “1Q” denotes First Quarter (April to June, 2018), and “2Q” denotes Second Quarter (July to September).*
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1. While the Company previously (in August 2018) revised FY2019/3 business forecasts downward, mainly for the SPE segment, revenue for 2Q subsequently exceeded forecasts, and hence the Company revised forecasts upward. Please describe the entire story behind these revisions more fully.

- Firstly, while purchase of raw materials remains tight, roll-in situation has been getting better.
- Electronic testing of processed wafers is often performed under various temperature conditions. Recently, demand for testing capabilities under very-low-temperature has increased. We provide a Chiller as an optional unit for such testing. However, manufacture of the Chiller had been severely limited especially during June, and looked unlikely to be overcome as at August. This is mainly why the company announced the downward revision.
- The Company took various countermeasures that effectible doubled our Chiller manufacturing capability. This significantly increased our revenue especially for September.
- In addition, we positively anticipate strong demand for various semiconductor devices with the exception of Memory devices, such as Display Driver IC (such as TDDI, Touch and Display Driver Integration) which have significant increases in testing time, Image Sensory (CIS) and Micro-LED, which added back to our revised upward forecast.

2. Why is the demand for does low-temperature testing demand increasing? Does this demand significantly expand or shrink the Testing Equipment market?

- To guarantee high device reliability, having low-temperature testing becomes important especially in automotive devices and Memory devices. There is also an additional demand for heat absorption testing of some Image processing devices because they are self-heating.
- Recently, demand for the low-temperature option increased. Sometimes for almost half of the booking, equivalent to 100-120 units/month, included the purchase of the low temperature test

bundle option..

- However, whether having this option or not does not change testing time. Having both individual high/low temperature testing doubles the overall testing process. That leads to an increase in demand for Probing machines.
- “Chiller” is part of the option of Probing machines and therefore included in statistics we have presented for this category.

3. What is reason for the increase of 2Q SPE bookings over predictions?

- It is because demands for semiconductor devices, with the exception of Memory kept a firm tone.

4. Do you see any change in the exposures per device in between SPE booking for 1Q and 2Q?

- We saw an obvious increase in the demand for CIS and Display Driver ICs.
- Our data show that the device distribution for 2Q Prober bookings is: 40% for Memory, 40% for Logic devices (including Display Driver ICs) and less than 10% for Sensory and Electric components. Exposure of the 2Q bookings for memory slightly declined from 1Q. In the memory sector, NAND Flash Memory was majority in 1Q and DRAM was majority in 2Q on the contrary.

5. Why do you anticipate a decline of SPE bookings for FY2019/3 2H from 1H?

- We anticipate a slowdown in demand for memory devices. With the exception of Memory, activity remains brisk for most of our major customers, and we have a mostly similar outlook as the rest of the market.

6. Why do you predict smaller SPE revenue for FY2019/3 than the amount of the outstanding backlog?

- Lead times are extended due to tight production status especially for Probers (regardless of whether they are with or without the Chiller bundle option). The current lead-time is about a half year. Various responses to this, including new plant construction, are proceeding.

7. Do you perform standardized production as a countermeasure to the increase in the outstanding SPE backlog?

- Currently we prioritize production based on customer’s individual bookings and their requested shipping date. Therefore we are unlikely to realize a standardized production plan.

8. In August, the company mentioned that a part of the reason behind the downward revision to forecasts was in accounting impacts (about One (1) billion JPY) associated with increase in

inventories more than anticipated. Do you still include such impacts in the FY2019/3 forecast?

- We estimate a similar amount of inventories at 1H end will remain at 2H end. Therefore, the impact still remains. It is likely to ease in the Fiscal Year or after.

9. Even though the Company raised the full year profit plan but decreased the 2H's one (by a few hundred million JPY from the plan in August). Do you have any further reasons behind this to share?

- We newly included impacts from an increase in R&D expenditure (+500 million JPY from 1H), Costs for realized land and plant construction (+500 to 600 million JPY) and an increase in personnel costs.

10. How do you incorporate risk of decline in demand for Memory risk of Trade War between the USA and China into your plans?

- According to the news, there was not only a suspension of investment at major Memory manufacturer, but also there have been reports of similar events we have just heard about this week, we have therefore factored in a very conservative understanding about the demand for Memory devices.
- It is more difficult for us, just a single company, to evaluate the impact from Trade War quantitatively. In terms of overall demand from China, we have also adopted a conservative outlook due to risks from stoppage of governmental subsidies, the budget deficit from forex change, and upheaval of customers in a limited market.

11. Will the company continue increasing the number of employees under such cloudy market conditions?

- Yes, we will.

12. In the Earnings Conference held in May 2018, the Company mentioned that it had a slight delay in Probers dedicated for Memory devices but had caught it up on a bookings basis. How is current situation and impact to revenue?

- We have already caught up on a bookings basis. However, we need time on Revenue side due to lead times. Let us note that the COGS for this Prober are still relatively higher than for other Probers.

13. How are business conditions surrounding you Wafer Edge Grinding Machines?

- The tone is firm as of today and lead times are about 1 year. However, demand for this machine is typically very cyclical (normally low and periodically high).

14. Please describe the outlook for mid to long term SPE demands and expected areas for growth?

- We strongly believe that the Semiconductor device market never vanishes. In addition, data volumes must increase therefore the Memory market will probably recover. The current situation is described as “A recession period with an upward future just ahead”. Seasonal trends (weak demand in winter and recovery in spring) still continue. Therefore, we anticipate buoyance in spring.

15. What is the purpose of constructing a new plant for the Metrology Segment and its targets?

- Currently both bookings and revenues from 3D Coordinate Measuring Machines are in good situation and capacity is almost full. Therefore we agreed to build a new plant. We expect a 50% capacity increase from the current capacity.

16. How is the business situation for Optical Microscopes?

- Exposure is still low but business opportunity is obviously increasing. We exhibited the product at JIMTOF exhibition (Japan International Machine Tool Fair) of this year and we had enough response from the visitors and customers there. We expect it to contribute to increase in revenue in the near future.

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