

Tokyo Seimitsu Co., Ltd. Earnings Conference for Interim FY2022/3

Q&A Summary

November 2nd, 2021

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for FY2022/3 Interim 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), “Metrology” denotes our Metrology Business (or the Segment), and “DDIC” denotes Display Driver IC.*
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1. I would like to have your comments on the current business situation of the SPE market and the outlook for the future.

- Currently, there are two markets: the market centered on European and American customers, and the Chinese market. In the former market, orders for SPE are being placed with an eye on the future, mainly due to demand for communication devices and power semiconductors. In the Chinese market, there are steady inquiries for all devices.
- As product delivery times are getting longer, we anticipate demand to adjust, and then return in FY2022/3 2H.
- We are aware that there is a certain amount of negative information, such as cancellations of some Back-end equipment, falling memory spot prices, and a surplus of DDICs for TVs. However, we believe that we can see upside in the outlook for SPE orders in the 2H FY2022/3 is available, based on the fact that Automotive DDICs’ demand will increase (taking longer time for testing) despite of decline in TV DDIC and may lead to demand for Probers and Dicers, and demand for SiC-related and Mini LED-related products increase.

2. Do you have any comments on the fact that one of SPE statistics says that there were cancellation in Prober sales at "other regions" during August and September 2021?

- We have not experienced any cancellations.

3. If there is to be an adjustment in SPE demand, what factors do you foresee?

- Possible factors are: Adjustment by extended lead-time especially to US-related communication-related customers, and an adjustment due to financial risks in China.

4. With the SPE industry booming like never before, what measures are you taking to deal

with the cancellation risk of Chinese business opportunities?

- In the case of local Chinese customers, for example, we start production when we receive 30% of the advance payment, and export only after full payment is received.
- As of the end of September, advanced payments amounted to 6 billion yen.

5. What is the current lead-time for SPE?

- In general case, if we receive orders now, the delivery schedule for Probers will be June 2022 and that for Dicers will be in the latter half of July or August 2022. The delivery time for Grinders will be a little longer.

6. Given procurement of parts and raw materials is becoming tight worldwide, I would like to ask you about what are particularly in short supply, the status of your production response, and the status of securing materials for this fiscal year's forecast.

- In addition to Semiconductor devices themselves, resin-based connectors and other products that are manufactured in Southeast Asia are in short supply. The impact of the production stoppage due to the lockdown at these manufacturers was very significant.
- We are having a very hard time procuring them, but we are taking measures to avoid delays in production, such as finding alternative products and making design changes accordingly. We are able to cope with the situation thanks to the hard work of our technical staffs those who are busy with design changes every day.
- As for securing inventory, it is difficult to say as it varies depending on the parts. However, for some parts and materials that are in tight supply, it is not possible to obtain an assurance of delivery date for FY2022/3 from the distributor.

7. Logistics are also considered to be quite tight. I would like to ask you about the situation at you and the buffers in the earnings forecast for FY2022/3.

- In FY2022/3 1H, especially in September, sales were about 2 billion yen below the internal plan due to the inability to secure air and/or sea transportation and the lockdown of customer sites by COVID-19.
- We are very wary of logistics risks in 2H for SPEs to China, especially large ones.
- Although detailed figures are classified, we are factoring in a certain amount of logistics risk in our 2H forecast.

8. We would like to confirm the current level of Consumable parts sales as well as equipment, and these supply situations.

- In the Dicing blade business, there have been no major changes in sales volume, 3x since an acquisition. Sales of consumables for Grinders have increased to over 1 billion yen per

fiscal half, and overall sales of consumables are now around 5 billion yen per year.

- Shipments of consumables are also under pressure, as is the case with equipment. In addition, we are very concerned about the supply risk of plating materials (yellow phosphorus shortage due to the indirect impact of power shortage in China).

9. What is the current status of the Charge/discharge testing system business and SBS balancer business in Metrology?

- In the Charge/discharge test system business, demand for in-house tests is increasing and is expected to continue to increase in FY2023/3 and beyond. On the other hand, equipment sales are still in the preparation stage for the launch of the EV battery production line in Japan, so we have materials to talk about, but it will take another year or two to expand. In any case, we would like to see our business grow over a span of two to three years.
- Orders for SBS balancers (for balancing Grinding wheels mounted on Grinding machines) from major customers in Europe and China, where demand for high-precision grinding machines is high, have been increasing steadily, contributing to a recovery in orders.

10. I would like to ask about the purpose and expected sales scale of the basic agreement on the sales and service tie-up of shaft measuring machines manufactured by JENOPTIK of Germany in Metrology.

- Contact-type roundness measuring machines are used for measurement of generally-called “shaft”, but there is a growing need for non-contact measurement. For this reason, we have decided to tie up with JENOPTIK, having large share of non-contact shaft measurement market in Germany, to sell this product. The sales scale is expected to be around 1 billion yen, but we recently exhibited the product as reference at an exhibition and received a good response, so we may be able to talk about it in more detail at the next Conference.

11. In the revised earnings forecast for the FY2022/3 2H, the OP margin is expected to decline compared to 1H. I would like to ask you about the factors behind this and the impact per segment.

- With regard to the impact of the price hike of parts and materials (about 500 million yen), we expect a larger impact on SPE depending on the scale of sales, and smaller impact on Metrology. In addition, there will be an increase in external warehouse rent due to SPE's production expansion. We have also factored in increases in depreciation, headcount, and transportation costs.
- In Metrology, we expect the OP margin to improve in 2H compared to 1H.

12. I would like to confirm what specific measures you have taken to increase SPE production

capacity. Also, how it is impacted to 2H sales forecast, what are your thoughts on production capacity before the *Hanno* Plant starts operations?

- At present, we have increased SPE production capacity by about 40% compared to FY2021/3. The major measures are (1) utilization of the MI plant in the *Tsuchiura* Plant, and (2) expansion of the plant's production space by renting a warehouse near the *Hachioji* Plant and transferring parts. The revision of SPE sales forecast for FY2022/3 2H is largely due to (2). Each of these measures will not have the greatest effect immediately after operation, but will increase in stages.
- With regard to the expansion of production capacity in FY2023/3 (before starting operation of *Hanno* Plant), we will utilize the Group's internal facilities to back up production, and specifically, we have begun preparations to utilize the Group's internal plant in *Nagoya* Plant. If the *Nagoya* plant is fully utilized, we may be able to increase production capacity by 3 to 4 billion yen per half year.

13. Once again, we recognize that SPE demand is booming. Under such circumstances, is there an increase in demand in the semiconductor back-end process other than capacity-buy? If so, what are the factors behind this?

- For example, in the case of Blade Dicers, the demand for cutting not only wafers but also packages such as QFNs and BGAs is increasing, and in the case of Grinders, the demand for grinding difficult-to-cut materials such as SiC is increasing, which in turn is increasing the number of units required.
- This kind of investment in technology-buy may be the reason why demand for our SPE has not adjusted.

14. When we compare OP margin with that of other SPE peers, we see a difference. Please comment on your current awareness of this issue and what measures you are taking to improve it in the next mid-term target.

- We believe that the OP margin has reached a certain level, but it is true that as part of the production expansion, we are incurring expenses such as renting external warehouses and transportation costs between warehouses and factories. When the *Hanno* Plant starts operation, these costs will be reduced and the Gross profit will improve. The rest will depend on the balance with the rising cost of materials.

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