Message from CFO

Building a Stable and Robust Financial Base

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Introduction

I made a connection with the Tokyo Seimitsu Group when I joined its German subsidiary in 1997. Upon returning to Japan in 2009, I started to work at its head office, helping set up and reorganize overseas subsidiaries. From 2019, I worked in Fukushima on post-merger integration (PMI) efforts for the company that Tokyo Seimitsu acquired through M&A. Since returning to the head office in 2023, I have been engaged in management, IR, and special missions among other tasks at the Management Support Department under direct control of the president. Regarding the new mid-term business plan, I played a role in determining its position and drafting its basic policies in consultation with the president and other relevant personnel.
When I was transferred to Fukushima, I was close to 60 years old. I thought my career at the Tokyo Seimitsu Group would end there. So, to be honest, I am surprised that I have been appointed as CFO. Having been assigned this enormous responsibility, I will do my best to enhance the corporate value of our group.

Business environment and results

The business environment surrounding our group in fiscal 2024 is characterized by the remarkable growth of the semiconductor manufacturing equipment business despite the sluggish sales of consumer products, such as smartphones and PCs, and power semiconductors for electric vehicles (EVs). The business was supported significantly by demand for generative AI and demand in China.
The precision measuring instruments business, on the other hand, had a tough time as the order trend of machine tools remained stagnant. Yet, we produced results in developing new areas such as aircrafts and semiconductors. The rechargeable battery business is poised to grow partly because of the government's industrial policy.
Regarding the fiscal 2024 business results of our group, the net sales hit an all-time high of 150.5 billion yen, because sales grew in the areas where the semiconductor manufacturing equipment business has a competitive advantage and we succeeded in winning orders for equipment replacement in the precision measuring instruments business. With the operating profit and operating margin reaching 29.7 billion yen and 20%, respectively, I consider that the overall financial results are not bad. While the net sales missed the target of 170 billion yen set forth in the previous mid-term business plan, it was inevitable because the target was premised on the recovery of consumer demand. The three-year average ROE also reached 15%.

Our financial direction

We intend to set a target of maintaining an equity ratio of 70% and a cash amount equivalent to half a year of fixed costs, two months of variable costs, and additional costs. This is because the semiconductor manufacturing equipment business is highly volatile and we need to maintain a sufficiently sound financial base to endure any changes. We also have to keep the amount of cash to an appropriate level where we can make flexible moves if needed. It is crucial to make sure that we can make decisions on capital investment and M&A at our own discretion without being influenced by intentions of outsiders.

Capital allocation

We use the cash flows from operating activities for capital investment and dividends. I think that, if we still have some room in free cash flow and the cash balance is not a concern, then we can choose to buy back our shares as additional shareholder returns. Essentially, this policy has not changed from the previous mid-term business plan. We have carried out stock buybacks flexibly in the past, and we will take a similar action depending on circumstances.
While increasing liabilities for higher leverage is an option because it brings down the weighted

average cost of capital (WACC), whether we do so depends on the cash status. Since an increase in demand for high-value-added products makes inventory management difficult to do, I will keep paying attention to it. As for the credit rating, I consider it a minimum requirement to maintain the current A minus (stable) rating (assigned by Rating & Investment Information, Inc.).
I presume that we are going to make capital investments totaling 30 to 40 billion yen over three years. Judging from the current investment level, I think the total investment amount will be close to these figures.
A major investment will go to the construction of a new plant in Hachioji City, Tokyo. We will pay a deposit for the land within fiscal 2025. Since the design is not yet started, the total construction cost is unclear. With a land size about 80% as large as that of the Hachioji Plant (approx. 37,000 m^2), the new plant will be quite a huge building.
The new plant is being built to meet the growing demand for increasingly larger semiconductor manufacturing equipment. The construction will not begin until fiscal 2027, the final year of the new mid-term business plan, partly due to the environment assessment by the Tokyo Metropolitan Government. Payment will start in earnest during the period of the next mid-term business plan.
Moreover, we plan to build demo centers abroad and construct our company's building in South Korea. There is also a plan to open demo centers in Vietnam and India where the semiconductor industry is growing.
The ratio of investment in R&D to net sales is a little less than 8%, and the total investment amount over three years is presumed to be 35 to 40 billion yen. The investment is primarily used to develop elemental technologies for strategic products. These include high-precision temperature control for chucks, which are the core parts of probing machines.

New mid-term business plan

What I aim to achieve as the CFO under the new mid-term business plan is to build a robust financial base that remains stable under any circumstances. To meet this challenge, I want to focus on increasing profits first. What matters most is a solid foundation.
The operating margin target set in the new mid-term business plan is 24%, which is higher than the actual operating margin of 20% achieved in fiscal 2024. It is therefore necessary to increase the sales ratio of high-added-value equipment while raising the gross profit margin by lowering the manufacturing cost, particularly in the semiconductor manufacturing equipment business. I also want to grow highly profitable businesses other than the sale of equipment, such as recurring businesses. I think that our group has been focused more on the sale of equipment than on installation base businesses. Going forward, however, I consider it imperative to establish a revenue base by leveraging recurring businesses such as the lucrative business of selling consumables.

ROIC and ROE

The return on invested capital (ROIC), which we introduced in fiscal 2022, has spread across the company to the point where the revenue status can be monitored on a business-by-business basis. We are currently in the process of changing the way we use this metric based on what we have learned so far.
Recently, we have changed how overseas subsidiaries divide their assets by segment. Getting the knack of it, we are beginning to use the metric more strictly. At the moment, the ROIC is mainly used for department management and awareness raising for employees. With calls for disclosure growing among outsiders, however, we will give it careful consideration.
In my view, the ROE target of 15% is a minimum requirement to fulfill. Given the recent hikes in interest rates, I suspect that the cost of shareholders' equity is probably more than 10% when it is calculated using the β value that reflects the volatility of the semiconductor industry. We intend to keep improving the ROIC as well by increasing the profit margin and asset turnover.

Shareholder returns and IR

As for shareholder returns, the target dividend payout ratio is 40%. We buy back our shares depending on circumstances. I think, however, that investing funds in equipment and other resources for growth will be eventually the best returns for shareholders.
To make sure that our shareholder return policy and growth strategy are fairly evaluated and to enhance our corporate value, I will commit myself to IR activities. Our company is not highly valued, compared to rivals in the same industry. With the help of Ryuichi Kimura, CEO, I will make better known the value of having both precision measuring instruments business and semiconductor manufacturing equipment business.

	Net sales	Operating profit	Operating margin	ROE
FY2024 results	150.5 billion yen Semiconductor manufacturing equipment 113.5 billion yen Precision measuring instruments 37.1 billion yen	29.7 billion yen Semiconductor manufacturing equipment 24.3 billion yen Precision measuring instruments 5.4 billion yen	20% Semiconductor manufacturing equipment 21% Precision measuring instruments 15%	15%
Mid-term business plan period (FY2025-2027) Single year	185.0 billion yen Semiconductor manufacturing equipment 140.0 billion yen Precision measuring instruments 45.0 billion yen	45.0 billion yen	24%	15%