

## **Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2023/3 1<sup>st</sup> Quarter**

### **Q&A Summary**

August 2<sup>nd</sup>, 2022

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2023/3 1<sup>st</sup> quarter 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. Please give us the breakdown of orders and sales by product in FY2023/3 1Q for both business segments.**

- Orders for SPE consisted of Testing equipment (Probers) at the low-60% and Assembly machines (Dicers and Grinders) at the high-30% (Dicers < Grinders). In Sales, it was mid-60% and mid-30% range.
- Orders for Metrology consisted of Measuring instruments (such as 3D Coordinate Measuring Machines) at 60% and Automatic Gauges and Battery Testing systems at 40%. In Sales, it was low-60% and high-30% range.

**2. What was the degree of underachievement of 1Q SPE results due to the lockdown in China? Also, what is the relationship with the delay in FY2022/3 4Q?**

- Almost all of the shortfall in 1Q results was due to the lockdown in China. We estimate the impact on sales to be several BJPY and on operating income to be single digit BJPY.
- In FY2022/3 4Q, we also saw a period lag due to the lockdown. While these sales were recognized in FY2023/3 1Q, a new periodic delay occurred.

**3. Are there any cancellations or delivery pushouts for which you have already received purchase orders? Are there any characteristics by industry or application? Did this trend affect the profit/loss in 1Q?**

- We have not received any requests for cancellations, but we have heard some of delivery pushout intents.
- On the other hand, some customers have requested pull-ins. Requests for pushouts are generally come from OSAT, and the pull-ins seem to vary per customer.
- Based on this situation, we are responding by exchanging production slots.

- These are related to future sales opportunities and are not linked to FY2023/3 1Q results.
- 4. We would like to hear the details of the temporary factors that boosted Metrology orders in 1Q and how they relate to the earnings forecast.**
- We notified customers of price revisions (several %) for some Metrology products, and orders were concentrated before the price revisions. Our 1Q order estimate was less than 10BJPY, but most of the upward swing was due to this concentration of orders.
  - As we commented previous earnings conference in May 2022, we have incorporated the price revision into our FY2023/3 forecast and expect it to be reflected in earnings, especially from the 4Q onward.
- 5. We understood that SPE operating margin in 1Q was maintained at a certain level despite the sales extension due to the lockdown. What is the company's assessment?**
- We understand that it declined slightly, given the high level of margin in FY2022/3 4Q and the sharp rise in material prices.
- 6. The company commented the product mix as the reason for the somewhat unsatisfactory margin in Metrology for 1Q. We would like to know detail and outlook for the future.**
- In 1Q, the product mix changed slightly due to delays in deliveries of some high-margin products and related components to the Company as a result of the lockdown.
  - These will be recognized as sales near future; therefore we expect the margin to improve.
- 7. What were the results of SPE consumables sales in 1Q?**
- Sales were on par with the quarterly average of FY2022/3 results. Sales of Dicing blades and Grinding equipment consumables were almost at the same level. Sales were slightly sluggish due to a decline in consumer demand.
  - We intend to increase sales of consumables for grinding equipment as part of our Mid-term business plan.
- 8. What is the current delivery schedule for products?**
- There is no change since May, 12-inch probers take about 10 months, 8-inch ones 12 months, Dicers take 5 months, and Grinder takes over 12 months.
- 9. What is the current status of parts procurement?**
- There is no change since May, and the situation continues to be difficult. The situation has not changed significantly for SPE and Metrology.

- 10. The Company remained forecast for FY2023/3 unchanged. Based on this, 2Q SPE sales will be in the latter half of 30 billion yen, assuming a recovery from 1Q. Is this really possible? In that case, what will the production capacity utilization ratio be?**
- Since we apply the placement method for recognizing sales, we have to pay attention to the man-hours required for engineers to start up at customer sites. We believe there is a high probability of recovery, man-hours shall be carefully controlled.
  - We also believe that the production capacity utilization ratio will not change significantly between 1Q and 2Q.
- 11. Is there any change in product mix guidance in the FY2023/3 1H forecast?**
- No change.
- 12. Regarding the 2Q order forecast for Metrology, the Company expects a high level of orders despite a reactionary decline due to temporary factors. Please comment on the basis for this forecast and the current demand trend.**
- Since the beginning of FY2023/3, Japanese manufacturing companies in general have shown improvement in their willingness to invest. On a half-yearly basis, there is clear recovery in orders for our Metrology equipment.
  - While the recovery for the automotive industry continues to be moderate, we feel that demand for machine parts and semiconductor manufacturing equipment is increasing.
  - It is difficult to accurately read the level of orders because the reactionary decline in 2Q and the bottoming out of these bases cancel each other out.
- 13. Demand for SPE for consumer applications is said to be weak. How much of your SPE orders are for consumer applications? Also, do you see any risk in your assumption for SPE orders in 2Q?**
- It is difficult to specify consumer applications as a percentage of SPE orders, so it is difficult to give a quantitative answer.
  - However, compared to a few years ago, when smartphones drove SPE demand, device applications are expanding, and there are many orders for our Grinders from a long-term perspective.
  - Given these circumstances, we do not believe that a further decline in consumer demand will put further downward pressure on SPE demand at this point.
- 14. Please comment on the changes in the product mix in 2Q outlook for SPE orders and the direction of orders for and after FY2023/3 2H.**
- We do not expect a major change in the product mix in 2Q.

- In general, delivery time in the entire SPE becomes longer than before. Therefore, customers are ordering equipment from a long-term perspective. Based on this, we have long assumed that there would be a temporary adjustment in SPE demand due to changes in visibility on the customer side.
- At present, there is also uncertainty about SPE demand in light of the macro economy.
- On the other hand, from a long-term perspective, there is no doubt that the semiconductor market will continue to grow.
- Considering these factors, we have created a base scenario for our internal discussion of “Gradual decline in SPE orders during FY2023/3 and a large recovery in FY2024/3, especially in the latter half”.

**15. What is the percentage of orders and sales for Power semiconductors in your SPE business?**

- On an order basis, Power semiconductors account for a single-digit %, and if substrate-related applications are added to this, it is probably in the first half of 10%.
- On a sales basis, the percentage has not yet reached that level, but we assume that sales of the aforementioned substrate applications will be recorded sequentially and will approach the current percentage on an order basis.
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**16. What is the market size, competitive environment, and long-term growth potential for Grinders for compound semiconductors?**

- In terms of our company, the growth potential of Grinders is greater than other SPEs.
- It is difficult to accurately analyze the market size and share, but there are many types of Grinders for processing compound semiconductors, including High-rigid grinders (HRG), and we believe the potential is very high.

**17. What is the competitive environment for grinding equipment for wafer fabrication?**

- There is a strong demand for Grinders for wafer fabrication, including ones that are targeting two to three years after. We don't think that long delivery times will lead to changes in the competitive environment in this field.

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