

Tokyo Seimitsu Co., Ltd. Earnings Conference for 1st quarter of FY2025/3

Q&A Summary

Date of Conference: August 2nd, 2024

- *This document is a summary of Q&A session at the Earnings Conference (via Web) for 1Q FY2025/3, 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).*
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1. SPE orders for April-June quarter exceeded your expectations; would you give us more details?

- In China, there were more orders than expected for IDM and OSAT, which are assumed to be smartphone supply chains.
- Compared to equipment demand for memory, there were more for logic.

2. What is the background to the YoY decrease in OP margin in both segments in the April-June quarter?

- In addition to sales of less profitable SPE, the main reasons are increases in SGA, particularly in expenses and depreciations arisen from *Hanno Plant (Saitama Prefecture, Japan)* completed in FY2024/3, and the adoption of ERP at subsidiaries.
- The company has newly disclosed its full year forecast for FY2025/3, OP margin before depreciation/amortization is expected to be higher than for FY2022/3. The company will continue to work on improving profitability.

3. Were there many cancellations of SPE orders in the April - June quarter?

- We examine outstanding backlogs every quarter and perform internal cancellations as necessary. Cancellation amount for April – June quarter was minimal.

4. What are the current lead times for SPE?

- Probers and dicers have normal delivery times (Also, to the completion of the *Hanno plant*, capacity for prober increased). While grinders continue to have a high utilization rate, but it is possible to respond to shorter delivery times. Thanks to *Hachioji plant's grinder* production capacity expansion.

- Grinder production capacity will further increase with the completion of the *Nagoya* plant in summer 2025.
- 5. We would like to hear about the scale of orders and sales related to Generative AI in the April-June quarter and the outlook for orders in the future.**
- In the April-June quarter, we received orders (mostly for HBM) of roughly half the scale we expected in the 1st half of FY2025/3, and we expect the same level of orders to receive in the July-Sep quarter.
 - From the 2nd half of FY2025/3 onwards, it is difficult to predict the outlook as it is difficult to share forecast information from customers and many products that have short delivery times. However, qualitatively, we expect very strong demand to continue.
 - Note that we expect sales related to Generative AI in the 1st half of FY2025/3 to increase several 10% HoH, and we have recorded around half of this in the April-June quarter.
- 6. The Company predicts for SPE orders in the July-Sep quarter to decline 10% QoQ. what is the background to this?**
- There is a somewhat conservative view of the situation, which is undeniable. Even though equipment orders have not been placed, customer utilization rates continue to improve, and we do not feel that momentum is deteriorating.
 - Note that the guidance for orders in the July-Sep quarter approximates the level of the internal plan at the beginning of the period, and it can be rather said that orders in the April-June period were stronger than expected.
- 7. In the forecast for the 1st half of FY2025/3, the company revised metrology sales forecast downwards mainly due to the postponement of the delivery schedule. Please comment on the details.**
- One factor was that several delay in individual cases upon customer-requests, rather than delays for specific products or industries. Other factors include, for example, the fact that the recording of sales was delayed because accessories for our 3D coordinate measuring machines could not be included due to delays in delivery by suppliers. (Deliveries from the supplier have already been normalized.)
- 8. According to the Full year guidance newly disclosed, the SPE sales forecast for 2nd half of FY2025/3 are set at the same amount for the 1st half. Please give us your view on the outlook for orders, on which this assumption is based.**
- In May, only the 1st half forecast was disclosed, as it was assumed that there would be a recovery in consumer electronics demand for orders within FY2025/3.

- However, even at the present time, the timing of that recovery remains difficult to foresee. Because there was a possibility that our awareness of the environment would not be accurately conveyed if we continued to not disclose the 2nd half plan, we disclosed the full-year forecast based on the order backlog and order trends at the present. As a result, the SPE sales forecasts for the 1st half and 2nd half of the year are the same.
- Before explaining the outlook for future orders for SPE, please let me summarize April – June quarter results.
 - By application: mid-10% for memory (of which 80% was DRAM), around 50% for logic, 20% for electronic components and discrete devices, and 10% for power semiconductors.
 - By region: in China, the mix rose from the previous level (around 35-40%) to the low 50% range.
- The outlook for SPE orders going forward assumes that (1) difficult to foresee an in(de)crease in AI applications for memory, (2) No major change in the environment, with logic orders accounting for around half of the total and electronic components around 20%, (3) Possibility of a slight decline in power orders; but in general, we think the possibility of a major change is small. However, the possibility of a major change in general is considered to be small.
- While the Company has no change in the assumption that SiC equipment demand to shift from mainly for substrates, to device-related demand, the temporary slowdown in EV demand and other factors are causing equipment demand to stagnate at present, and we believe it is necessary to assess the situation.
- We assume that Chinese demand may remain at a high level, although we are not sure whether the 50% level will continue.
- It is difficult to make assumptions about the timing of a recovery in demand for consumer electronics. It should be understood that the full-year forecast does not assume a recovery during the fiscal year.

9. Can the profitability of SPE be expected to improve in the future as a result of higher sales related to Generative AI?

- It is true that the profitability of generated AI-related products is relatively high, but it is necessary to take into account the sales mix of SPE, plant utilization rates and trends in other SGA. In any case, the OP margin in the 1st half of FY2025/3 is expected to improve compared to the April-June quarter.

10. We would like to confirm our outlook on the timing of the application of Hybrid Bonding.

- There is no change to the initial forecast of increased equipment demand in the 2nd half of

CY2025 to the 1st half of next year and the expect business opportunities for our grinders.

- Currently, customer evaluations for this purpose are underway and are progressing well.
- Note that we omitted the information on Hybrid Bonding in these financial results briefing material, p. 8 (Premises of FY2025/3 Forecast), because it is an item that may not originally affect the FY2025/3 business results.

11. There is a view in the market that the SoC tester market is recovering rapidly, but if this is true, is it correct to understand that business opportunities will arise for the Company?

- Generally speaking, the expansion of the Wafer Testing tester market could be linked to the expansion of the prober market (as they are connected one-to-one).
- On the other hand, the difference in delivery times between probers and testers, customer mix, etc., may lead to different timing and market size perceptions for probers.
- In addition, the technical requirements for probers, such as high-precision temperature control, are becoming higher when testing high-end devices, which may affect market share trends.

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