

Q&A Summary of the Explanatory Session for Analysts and Institutional Investors for the Fiscal Year Ended March 31, 2024

Ferrotec Holdings Corporation (6890)

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Q1: We would like to confirm your thoughts on the Chinese semiconductor market and the risks involved. We know that demand in China has been booming recently. However, we believe some demand is arising due to concerns over stricter regulations. What are your views on the risks if the U.S. imposes stricter regulations on China?

A1: I believe that the U.S. will strengthen its regulations on China, no matter who becomes president after the election. However, the U.S. will only strengthen regulations for 14 nm and below, not beyond 14 nm. On the other hand, it is true that the performance of products of Chinese semiconductor equipment manufacturers has improved, and device manufacturers have also improved their technologies significantly. As a person who has been engaged in the semiconductor business in China, I can say from my own experience that even if regulations are tightened, it is only a matter of time before Chinese manufacturers catch up technologically with the leading foreign equipment manufacturers and will eventually be able to produce advanced products. For example, a Chinese semiconductor manufacturer has recently manufactured 7-nm products as well and will soon be able to manufacture 5-nm products. The fact that it can manufacture 7-nm and 5-nm products indicates that China has domestic equipment that can handle them. In this way, I believe that the risks are an only time-related and temporary matter.

Q2: The forecast of the sales of major products for the next three years is shown on page 25 and following pages of the document. From the fiscal year ending March 2026 to March 2027, the growth rate of sales of some products, especially those related to EVs and power semiconductors, is expected to increase. Could you please explain the market approach for each product and the reasons for business growth, whether it is due to the market or your company' approach (expansion of customer share, added value, etc.), and also how profitability can be increased for each business?

A2: If I talk about the product groups worth around 30 to 40 billion yen, quartz, for which our company has the world's largest fire processing and machine processing plants, is expected to generate sales of over 30 billion yen, with profit increasing in parallel with the growth of the business. Our company has established a factory in Kumamoto and will further expand our sales outlets in the U.S., Europe, and Japan, so we are confident that the business will grow with sales of around 50 billion yen.

The ceramics business is centered on four plants (Hangzhou, Changshan, Malaysia, and Ishikawa), and the scale of the business is already expected to exceed 30 billion yen. In terms of sales growth, the company will increase the number of new products used in the latest semiconductor equipment and will also work on improving materials. The ceramics business is expected to reach a scale of around 50 billion

yen without any difficulties.

In addition to robot manufacturing and vacuum chambers, assembly work has started in the commissioned metal processing business for business expansion. Assembly refers to the process of assembling ancillary equipment around the vacuum chamber during manufacturing in order to add value. Even though the commissioned metal processing plant has been established recently in Malaysia, there are requests from customers for the second plant, though we have told them to wait a little longer. I think the scale of this business will reach 50 billion yen quickly.

In the field of power semiconductor substrate business, it is said that other companies manufacturing DCB and AMB substrates have emerged. However, their business is still small in scale and we are expected to earn sales of 40 billion yen. There are four power semiconductor plants (Shanghai, Dongtai, Neijiang, and Malaysia), including one under construction, and I visited the Malaysian plant last week. The 60,000-m² plant in the southern state of Johor is expected to be completed in October this year. Power semiconductor manufacturers are gathering in Malaysia and Thailand, and the business is expected to be worth around 60 to 70 billion yen.

As for silicon parts, our company manufactures boats and focus rings on the largest scale in the world, and also handles fins and susceptors. The subsidiary manufacturing silicon parts and quartz crucibles (FTNC) earns sales of over 30 billion yen, which could be further increased, including profit in some cases.

The sales of these five products are expected to reach 50 billion yen each, while thermo-electric modules also performed well this year. The sales of chillers are expected to reach around 30 billion yen in the future.

The business scale of in-vehicle products, including thermo-electric modules, is already about 30 billion yen. In addition, we received many orders for in-vehicle refrigerators, which can be linked to the sales of new cars.

In the business with a scale of 10 to 20 billion yen, the equipment parts cleaning business is to be worth around 40 billion yen, including bellows and gate valves, which are manufactured by a joint venture with a Japanese manufacturer, and our company is also focusing on the sensor business in order to encompass a diverse range of applications. I think this will become a business worth around 50 billion yen in the future, too.

Q2-2: In terms of profit margin, are there any measures your company is taking to increase profit margin other than expanding the business scale?

A2-2: Even if the scale is the same, our company believes that we can double or triple profit by reducing labor costs through automation, digitization, and AI, while increasing efficiency.

Q2-3: In addition, the power semiconductor substrate business will grow significantly from 44 billion yen to 66 billion yen between fiscal year ending March 2026 and fiscal year March 2027. However, the EV market in China has been weakening since around the end of last year. What is the actual situation now, and how is your company's revenue changing?

A2-3: Power semiconductors are used not only for EVs, but also for green energy, trains (bullet trains), and aviation. The number of applications is increasing rapidly. Therefore, the market as a whole can grow at a rate of 20 to 25% per year, and I think that our company expects to benefit from this.

Q3: As mentioned on page 20, the capital investment is 140 billion yen, but what is your impression of the scale of capital investment in the future as you aim for sales of 500 billion yen? Will you continue the investment of 140 billion yen in the coming three years or increase it a little more? Although funding is also raised through equity every two years, what is your view on the scale of capital investment and your approach to fund procurement?

A3: I don't think we need to invest that much. If we conduct automation, digitization, and adoption of AI, the investment amount will decrease a little.

Q4: I think that it is your company's clients including both Chinese and U.S. manufacturers that the share price is undervalued. When I look at the numbers, it seems that your growth is based on the increase of both clients at the current pace. Perhaps, it is too optimistic for market participants to think that both clients will continue to grow, with a potential for plateau occurring somewhere, which could lead to the risk of excessive capital investment. In your company's plan, the growth of semiconductor-related equipment is assumed to be much higher than the growth of WFE. Please tell us your assumption for this.

A4: We are a parts manufacturer and also engage in assembly. We do not differentiate between non-Chinese and Chinese equipment manufacturers, and we are happy to work with either of them when we receive orders. We will expand our business outside of China to meet the needs of non-Chinese equipment manufacturers. If one factory is not enough, we will build another one. No one can predict which one will grow, but we know that Chinese equipment manufacturers are working very hard, and we want to attend their needs, along with equipment manufacturers outside China.

Q4-2: In that case, if you take into account both overseas and China, the needs of your clients will become far greater than the growth of WFE. So, is it right to assume that you will prepare the capabilities that each customer wants?

A4-2: When our company initially prepares equipment, we do not differentiate between equipment for Chinese or overseas clients. From now on, the regulations imposed by the U.S. on China will become much stricter. If it is decided to expand in other countries, we will invest in equipment for manufacturers in these countries. We will order general equipment and use the existing equipment in China as it is. That is why we do not make such a differentiation. U.S. manufacturers do not request such differentiation, either.

Q5: We understand that the plan is to considerably increase sales to local Chinese equipment manufacturers. We often hear Japanese equipment manufacturers say that quality is prioritized over price when it comes to profitability for local Chinese equipment manufacturers. In the case of your company's parts, when you increase sales to local equipment manufacturers in China, what kind of impact will it have on profit?

A5: Basically, the profitability of semiconductor-related equipment is good. Although profitability of products for Chinese equipment manufacturers is not so good in some cases, we make profit through automation, digitalization, and AI. The systems are almost complete, and we will establish semi-automated or automated factories, which we expect will ultimately lead to the actualization of a high profit margin.

Q6: With regard to share price, there are opinions that aiming for the Prime Market may result in a higher share price, while some believe that President He's remuneration is too high with respect to the level of net profit. What are your thoughts on these points?

A6: As for the Prime and Standard Markets, it is similar to whether you prefer NYSE or NASDAQ, and I think both are good. The Prime Market is fine as long as we can shift to it when the time is right, and I would also be happy to stay in the Standard Market. In any case, the pursuit of growth and the improvement of corporate value will not change. Regarding the remuneration of the CEO, it is estimated to be around 8% of the consolidated net profit of 15 billion yen. Considering the contribution level of the Chinese subsidiaries' performance to the parent company to date, it is difficult to say whether it is too high or too low.

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