Q&A Summary of the Explanatory Session for Analysts and Institutional Investors for the First Half of the Fiscal Year Ending March 31, 2025

Ferrotec Holdings Corporation (6890)

◇Date: Monday, December 2, 2024, 16:00-17:00

Q1: Regarding the repatriation of funds from the listed subsidiary in China (a parts cleaning subsidiary, FTSVA), the market capitalization of FTSVA has become quite large, and is now larger than that of Ferrotec Holdings. There was a talk of liquefying these funds and repatriating them to the group, but what kind of time frame should shareholders of Ferrotec Holdings use to see future development?

A1: We believe that the merger between FTSVA and FLH (a power semiconductor substrate subsidiary) will be completed in the first quarter of the next fiscal year. If some of the shares are sold to repatriate funds, this will likely be after the beginning of 2026. Regulations allow for the sale of subsidiary shares from that point onward.

In terms of regulations, the lock-up period for shares of FTSVA held before corporate restructuring with the power semiconductor substrate subsidiary will be until the end of 2025, and they will be eligible for sale from January 2026. The shares to be exchanged with shares of FLH (a power semiconductor substrate subsidiary) will be subject to a three-year lock-up period after the corporate restructuring. In addition, Chinese regulations limit the number of shares that can be sold by the controlling shareholder within a certain period of time, and any sale must be in compliance with such regulations.

[Supplementary information]

- Total number of shares issued by FTSVA before the corporate restructuring: 338,390,000, of which FTS holds 170,000,000 shares
- New shares of FTSVA to be issued as a result of the corporate restructuring*: 401,840,000 shares, of which FTS will hold 221,460,000 shares (*after conversion of convertible bonds into shares)

Q1-2: What is your view on other group companies such as CCMC (an equity-method affiliate operating the wafer business) that are also aiming to be listed on a stock exchange?

A1-2: CCMC has two options. One is to “merge” with another company, and the other is to “re-apply for listing,” as the market conditions in China have been gradually changing recently. Lately, the Chinese government has been putting a lot of effort into developing 12-inch wafers in particular, and they want to help Chinese companies grow. We imagine that the U.S. will implement stricter measures than ever under President Trump’s administration from next year onward, but we believe that this could also be an opportunity for us.

Q1-3: What about the silicon parts subsidiary (FTNC)?

A1-3: FTNC is engaged in two businesses: silicon parts and quartz crucibles. Last year, thanks to the photovoltaic power generation business, profit margin was quite high, but the market for the photovoltaic power generation business deteriorates considerably since around the end of last year, and it has been quite bad again this year. As a result, FTNC's profit for the current fiscal year has also dropped considerably. This makes us realize that listing in China is quite difficult at this point, taking the listing criteria into account. The rest depends on the government's policy, and although the government of the Yinchuan district is providing special support in some aspects, it remains to be seen to what extent we will be able to receive support in this case.

Q2: Regarding the Chinese government's focus on semiconductors, seeing the new U.S. president, it seems that they are putting even more effort into developing silicon wafers, but what is China's stance toward domestic equipment, device, and material manufacturers?

A2: It seems that they are aware that they need to support the device, equipment, and material manufacturers you mentioned. Ten years ago, Chinese equipment manufacturers were weak in terms of competition and mostly relied on imports. As most materials are also imported, they seem to think that support is necessary.

Q2-2: In the briefing video, you used the term "Ex-China (outside of China)," and said that currently, production for customers outside of China, especially in the U.S., can be covered by production outside of China, while mentioning that this can be done from January 2026. However, has there already been a demand for further expansion in Malaysia?

A2-2: We have received formal offers from customers In the U.S., and are in the process of discussing the specific details.

Q3: You have said that you are not worried about a significant drop in factory utilization rates in China, as you have been preparing for this over the past years, but what is the current situation?

A3: Manufacturing equipment manufacturers in China have also been growing rapidly. Device manufacturers and their related businesses are also expanding rapidly, and we are capturing that demand, so we do not see a decline in our utilization rates.

Q3-2: Is it correct to understand that your company is changing because it is now able to capture demand not only from businesses in China, but also from Japanese and U.S. equipment manufacturers?

A3-2: Yes, that is correct.

Q4: The market capitalization of Ferrotec Holding's shares is just under 120 billion yen according to today's closing price, and since the market capitalization of the subsidiary listed in Shenzhen, China is larger, there has been a lot of talk recently that the subsidiary listed in Shenzhen may acquire Ferrotec Holdings. Is this true?

A4: We are not thinking about that. Even if the market capitalization of the Chinese subsidiary were to reach 1 trillion yen, we would not consider that at all. The parent company could never just be tossed aside.

Q5: This time, your company has announced a dividend increase and a share buyback, albeit on a smaller scale. I have high expectations that the share buyback is the first step. In the briefing video, you used the phrase "contribution to shareholders," and has this stance changed compared to the past?

A5: I want to increase the dividend payout ratio and the absolute amount. Of course, we will continue to consider share buybacks.

Q6: Regarding capital investment funds, at the briefing six months ago, you mentioned the need for rationalization and efficiency improvement through capital investment in order to achieve a business scale of 500 billion yen. I would like to know the results and progress of such efforts to improve productivity, streamline operations, and adopt AI.

A6: As a manufacturer, we have been promoting automation for the past five to six years, especially since labor costs have been rising rapidly, and we are now in the final stage. The final stage is the automation of logistics at our company's on-site locations, and we plan to realize this next year after carefully considering the matter. We are working to automate all logistics-related areas within the factory and to automate the warehousing and shipping of goods within one to two years. We will improve efficiency and reduce costs by reducing the number of workers. Ohizumi Mfg. Co., Ltd. manufactures a variety of sensors, including elements for air conditioners, and has been able to reduce costs considerably through automation. Automation is a must, especially for mass-produced products such as sensors. Another thing is that at our machining site in Malaysia, we will reduce the number of workers by making rails among five machining centers and using ATBs (automatic transporters) and robots. Everything up to inspection will be done automatically. Although the initial investment is high, we believe that we will be able to obtain financing and eventually make a profit.

Q6-2: In terms of capital investment amount, will it increase from next year onward compared to this year (60 billion yen)?

A6-2: This year, investment in Malaysia and other countries is expected to be large, but we forecast that it will decrease from next year onward.

Q6-3: I think that investments over the past two years have been somewhat high. However, is it right to understand that from next year onward, they will be maintained at a level of around 50 billion yen, depreciation expenses and free cash flow will increase, and it becomes easier to circulate funds?

A6-3: That is our general understanding. The route for raising funds has changed due to the listing of our subsidiaries in China, and while people around the world view our business as attractive, this is not really reflected in our stock price, which is frustrating.

Q7: Regarding fundraising through the stock market, there have been cases in the past where new shares were issued and shares were diluted, but based on what you just said, is it correct that from around the year after next, you will be able to create a system that will enable you to raise funds without diluting existing shares?

A7: Yes. At this point, we are not considering raising funds from the Japanese stock market.

Q7-2: So, since investments are controlled and there is no possibility of dilution, can we expect improvement from next year, although the Malaysian factory has just started operation this year and has contributed to profits only on a small scale?

A7-2: Yes, we think the business in Malaysia will be profitable next year.

Q8: Regarding market assumptions, you explained that you aim to increase sales by 20% next year, but listening to comments from various equipment manufacturers, many are of the opinion that capital investment in China next fiscal year will decrease by around 20-30%. From your perspective, what assumptions about the growth rate of the Chinese and global semiconductor manufacturing equipment market do you base for your plans for next fiscal year?

A8: We have visited many of our clients, and most of them seem to feel that the market will improve next year, and are probably expecting growth of around 19-20%. From our perspective, we think China will also grow by around 20-25%. As for the company as a whole, we would like to see at least 20% growth.

Q8-2: It seems that the major European and U.S. manufacturing equipment manufactures also believe that the Chinese market will fall next year, but you said that local Chinese equipment manufacturers are of the view that the market will grow by about 20-25%, so is your company of the opinion that you can grow in line with that?

A8-2: It is impossible to restrict all sales to China. For example, the major U.S. companies also have a China sales ratio of about 45%, and while I think they will not sell products with the latest technology, I don't think they will not sell products at all. Also, to be honest, Chinese equipment manufacturers have raised their level quite rapidly over the past 5-6 years. From what I've heard, they can domestically produce roughly up to 28 nm, which I think is a bit of an exaggeration, but some of them might be able to do it.

Q9: If we talk of profit margins, in the semiconductor equipment manufacturing segment, operating margin was close to 20% at its peak two or three years ago, specifically in the fiscal year ended March 2022, but I think it will probably fall to a level below double digits this fiscal year. Currently, production sites are dispersed to

Malaysia and Japan, and costs are quite a burden, so the level is like this, but I would like to know whether profit margin will return to a level close to 20% once each region is operating at full capacity.

A9: For some products, profit margin may return to 20%, or even exceed it. Ceramics and other products have high profit margins, so we would like to bring them back to at least 15% by promoting further automation in businesses such as metal processing and quartz. Price competition is fierce at the moment, and equipment manufacturers in particular tend to pass on costs to parts manufacturers in an attempt to maintain profit margins, so we as a company need to think about further cost reductions.

Q9-2: Is it correct to understand that it will take about three years for the segment's profit margin to return to around 20%, once the factories in Malaysia and Japan start to function normally?

A9-2: Yes, that's true. We have been promoting cost reduction recently, so it may not take that long.

Q10: You mentioned that you'll grow your sales by 20% next year, and your customers, local Chinese equipment manufacturers, are naturally expecting that kind of growth, and you said that American and Japanese companies won't decease sales. In this case, even if the Chinese ratio is 45%, the other half will continue to grow, right? Also, I think that your company's 20% growth is based on an assumption that you will increase the amount of money spent on a single piece of equipment, such as commissioned metal processing. For example, if there is a piece of equipment that costs 300 million yen per unit, the cost of vacuum feedthroughs alone would be several tens of millions of yen, but by increasing the ratio through contract processing and other means, you can increase the amount of money spent per customer on a single piece of equipment and thereby achieve 20% growth. Is that your approach?

A10: We often analyze what percentage of our share is within each company, and then directly approach the upper management of major companies and ask them to help us somehow by raising our share from 30% to about 40%, or from 10% to 30%, and they all support us. Also, Chinese equipment manufacturers have grown quite remarkably. Even with this growth, it is not true that Japanese and U.S. equipment manufacturers cannot sell to China, and we think that the share of sales to China is about 35%.

Q11: What is the situation in the power semiconductor field? Are you approaching a turning point, including EVs?

A11: The power device business is necessary for EVs, but power devices will be needed for all other purposes, such as energy storage, solar power generation, and wind power generation, and I believe that the business will continue to grow every year. To be honest, EVs seem to be gaining momentum only in China, and in the U.S. (President Trump) doesn't seem to like EVs very much. However, recent news is reporting that Europe wants to somehow enter the market. Originally, there was a talk of imposing tariffs on Chinese EVs, but I have recently heard that they are considering not to impose tariffs.

Q12: What about electronic devices for optical transceivers related to generative AI?

A12: The thermo-electric module business is doing well, and it is performing quite well in China. As for sensors, we sell chips primarily. Ohizumi's future strategy for sensors is to make chips account for 60% of sales and sensors 40%. Chips have a high profit margin and are used in a variety of places. Sensors are not as profitable as chips, but we will maintain a balance in our sales mix.

Q12-2: Is that the thermistor element part, which will expand in scale in the future and whose profit margin is high?

A12-2: Yes. The sensor factory in Lishui (130,000 square meters) will be completed next month.

Q12-3: Currently, Ohizumi Mfg. has sales of around 10 billion yen, but how big will its business be?

A12-3: This fiscal year, we forecast that they will earn sales of 12.5 billion yen and next fiscal year, sales a little less of about 17 billion yen, and I personally expect that they will earn sales of 20 billion yen. We have already invested quite a bit, so we need to increase profits. Ultimately, we will aim for a scale of 40-50 billion yen.

Q12-4: I think there is a lot of demand for thermo-electric modules for generative AI. Is it right?

A12-4: Yes, there is a significant increase. Thermo-electric modules for optical transceivers are expected to grow by over 20% next fiscal year, due to the growth of HBM and ChatGPT.

Q12-5: How much is it this fiscal year?

A12-5: We expect sales of thermo-electric module business to reach about 28 billion yen this fiscal year. We think that sales will reach about 40 billion yen in the near future.

Q12-6: Is supply sufficient?

A12-6: Yes. We have significantly increased our production capacity. I am also serving as a salesperson myself, working to expand sales.

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