

Tokyo Seimitsu Co., Ltd. Earnings Conference for FY2023/3 2nd Quarter

Q&A Summary

November 2nd, 2022

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2023/3 2nd 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. We understood that orders received in the 2Q were lower than the August forecast. We would like to hear the reasons for this.

- Although there is demand for SPE related to SiC and power semiconductors, the main reason is that there has been a considerable order deceleration in consumer products, especially those related to smartphones. However, 1st half SPE orders reached the level we had expected at the beginning of the period.
- For Metrology, there were a rush orders before the price revision in 1Q, and many customers placed orders early to fix delivery dates, and the reactionary decline in 2Q was more than we had anticipated.

2. The exposure of Prober orders in 1st half (low-60% of SPE) is higher YoY. Given the recent situation, the Assembly equipment ratio could have increased in the opposite direction. Please give us your opinion.

- As we commented at the May meeting, consumer demand for processing equipment has been declining since FY2022/3 2nd half. On the other hand, we believe this is because demand for Probers is steady. In the long term, we anticipate that the ratio will decline due to Assembly related demand such as for advanced packaging.

3. What was the exposure of power semiconductor-related orders to total 2Q SPE orders?

- Orders for power semiconductors amounted about mid-10% of total SPE orders. If we include ones for wafer grinding equipment for power semiconductors, we estimate that it will be about mid-20%.

- 4. What are the recent trends in orders and sales of SPE consumables?**
- The annual scale of consumables orders/sales for FY2022/3 was high-4BJPY to 5BJPY, and for FY2023/3 1st half was roughly at the same level. While demand for dicing blades is sluggish due to a decline in demand for dicers and mobile phone-related demand, which is one of our strengths, sales of grinding wheels for Grinders. In particular, if sales of SiC grinding wheels continue to grow, it will boost sales by about 200MJPY/year.. We hope to increase total annual sales of consumables to 7-8BJPY.
- 5. What was the cause of the revision of orders and order backlogs in 1Q and how does it affect the financial statements?**
- There is no impact on Sales and each Profits because only orders and backlogs were revised.
 - The reason for the revision is that the subsidiary's calculation was made based on an incorrect report in the consolidated calculation process, which was unnoticed by the parent company's checks.
- 6. How does your Grinders compare with your competitors' products?**
- We believe that our strength lies in our ultra-high rigidity, which enables us to grind hard-to-cut materials.
- 7. Korean manufacturers have started to develop blade dicers, what is your view on this?**
- We recognize that Korean manufacturers have entered the market. We will continue to develop superior functions so that we do not fall behind the competition.
- 8. Regarding parts shortage, we would like to know what parts are currently in short supply and whether there are any signs of easing.**
- Some parts and materials' shortage are easing, while others have become difficult to procure. Currently, procurement of motors, ceramics parts, and semiconductor-related parts is difficult.
- 9. The Company has lowered its FY2023/3 Sales and OP forecast. Please explain the reasons for this.**
- SPE sales revision: The order backlog is high, and if shipments proceed as requested, the previous forecast will remain unchanged, but we are concerned about adjustments to production slots due to recent order cancellations and requests for delivery time extension. If production slot adjustments occur, the parts procurement plan will also change. As of November, it is at a level that can be adjusted. However, if the delivery extension requests

occur in 4Q or later, it will be difficult to make adjustments, and the company made revisions based on this.

- Metrology sales revision: Based on the fact that the overall market is in a gradual recovery trend, as indicated by industry statistics.
- OP revision: The revision is largely due to the sharp rise in the cost of parts and materials. Although the current depreciation of the yen has largely offset this, the need to procure relatively expensive market parts continues, and requests to raise the prices of normally procured parts are increasing. In addition, fixed costs are expected to increase due to human cost and other factors.
- We have informed our customers of the price increases for parts and materials, and they have accepted them, somewhat.
- At this point, we believe that we have factored in the visible risks. We believe that the risk of having to consider revising our earnings forecast due to an increase in requests for longer delivery times is low.

10. Orders for SPE are on a downward trend. When do you think the bottom-out will be?

- It is difficult to foresee the bottom-out period. In general, we expect a soft order environment in 2023, but from around the July-Sep period, we expect an increase in orders for development, ramp-up, and mass production of new technologies such as Advanced Packaging, Hybrid Bonding, and Wafer on Wafer.
- In the aforementioned technologies, our Grinders can make a contribution.
- As of today, they are applied in the ramp-up and are not on a scale to offset the decline in consumer demand.

11. With the establishment of the CHIPS Act in the U.S., a number of new semiconductor device factories are expected to start operations in 2024. We would like to confirm the relationship between this and the expected timing of order bottoming out.

- First, excluding the effects of production slot adjustment, the current product delivery time is 10 months for 12" probers, 13 months for 8" probers, 3-4 months for dicers, 10 months for grinders, and about 2 years for edge grinders.
- In addition, the *Hanno* Plant (*Hanno* city, *Saitama*, Japan) is scheduled to start operations in June 2023, which, excluding the impact of parts procurement, will double the company's production capacity compared to FY2021/3 and the aforementioned delivery time is expected to be significantly reduced.
- Therefore, even if orders recover in the July-September 2023 period, we believe that the shortened delivery time will allow for shipments to be made in time for the semiconductor device plant to begin operations in 2024.

- However, delivery times for SiC wafer-related Grinders may not change, as customers often place orders based on the assumption that they will be forecasted two or more years in advance, and demand in general is on the rise.

12. We would like to ask about the risks and possible effects of the tightening of U.S. semiconductor-related export regulations.

- First of all, it is unlikely that our company's equipment will be immediately prohibited from being exported to China.
- If the restrictions limit exports of many front-end SPEs, the development and production of semiconductor devices in China will stagnate. If this were to happen, demand for back-end SPE such as ours would be affected.
- We believe that half of our businesses in China involve such risks. Although there is a certain amount of low-end demand, the momentum that existed around 2020-2021 may be lost.

13. We would like to ask about the current status of charge/discharge testing systems and the outlook for entire Metrology equipment for the automotive industry.

- The in-house testing business in this segment has returned to the black, and the modification and upgrade business is also expected to return to the black. In terms of system sales, we plan to complete the development of new products in FY2023/3 2nd half and bring them to market in the FY2024/3 1st half.
- Metrology equipment sales to automotive industry continues to recover moderately. However, there are no major investment plans for internal combustion engines, which is complemented by high renewal and refurbishment demands. We believe it is unlikely that demand for internal combustion engines will recover to its existing peak level around FY2019/3.
- Electrification is irreversibly accelerating and investment in development and prototyping is increasing. We are receiving inquiries and orders related to Battery measurement (electrical measurement and internal defect measurement), Motor measurement (non-contact measurement), and Gear measurement (high-precision measurement of surface forms).
- While a decline in demand for ICE engine-related measurements is inevitable, we do not believe that the demand for measurements itself will disappear.

14. In the Presentation material, you introduce SPE's built-in non-contact measuring machine. I would like to hear more details.

- This time, we introduced the built-in non-contact measurement devices for Probers and

Dicers. Each equipment has inspection functions, for example, Prober can evaluate the needle shape after testing and the Dicer can evaluate the cross-sectional shape after dicing. However, they both only measure in two dimensions, and detailed evaluation requires the use of a different equipment.

- The new built-in machine enables 3D evaluation on the machine. It is possible to record needle marks after electrical testing and to measure bump shapes in three dimensions. In the case of Dicers, it is possible to evaluate even the groove depth in cases where the dicing depth of the front and back surfaces must be detected. If dicing depth control becomes necessary in the post-processing stage, this will be a commercial opportunity.
- Both of these products are already on the market.

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