



Lasertec Corporation

Financial Results Briefing for the Fiscal Year Ended June 2022

August 5, 2022

Event Summary

[Company Name]	Lasertec Corporation		
[Company ID]	6920-QCODE		
[Event Language]	JPN		
[Event Type]	Earnings Announcement		
[Event Name]	Financial Results Briefing for the Fiscal Year Ended June 2022		
[Fiscal Period]	FY2022 Annual		
[Date]	August 5, 2022		
[Number of Pages]	25		
[Time]	17:00 – 18:04 (Total: 64 minutes, Presentation: 14 minutes, Q&A: 50 minutes)		
[Venue]	Webcast		
[Venue Size]			
[Participants]			
[Number of Speakers]	3		
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	Shuhei Nakamura	Goldman Sachs Japan Co., Ltd.	
	Yu Yoshida	CLSA Securities Japan Co., Ltd.	
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Presentation

Misawa: Now that it is time, we will begin Lasertec Corporation's financial results briefing for the fiscal year ended June 2022. Thank you very much for taking time out of your busy schedule to join us today. I am Misawa, General Manager, Corporate Planning Department, and I will be the moderator for this session. First, I would like to introduce our speakers. Osamu Okabayashi, President & Representative Director.

Okabayashi: I'm Okabayashi. Thank you very much for your attendance today.

Misawa: Next, Shu Uchiyama, Managing Director.

Uchiyama: I'm Uchiyama, and I was just introduced to you. Thank you for your cooperation today.

Misawa: Now, let me explain the flow of the briefing session. At the beginning of the session, President Okabayashi will give a 10-minute presentation on our financial results. After that, there will be a question and answer session until 18:00. The entire session is scheduled to last about one hour. We will prepare scripts in Japanese and English for the content of this briefing session at a later date, and we would appreciate it if you could use them as well.

We will now provide an overview of our financial results. President Okabayashi, please begin.

Agenda

- **Results of Fiscal Year ended June 2022
(FY2022)**
- **Forecast of Fiscal Year ending June 2023
(FY2023)**

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Okabayashi: I will begin then. Regarding today's agenda, as usual, I'll begin with an overview of our financial results for the fiscal year ended June 2022. After that, I would like to talk about our forecast for the fiscal year ending June 2023.

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Results in Perspective

We had better results than forecast and renewed the best records of sales, profits, and orders.

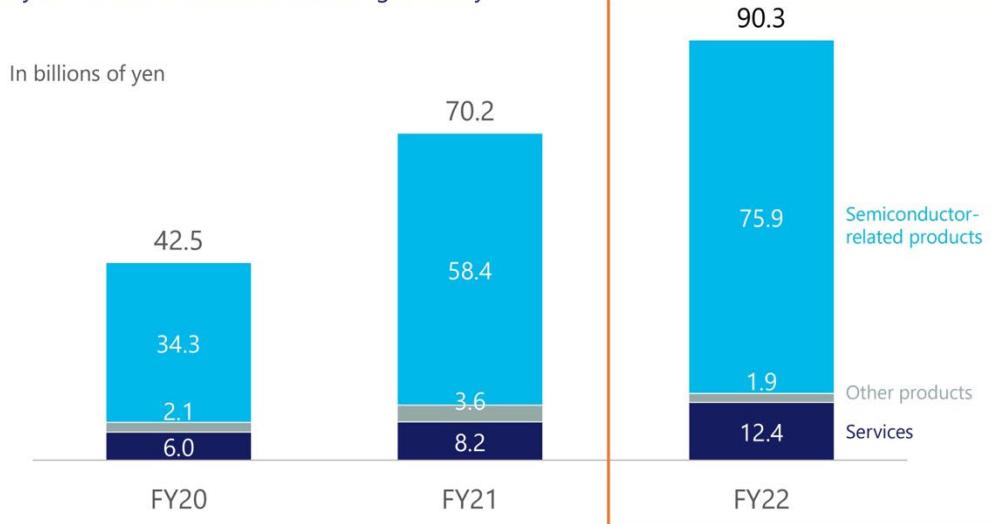
	FY2020	FY2021	FY2022 [Reference] Last forecast April 2022	Unit: million yen	Year-on-year change
Net sales	42,572	70,248	83,000	90,378	28.7%
Gross profit	22,991	36,952	—	47,787	29.3%
GP margin	54.0%	52.6%	—	52.9%	—
Operating income	15,062	26,074	27,000	32,492	24.6%
OP margin	35.4%	37.1%	32.5%	36.0%	—
Net income	10,823	19,250	21,000	24,850	29.1%
Orders	80,175	112,904	280,000	323,762	186.8%
Backlog	93,163	135,819	332,819	369,203	171.8%
R&D expenses	3,297	5,706	8,497	8,626	51.2%
R&D margin	7.7%	8.1%	10.2%	9.5%	—
Depreciation and amortization	881	1,642	3,514	3,483	112.1%
Capital expenditure	1,103	5,790	7,697	5,420	▲6.4%

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First, the results for 2022 exceeded our business forecast, with record highs in all areas of sales, profits, and orders received. Specifically, net sales were JPY90.3 billion, operating profit was JPY32.4 billion, net income was JPY24.8 billion, and orders received were JPY323.7 billion. As a result, backlog was JPY369.2 billion.

Sales by Product Category

Semiconductor-related products achieved a large sales increase, driven by EUV-related systems, just as last fiscal year. Service revenue increased significantly.



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Sales by product category. As in the previous fiscal year, sales of semiconductor-related products increased substantially, driven by EUV-related systems, and services also grew significantly. Sales of semiconductor-related products were JPY75.9 billion, sales of other products were JPY1.9 billion, and sales of services exceeded JPY10 billion for the first time for us, reaching JPY12.4 billion.

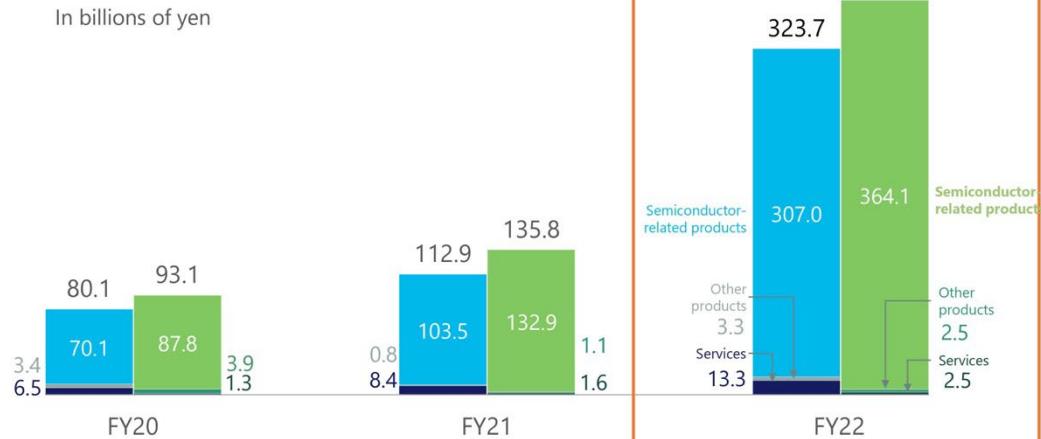
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Orders and Backlog

Orders increased to 323.7 billion yen, about 2.9 times the orders received last fiscal year, mainly due to strong demand for mask inspection systems.



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Orders and backlog. In particular, demand for mask inspection systems expanded, resulting in orders received of JPY323.7 billion, which is approximately 2.9 times the orders received in the previous fiscal year. Orders for semiconductor-related products totaled JPY307 billion, while orders for other products amounted to JPY3.3 billion, and orders for services also exceeded JPY10 billion, totaling JPY13.3 billion.

Balance Sheet

Working capital increased significantly because of increased inventories and others, due to strong orders and advance production based on forecast.

Assets

In billions of yen



Liabilities and Net Assets

In billions of yen



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This is the balance sheet. Strong orders and anticipated production led to a significant increase in working capital, including inventories.

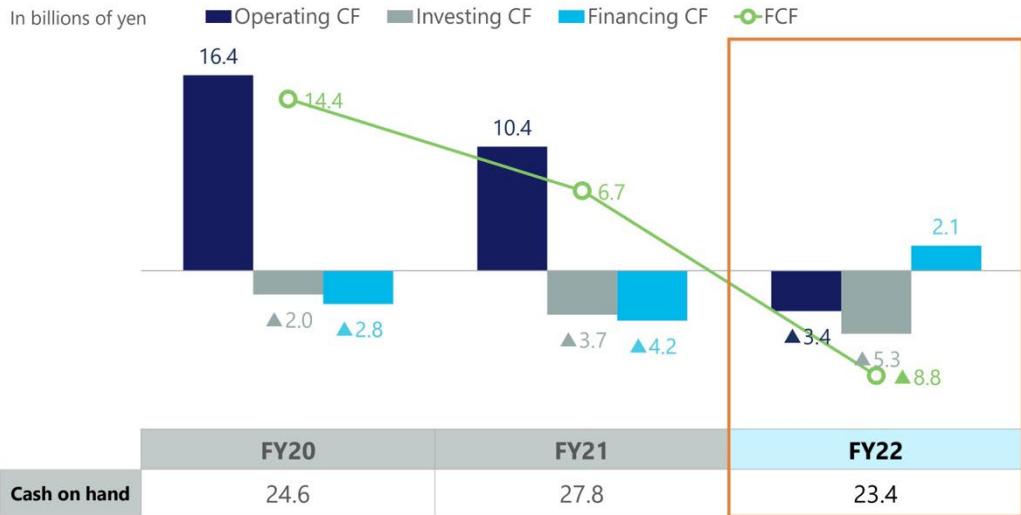
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Cash Flows

We used 3.4 billion yen for operating activities due to increased inventories. We borrowed 10 billion yen for working capital infusion.



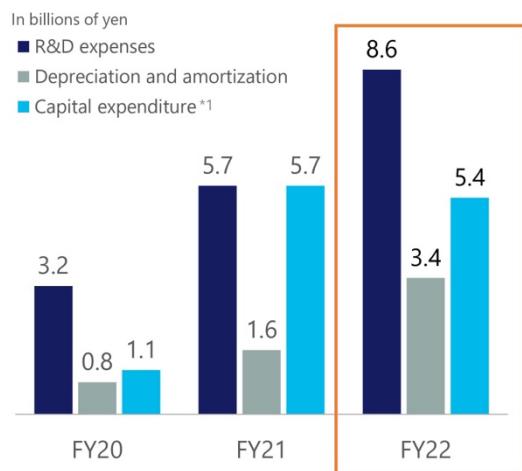
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As for cash flow, operating cash flow was an outflow of JPY3.4 billion due to an increase in inventories. The Company borrowed JPY10 billion to increase working capital.

Other Indicators

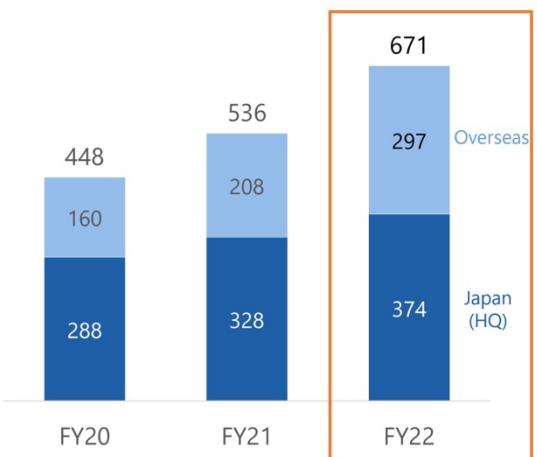
We continued to proactively invest in EUV-related business and increased the number of employees by 135 (46 in Japan, 89 overseas).

R&D Expenses and others



*1. Including intangible assets

Number of employees^{*2 *3}



*2. Not including board members

*3. Including the employees of Lasertec Singapore Service Pte. Ltd.

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Other indicators. Aggressive investment was made to strengthen EUV-related business. R&D expenses totaled JPY8.6 billion, and capital expenditures, including intangible assets, amounted to JPY5.4 billion. Meanwhile, the number of employees increased by 46 in Japan and 89 overseas, for a total increase of 135.

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FY2022 New Products

We released 3 new products in FY2022.

October
2021



High-End FPD Photomask Inspection System
CLIOS G834Advance

December
2021



Automatic Inspection and Review System
OPTELICS AI²

April
2022



Mask Inspection System
MATRICS X9ULTRA Series

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This is a new product for the previous fiscal year ended June 2022. First, in October 2021, we announced two models in flat panel display mask defect inspection systems. One is for High-End FPD Photomask Inspection System CLIOS G834Advance. The other model is Middle-End FPD Photomask Inspection System CLIOS G800LITE.

In December, we released Automatic Inspection and Review System OPTELICS AI². In April 2022, Mask Inspection System MATRICS X9ULTRA Series, which is next-generation model of X8ULTRA, was released.

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FY2022 Topics

October 2021	Selected as a constituent of TOPIX100 for the first time
December 2021	Selected as a constituent of Nikkei 500 Stock Average for the first time
December 2021	Selected in 2 growth company rankings <ul style="list-style-type: none"> • 2021 Japan Technology Fast 50: 22nd/50 • Asia-Pacific High-Growth Companies 2022: 250th/500
April 2022	EPIC Distinguished Supplier Award from Intel <ul style="list-style-type: none"> • Second highest award (one of only 26 suppliers) 

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Topics for the year ended June 2022. In October last year, the Company was selected as a constituent of TOPIX100 for the first time. In December, it was also selected as a constituent of Nikkei 500 Stock Average for the first time. In December, the Company was awarded two growth company rankings. One is 2021 Japan Technology Fast 50 and the other is Asia-Pacific High-Growth Companies 2022. In April of this year, the Company received the EPIC Distinguished Supplier Award from Intel. This is the second highest award given to suppliers and only 26 companies received this award.

Current Business Environment

New Wafer fabs

- New wafer fabs are planned in countries around the world as concerns about global supply chains for leading-edge semiconductors and power semiconductors are growing amid heightened economic and national security risks.

Expansion of EUVL

- The production of 3nm node starts in the second half of CY2022.
- The scaling of IC design is expected to continue with the introduction of 2nm node and high-NA.

Carbon Neutral Society

- Electric vehicles are driving the rapid growth of demand for compound power semiconductors.

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Next, I would like to explain our forecast of fiscal year ending June 2023. First of all, in terms of the environment surrounding our company, concerns are growing over the global supply system of cutting-edge

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and power semiconductors amidst increasing economic security risks and plans to establish new wafer fabs in various countries are progressing.

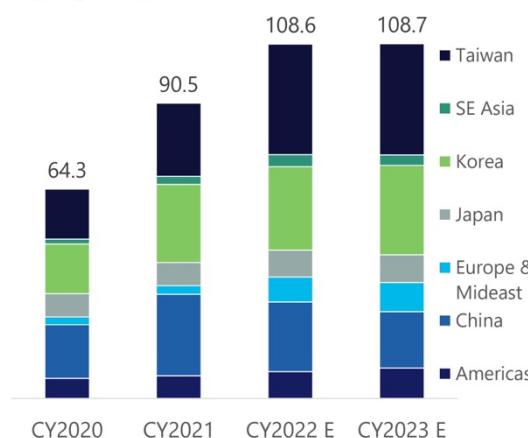
The second is the expansion of EUV lithography. Production of 3 nm has started in H2 of CY2022. In terms of development, further miniaturization is expected to continue, including 2 nm and High-NA lithography.

In addition, as part of efforts toward a carbon-neutral society, demand for SiC and other compound power semiconductors is growing rapidly due to the expanding use of electric vehicles and other products.

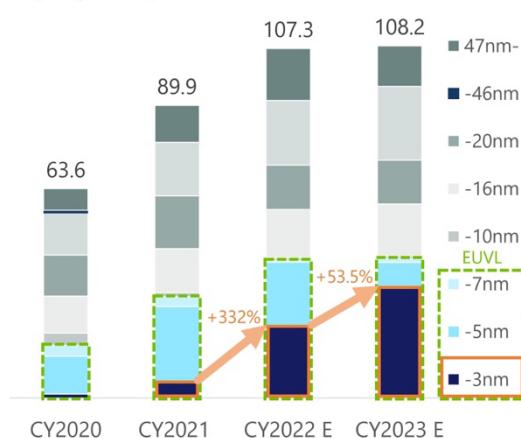
Global Semiconductor Equipment Market (Front End)

The market size is expected to surpass 100 billion dollars in 2022 and 2023, with rapid growth in Americas and Europe in addition to Taiwan and Korea. Investment in 3nm and beyond surges to about 4.3 times the investment made in 2021.

By region (US \$ Billion)



By node (US \$ Billion)



Source: SEMI World Fab Forecast May 2022

* The figures of both "by region" and "by node" include the data of second-hand equipment market. The figures of "by region" include the data of epitaxial wafer fabs, but those of "by node" graph do not.

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This is from SEMI's May 2022 World Fab Forecast. In 2022 and 2023, the market size is expected to exceed USD100 billion, with growth expected in Europe and the United States, in addition to Taiwan and South Korea. In 2022, investment in 3 nm and below is expected to be about 4.3 times higher than in 2021. Particularly, as shown in the bar graph on the right, investment in 7 nm, 5 nm, and 3 nm and below using EUV lithography is expected to grow, especially 3 nm and below as I explained earlier.

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FY2023 Action

We will continue to "strengthen corporate infrastructure" and "pursue growth opportunities" to ensure we capture growth opportunities in medium- to long-term.

Strengthen corporate infrastructure

- R&D and installation capabilities
- Supply chain
- Global service infrastructure



Pursue growth opportunities

- Next-generation solution development

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Under these circumstances, our approach for the fiscal year ending June 2023, is to continue to strengthen our management base and pursue growth opportunities in order to steadily capture medium- and long-term growth opportunities.

First, to strengthen our management base, we will reinforce our R&D and equipment installation capabilities, strengthen our supply chain, and enhance our global service capability for equipment installation and maintenance. In pursuit of growth opportunities, we will continue to promote the development of next-generation solutions.

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FY2023 Forecast

We expect to achieve record sales and profits. Orders are expected to remain at a high level.

	FY2021	FY2022	FY2023 Forecast	Year-on-year change
Net sales	70,248	90,378	140,000	+54.9%
Operating income	26,074	32,492	42,000	+29.3%
OP margin	37.1%	36.0%	30.0%	—
Net income	19,250	24,850	33,000	+32.8%
Orders	112,904	323,762	300,000	▲7.3%
Backlog	135,819	369,203	529,203	+43.3%
R&D expenses	5,706	8,626	10,000	+75.9%
R&D margin	8.1%	9.5%	7.1%	—
Depreciation and amortization	1,642	3,483	3,700	+6.2%
Capital expenditure	5,790	5,420	23,000	+324.3%

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As a result of these efforts, we plan to achieve record-high sales and profits for the full year. Orders are also expected to remain high, as in the previous fiscal year. As specific figures, we plan to achieve sales of JPY140 billion, operating profit of JPY42 billion, net income of JPY33 billion, and orders of JPY300 billion.

FY2023 Forecast by Product Category (Sales, Orders and Backlog)

Semiconductor-related products, mainly EUV-related systems, and services continue to drive growth.

	FY2021	FY2022	FY2023 Forecast	Year-on-year change
Net sales	70,248	90,378	140,000	+54.9%
Semiconductor-related products	58,401	75,971	119,000	+56.6%
Other products	3,638	1,983	3,000	+51.3%
Services	8,208	12,423	18,000	+44.9%
Orders	112,904	323,762	300,000	▲7.3%
Semiconductor-related products	103,566	307,090	276,000	▲10.1%
Other products	860	3,354	6,000	+78.9%
Services	8,476	13,317	18,000	+35.2%
Backlog	135,819	369,203	529,203	+43.3%
Semiconductor-related products	132,991	364,110	521,110	+43.1%
Other products	1,160	2,531	5,531	+118.5%
Services	1,667	2,560	2,560	0.0%

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By product, growth will continue to be driven by semiconductor-related products and services, centered on EUV-related products. We plan JPY119 billion in sales for semiconductor-related products and JPY18 billion for services, a further increase from the previous year.

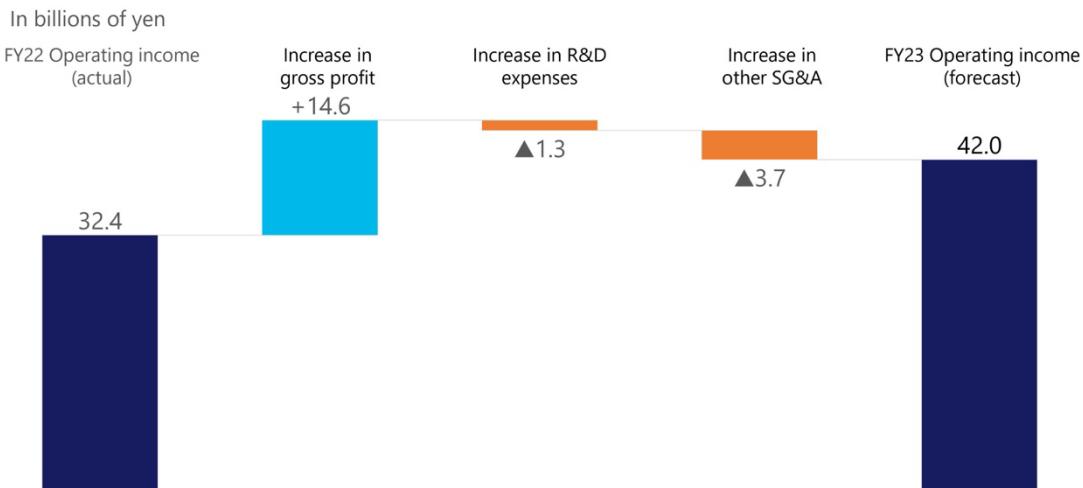
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FY2023 Forecast – Operating Income Compared with FY2022

We will proactively make investments in R&D and human resources. We expect to achieve a YoY increase of about 9.6 billion yen in operating income.



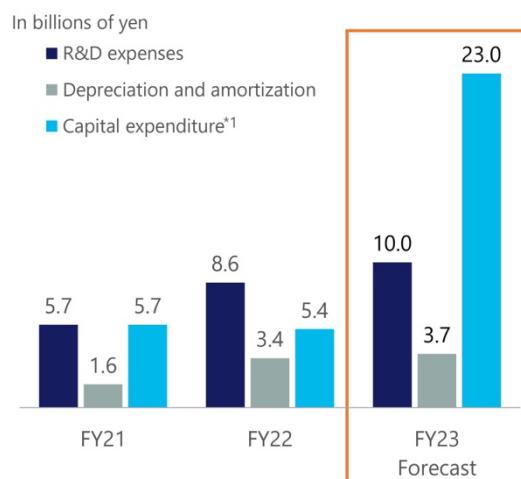
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This is a comparison of the operating P&L forecast with the previous year. We will continue to invest aggressively in R&D and human resources. Compared to the previous year, operating profit is expected to increase by approximately JPY9.6 billion.

FY2023 Forecast – Other Indicators

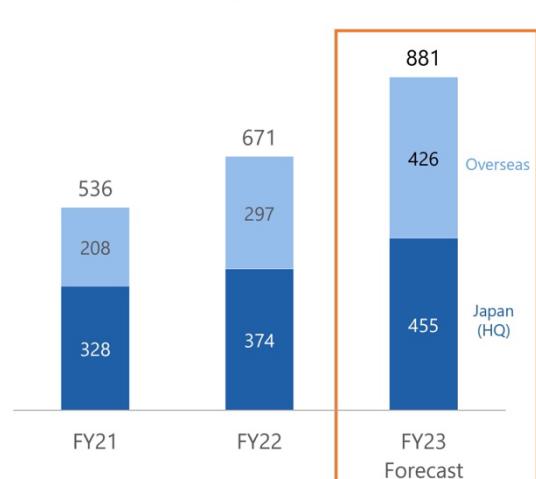
We plan to make a capital investment of more than 20 billion yen for acquisition of new R&D facilities. We will also keep investing to enhance our human resources.

R&D Expenses and others



*1. Including intangible assets

Number of employees^{*2 *3}



*2. Not including board members

*3. Including the employees of Lasertec Singapore Service Pte. Ltd.

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Other indicators. We plan to make a capital investment of over JPY20 billion for acquiring a new development base and others. Specifically, we plan capital investment of JPY23 billion and R&D expenses of JPY10 billion.

In terms of human resources, we will continue to aggressively expand our workforce, planning to have a total of 881 employees at the end of 2023, 426 overseas and 455 in Japan.

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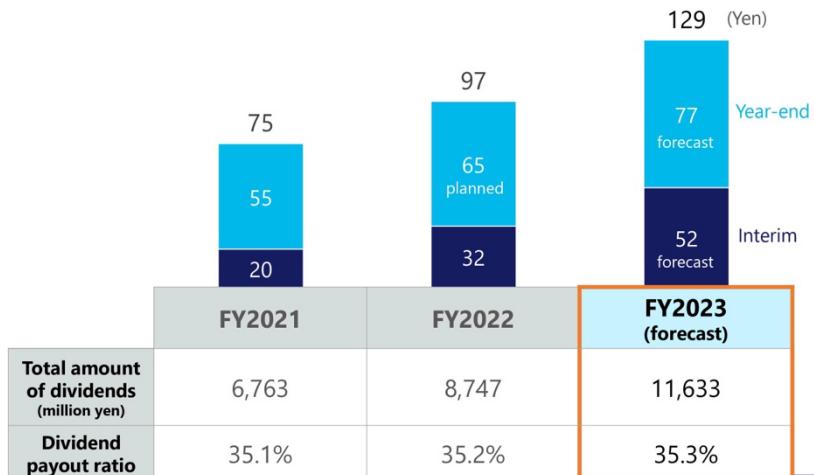
FY2023 Dividend Forecast

The total amount of dividends in FY2023 is forecast to be all-time high, and the annual dividend is expected to be 129 yen per share because of our business growth.

Dividend Policy

- Dividend payout ratio of 35% (since FY2015)
- Flexible payment based on performance

Dividend History and Forecast



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Finally, here is the dividend forecast for the fiscal year ending June 2023. In line with the expansion of our business performance, we expect to pay a full-year dividend of JPY129 per share for the fiscal year ending June 2023, which is a record high. There is no change in the dividend policy. The consolidated dividend payout ratio will be 35% and will be managed flexibly in accordance with business performance.

This concludes my explanation. Thank you for listening.

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Question & Answer

Misawa [M]: Now, we would like to take your questions. I will nominate you and then you can ask your questions. Please note that up to two questions per person will be accepted. If you have any questions, please raise your hand. Mr. Wadaki from Nomura Securities Co., Ltd., please go ahead.

Wadaki [Q]: Thank you. First of all, please tell us about the orders. Considering that it is very difficult to forecast your orders, I think it would have made a great impression if you had announced a forecast of JPY330 billion, which is an increase from the previous year and includes an effort target. Putting that aside, I would like to know the meaning that is included in the demand forecast.

At any rate, EUV-related demand continues to be strong, as it was last year, and you are expecting JPY300 billion, which is a slightly conservative estimate, and of course there will be cases above and below that, but you are aware that the figures are somewhat conservative and that an upward swing is still possible. Is that correct?

Okabayashi [A]: Thank you for your question. Orders are very difficult to forecast and have been revised several times in the previous fiscal year. Therefore, I would like you to think that the current estimate is approximately JPY300 billion. We do not mean to be modest, but at this point we think that this is about where we will land.

Wadaki [Q]: I understand. At any rate, you are not saying that the business environment is worsening or anything like that.

Okabayashi [A]: Sure. You are correct, and the situation remains strong for all companies with regard to cutting-edge EUV-related investments.

Wadaki [Q]: Thank you very much. Second point. I wonder if you could tell us, to the extent possible, what is the current status of adoption or implementation of pellicle, which is expected to be the catalyst for ACTIS, and Phase Shift Mask (PSM), and if there is anything else that could be a catalyst, please also tell us its current status of its adoption or implementation.

Okabayashi [A]: Sure. First of all, in terms of logic devices, given the strong orders and inquiries for MATRICS X8ULTRA and the newly announced MATRICS X9ULTRA at 5 nm and 3 nm, many EUV masks without pellicles are still being used and are expected to continue to be used in the future. We also believe that the development of PSM is progressing, but we do not yet have clear information on what will happen in the future with regard to high volume production.

Wadaki [Q]: I understand. So, is this a situation where the full-blown explosion of ACTIS is not yet in sight, or is it already exploding and there is no need to worry about it?

Okabayashi [A]: Talking about our EUV-related products, we continue to receive orders for both MATRICS and ACTIS.

Wadaki [M]: These were the two points. Thank you very much.

Misawa [M]: Thank you very much. Then, Mr. Yamamoto from Mizuho Securities Co., Ltd., please go ahead.

Yamamoto [Q]: I am Yamamoto from Mizuho Securities. Thank you. My first question is about orders. Regarding the result of a little over JPY320 billion for the fiscal year ended June 2022, and the forecast of

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JPY300 billion for this fiscal year, are orders for products to be delivered in two years or much further away coming in, or are these orders coming in roughly in line with your manufacturing lead time for this fiscal year that has just ended and for the current fiscal year?

Okabayashi [A]: Orders for the fiscal year ended June 2022 totaled approximately JPY320 billion, which includes sales for this fiscal year, the next fiscal year, and the fiscal years after next.

Yamamoto [Q]: Does that mean the orders for the fiscal year ended June 2022?

Okabayashi [A]: It is for the fiscal year ended June 2022.

Yamamoto [Q]: Regarding the JPY300 billion orders for this fiscal year, if you could tell us about the delivery date like now, when will be the delivery date?

Okabayashi [A]: I think up to two years later.

Yamamoto [Q]: So JPY300 billion for shipments within two years.

Okabayashi [A]: I haven't scrutinized it that closely, but I think it will be up to two or three years from now.

Yamamoto [Q]: I see. Conversely, I'm considering when should be the start for this fiscal year. I think it will be up to the fiscal years ending June 2024 and June 2025, but the point is, is there a possibility that things that are more than four years ahead, or things that are considerably ahead of schedule, are included?

Okabayashi [A]: As for the previous year, it depends on the product, but it includes sales for 2024.

Yamamoto [Q]: I see. Second, regarding the improvement of ACTIS gross profit margin, I see from the FAQs that the sales of ACTIS for the last fiscal year were delayed to the current fiscal year ending June 2023, because the acceptance was not completed. Looking at the low gross profit margin in this fiscal year, I wonder if ACTIS is a little behind in improving its gross profit margin. I would like to have your comment on this.

Okabayashi [A]: Just a year ago, I explained that some units in the first lots, several of them, were units with low gross margins. They were to be sold in the previous fiscal year, but there was a delay and they are to become sales in the current fiscal year. As a result, the operating profit margin for the current fiscal year is expected to be worse than that of the previous fiscal year.

Yamamoto [Q]: I understand what you are saying, but I am not sure how much was expected to come in for the fiscal year that ended, and although I am sure you will not be able to disclose this quantitatively, I can roughly assume, given the approximate scale, that in order for the gross profit margin to drop this low for this fiscal year, the gross profit margin of the ACTIS units that register sales in this fiscal year is quite low.

In the past, you mentioned that ACTIS, which would be recorded as sales in the fiscal year ending June 2022, had a bad margin, and some would be still bad, but the gross profit margin would improve for the fiscal year ending 2023. Even considering the timing lag, I estimated that the profit margin would not be this low, so I think that the improvement in the gross profit margin of ACTIS itself is behind schedule. What do you think?

Okabayashi [A]: In that sense, once the sales are registered for the several units of the first lot ACTIS, which were not recorded as sales in the previous fiscal year and were carried over to the current fiscal year, we expect our gross profit margin to improve.

Yamamoto [Q]: So, I know this is a little early to say, but can I assume that in the next fiscal year ending June 2024, the gross profit margin will recover to the 50% or higher level that you are aiming for?

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Okabayashi [A]: Yes. We expect improvement, at least with regard to the gross margin of ACTIS, although I cannot say how much.

Yamamoto [M]: I understand. That is all. Thank you.

Misawa [M]: Thank you very much for your questions. Mr. Nakanomyo from Jefferies Japan Limited, please ask your questions.

Nakanomyo [Q]: This is Nakanomyo from Jefferies Japan. Thank you. This is a very simple question, but I think that the sales of JPY140 billion for this fiscal year are somewhat low compared to the backlog of JPY369.2 billion at the end of June 2022. With the carryover of ACTIS, I think the lead time for ULTRA other than ACTIS is probably not that long, so I think some of the orders you received last year will go into this year. I think these sales this year are somewhat low compared to the backlog of orders. What do you think about that?

Okabayashi [A]: Regarding the orders and backlog, we are receiving orders that exceed our manufacturing capacity and the number of personnel needed to install and start up equipment, and as a result, the lead time for products is getting longer. We are in the process of trying to expand our space and increase staffing to meet our customers' desired delivery dates as much as possible, but we haven't caught up yet. As a result, sales are not growing that much relative to the backlog of orders.

Nakanomyo [Q]: How much lead time does ULTRA have now?

Okabayashi [A]: ULTRA also reduced the lead time, and at one time the shortest lead time was about six months, but now, in fact, the shipping quota is being filled up until 2024.

Nakanomyo [Q]: Not six months.

Okabayashi [A]: It is much longer now.

Nakanomyo [Q]: Does it not extend to one year?

Okabayashi [A]: The orders we are receiving now include shipments for this calendar year, which will register sales next year, and shipments for the next calendar year, which will register sales the year after.

Nakanomyo [Q]: In that sense, I guess the question is how much you can raise your production capacity. Is it possible for this year's production capacity to rise a little more before the end of the fiscal year?

Okabayashi [A]: Yes. We are working on that.

Nakanomyo [M]: I understand. One more point, I know there is not much disclosure with respect to the orders, but as an image, can you tell us which of the two, ACTIS and ULTRA, grew more in the fiscal year that has just finished and also which will grow more in the current fiscal year based on the forecast?

Okabayashi [A]: I'm sorry. The breakdown within EUV-related systems is not disclosed.

Nakanomyo [Q]: Is it a little difficult for you to tell us your direction as well?

Okabayashi [A]: In that sense, ACTIS will be used for 5 nm and 3 nm logic devices, and it is also to be used for memory in the future.

Nakanomyo [M]: I understand. Sorry. Thank you very much.

Misawa [M]: Thank you very much. So, Mr. Shibano from Citigroup Global Markets Japan Inc., please go ahead.

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Shibano [Q]: This is Shibano from Citigroup Global Markets Japan. Thank you. Please tell me the plan for the next fiscal year. You are assuming sales of JPY140 billion, but we have also just heard that delivery deadlines are becoming very tight. So, just to confirm, what is the level of this JPY140 billion figure in sales forecast for the fiscal year ending June 2023 compared to what was assumed a year or six months ago, for example?

The point is, as the President is sometimes asked in discussions with investors, whether supply constraints are having no effect, and I would like to confirm whether the figure is JPY140 billion as a result of new constraints or because of current demand and delivery date adjustments. I would like to confirm this point.

Okabayashi [A]: The JPY140 billion in sales for this fiscal year will not be affected by restrictions on the supply of parts.

Shibano [Q]: Am I correct in understanding that JPY140 billion is not a result of the demand-side issue, customer request or delay?

Okabayashi [A]: Not at all.

Shibano [Q]: Thank you very much. My second point is about the change of directors and the introduction of the executive officer system, which was announced this time. Just to confirm, Mr. Uchiyama has retired from the Board of Directors, and I don't think his name was listed in the appointment schedule for the executive officer position. Will he not be appointed as an executive officer? Also, please tell us if there are any specific areas you are particularly aware of as having current problems and would like to improve by introducing this executive officer system. Since the size of your corporate group is growing, I would like to ask this question to confirm your awareness of issues. Thank you.

Okabayashi [A]: First of all, to respond to your first question, Uchiyama will not be an executive officer and will resign from his position. Uchiyama will answer this question.

Uchiyama [A]: Then I would like to answer your question. As for myself, it has been 30 years since I joined the Company and 21 years since I became a director. During this period, our employees have worked hard, and we have been able to reach this point thanks to the support and cooperation of everyone involved, including all of you. Here, I would like to thank you again. Thank you very much.

Considering the further expansion of our company in the future, I decided that it was necessary to pass the baton to the next generation and decided to appoint Mr. Misawa as my successor. As already announced, the Company will introduce an executive officer system effective September 28. Misawa will become the executive officer in charge of corporate planning and finance and accounting. We are confident that Misawa will contribute to the future growth of our company, and we would like to ask for your continued support for our company and Misawa. Thank you.

Okabayashi [A]: Next, I would like to talk about the purpose of introducing this executive officer system. First, we would like to improve the level of corporate governance by clarifying the division of roles between the Board of Directors, which is responsible for management decision-making and supervision, and the executive committee, which is responsible for business execution, and by separating the monitoring and execution functions.

With the introduction of the executive officer system, the number of directors will be reduced, and the ratio of outside directors will be increased to speed up management decision-making and strengthen supervisory functions. Our company has been selected for the TOPIX 100, and 31 of the TOPIX 100 companies had already had a majority of outside directors by 2021.

Shibano [M]: Thank you very much.

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Misawa [M]: Thank you very much. For next question, Mr. Nakamura of Goldman Sachs Japan Co., Ltd., please go ahead.

Nakamura [Q]: Thank you for your continued support. Thank you. Mr. Uchiyama, thank you very much for all the help you have given us. And Mr. Misawa, thank you for your continued support.

First, I understand that the figures for orders in Q4 are considerably higher than originally planned. I would like to know the background of this. Is it because EUV-related demand continues to be strong, or is it largely due to the accelerated nature of the delivery schedule you mentioned earlier? This is the first question.

Okabayashi [A]: As background, this is not limited to Q4, but in the past year or two, our customers have been concerned about parts shortages, etc., and have been placing orders for products earlier than in the past because they are worried that delivery times for equipment manufacturers will be longer due to parts shortages. This situation is still continuing. As a result, orders received in the previous fiscal year were considerably higher than previously forecast.

Regarding investments in cutting-edge EUV-related equipment, there has been talk recently that the parts shortage will be resolved or the demand for manufacturing equipment for devices used in smartphones and personal computers may weaken and sales of these products may slow down. However, there is strong demand for leading-edge products manufactured using EUV lithography for high-performance computing and for automotive components, and inquiries for device manufacturing equipment continue to be strong.

Nakamura [Q]: I understand. Thank you. In that sense, do you imagine that some of the orders for the new fiscal year will be of such an advance nature?

Okabayashi [A]: That's right. We believe it will continue.

Nakamura [Q]: I understand. Thank you. Secondly, regarding ACTIS, I think the timing of acceptance has been delayed a little since the previous fiscal year, but I would like to know the background behind this. If an order for ACTIS is placed now, when do you expect to ship?

Okabayashi [A]: Regarding your first question about whether the timing of ACTIS sales has been delayed, the specifications differ from equipment to equipment, and because of this, not all of the first lot have been delayed, but several units have been. This means that we have not yet met that specification.

In addition, orders for ACTIS have been received well in advance of the delivery date.

Nakamura [Q]: I understand. As for the situation you just mentioned, where the specifications are not being met, do you see any improvement in sight here?

Okabayashi [A]: Yes. We can already see that.

Nakamura [M]: I understand. Thank you very much.

Misawa [M]: Thank you very much. Next, Mr. Yoshida, CLSA Securities Japan Co., Ltd., please go ahead.

Yoshida [Q]: Thank you very much. I'm Yoshida from CLSA Securities Japan. Thank you. My first point is with respect to the forecast of orders for this fiscal year. Does this include ACTIS for High-NA systems?

Okabayashi [A]: Yes. High-NA models are also expected.

Yoshida [Q]: I see. Regarding the High-NA model, I think customers who are actively considering it are thinking of using pellicles as well. In that sense, I think that orders for ACTIS for die to DB and mask manufacturing

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processes were quite large in the previous fiscal year, but orders for this fiscal year include orders for Die to Die in addition to those orders. Do I understand correctly?

Okabayashi [A]: Orders for fabs have been coming in since the previous fiscal year, and we expect the number of units for fabs to increase in the future.

Yoshida [Q]: Just to confirm, do you think the increase will be regardless of High-NA or do you see it increasing with the adoption of High-NA?

Okabayashi [A]: I'm sorry. I'm a bit mixed on the subject. First, we expect to receive orders for High-NA. And the orders for the fabs are not High-NA, but the existing ACTIS.

Yoshida [Q]: I see. I understand. Secondly, I would like to ask a question more broadly regarding the orders other than for mask inspection systems. First of all, you expect orders for blanks inspection systems to increase considerably this fiscal year, but basically, is it correct to assume that EUV-related will increase?

Also, in the SiC section, there is a comment in the FAQ that SICA is increasing considerably, so please tell us about the current orders and sales scale. That is all.

Okabayashi [A]: First of all, in the area of blanks inspection, demand for existing DUV masks is expected to increase along with EUV, and demand for DUV blanks inspection equipment is also strong.

Then SiC's orders received in the last fiscal year were about five times higher than in the fiscal year before last, which means two years ago. As I mentioned earlier in the environment surrounding our company, demand for SiC devices used in electric vehicles and other applications is extremely strong, and orders from both SiC device manufacturers and SiC wafer manufacturers are extremely strong.

Yoshida [Q]: What is SiC's outlook for this fiscal year?

Okabayashi [A]: We believe that we will continue to receive many orders.

Yoshida [Q]: Do you think the number will increase?

Okabayashi [A]: That is hard to read.

Yoshida [Q]: I see. So, the perception is that the high level will continue.

Okabayashi [A]: That's right. High level will continue.

Yoshida [M]: I understand. Thank you. That is all.

Misawa [M]: Next, Mr. Ishino from Tokai Tokyo Research Institute Co. Ltd., please ask your question.

Ishino [Q]: Thank you very much. I'm Ishino from Tokai Tokyo Research Institute. Mr. Yamamoto asked this, so I am sorry to ask this question which overlaps with his question, but when you said JPY320 billion for the previous year and JPY300 billion for this year, what is the probability that these orders will be received and how was this JPY300 billion estimated?

In the previous question about ULTRA, when we consider that the lead time is full until 2024, is the amount of orders that can be received in the current fiscal year fixed from the beginning, or is it not fixed, and is there a possibility that JPY300 billion could be as much as JPY330 billion, as was mentioned by Mr. Wadaki at the beginning of this Q&A session? It would be helpful if you could elaborate on the reason for making this JPY300 billion. Thank you. This is the first point.

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Okabayashi [A]: First of all, I would like to tell you about orders. As in the past, we base our estimates of orders on two sources, first, the forecast we receive from our customers, and second, the information available to our sales force. The forecast for orders received takes these factors into account.

In the previous fiscal year ended June 2022, our forecast announced in the first week of August, exactly one year ago, started with orders of JPY160 billion, but this was revised upward several times, and the final figure exceeded JPY320 billion. We are trying to make a best guess, but it is not easy.

Ishino [Q]: I see. As you said, the current situation is that there are two aspects, forecasts and sales information. Is it correct to assume that the so-called forecasts have gradually increased month by month over the past year?

Okabayashi [A]: That's right. As I mentioned earlier, we actually mix the information we receive directly from our customers and from our sales force to estimate orders, but the actual orders we receive from our customers have exceeded that.

Ishino [Q]: So, is it correct to say that there will be no reverse rotation for the time being? Considering the current lead time situation, is it correct to assume that the forecast for the JPY300 billion will not be revised downward, and that there is more room for upward movement?

Okabayashi [A]: It is just a forecast, so it could go up or down. At the moment, however, investment in EUV continues to be very strong, and we see plans for new EUV factories in particular, for which we have not yet received orders. With the very recent approval of the CHIPS Act in the US, I believe that the investments associated with it will materialize, and in that sense, I believe that the market will continue to be strong in the future.

Ishino [Q]: So, you are correct that the US CHIPS Act is not included in this forecast?

Okabayashi [A]: There are still some things that have not been materialized related to investment in new factories announced by leading chip manufacturers.

Ishino [Q]: I see. Thank you. Another point, I think the backlog is very large, as Mr. Nakanomyo asked, but should we assume that the time frame for final acceptance by the customer tends to be a little longer for your company, given the current limited number of people taking care of product setup? Is that correct? With the current workforce, as a risk, is it safe to assume that sales are likely to swing a little lower than the target?

Okabayashi [A]: Regarding sales for this fiscal year, there are products that have already been delivered and set up, and we are waiting for customer evaluations, but there are some products that will be delivered from now on. Our sales plan is based on current production capacity and resources for setting up.

Ishino [Q]: So, you are saying that with the current production and equipment set up capacity, we should assume that this level of production, including capacity, will be somewhat possible, and that there will not be much revision.

Okabayashi [A]: Yes. As for the resources required for setting up, we believe that the number can be achieved with the number of people currently available.

Ishino [M]: Thank you very much.

Misawa [M]: Next, Mr. Damian Thong of Macquarie Capital Securities (Japan) Limited, please ask your question.

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Thong [Q]: Thank you very much. I'm Damian Thong from Macquarie Capital Securities. Thank you. This time, your company is planning to increase the number of personnel significantly, but the current backlog has been growing for several years, so the number of units and installations will continue to increase in the future. What is the number of people you expect to have in two to three years?

Okabayashi [A]: We are only thinking of specific figures for the increase in the current fiscal year, but as I mentioned earlier, considering that our customers will continue to build new factories in areas where they have not had factories before, we will need personnel to set up equipment there in the future, and even after equipment is delivered, we will need to have service engineers stationed at the customer's site. We plan to continue to increase the number of engineers, including engineers for such services and, of course, development.

Thong [Q]: I understand. For example, a thousand or so, would that be possible within roughly three years?

Okabayashi [A]: That's right. At the end of June 2023, there are 881 people, so we believe that exceeding 1,000 people will happen not too long from now.

Thong [Q]: I understand. Secondly, about service, which is a bit linked to this point. The term that you finished exceeded more than JPY10 billion for the first time, so then, in the next two or three years, in order to make your forecast of the launch of services here and the actual services, roughly in what form is this equipment, various [inaudible]?

Also, as for services, there are maintenance services and various other services, but is there something more, such as software updates, renewals, parts replacement, and so on, in the future.

Also, could you please explain what impact this would have on your profit? That is all.

Okabayashi [A]: Regarding service-related issues, basically, once a customer purchases our equipment, they continue to use it semi-permanently. For example, MAGICS, a mask blank inspection system, and MATRICS, a mask inspection system, are both equipped with DUV light sources, which must be maintained within one to two years. Also, ACTIS and ABICS with EUV light sources require more frequent maintenance of the light sources and equipment. In such a situation, once a delivery is made, the profit and sales from the service increase in proportion to the number of units operating under that customer's site.

For customers who have several units delivered, we ask them to conclude a service contract with us and pay a service contract fee. Therefore, we expect that as the number of units delivered increases, sales of services will increase accordingly.

Thong [Q]: I understand. Regarding the backlog of this equipment for 2023 or 2024 as mentioned before, you have orders coming in, but you have not yet received any contracts for services related to them. Will you have contracts in the future?

Okabayashi [A]: Sales for this service occur after the equipment is delivered.

Thong [M]: I understand. Thank you very much. That is all.

Misawa [M]: Next, Mr. Tanimoto from Credit Suisse Securities (Japan) Limited, please go ahead.

Tanimoto [Q]: Thank you for your continued support. I'm Tanimoto from Credit Suisse. Thank you. Just on one point, let me just confirm the concept of forward demand against the order plan for this fiscal year. From the previous question and answer, it sounded to me as if you are incorporating the advance order placement of orders into your plans. I am aware that the past two upward revisions to the plan in the previous fiscal year

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probably did not factor in the continuation of the advance order placement at that stage, so first of all, let me ask you about the background behind the continuation of the advance order placement, and whether there have been any changes in the customers.

In addition, I believe that President Okabayashi has said that the degree of advance order placement will gradually decrease with the passage of time in the current fiscal year. In your plan for the current fiscal year, do you expect that the advance order placement will be gradually eliminated over time, or do you expect that the advance order placement will continue throughout the year as the new normal form of ordering? That is all.

Okabayashi [A]: I am not sure if orders were placed late in relation to delivery dates in the past, i.e., whether the current situation can truly be called accelerated, but the trend of orders being placed earlier than in the past in relation to certain delivery dates throughout the previous year has not changed. We made our plan on the assumption that such a trend will continue in the current fiscal year. I hope that answers your question.

Tanimoto [Q]: Thank you very much. In short, advance order placement will continue.

Okabayashi [A]: That's right. We believe that the trend will remain the same during the year as in the previous period.

Tanimoto [M]: I understand. Thank you. That is all.

Misawa [M]: Next, Mr. Saito from IwaiCosmo Securities Co., Ltd., please go ahead.

Saito [Q]: The first question, and this is a bit simple, on the second page of the FAQ, it says that the assumed exchange rate for the current term is JPY115, but is that true?

Okabayashi [A]: Yes. You are right. The exchange rate is set at JPY115.

Saito [Q]: It seems to me that you have diverged quite a bit, but you are taking a very conservative view.

Okabayashi [A]: Many companies with a fiscal year ending March were set at roughly JPY115. The yen has weakened sharply since then, but it may rise sharply again, and we do not know that, so we have set the exchange rate at JPY115.

Sato [Q]: I understand. Thank you. One more point. At the recent IR Day, KLA mentioned that they would like to develop and enhance their actinic equipment again, but is it correct to say that the gap between KLA and your company is already quite large in terms of track record?

Okabayashi [A]: That's right. I understand that KLA said in its last announcement that the announcement would be made in time for High-NA. We have already had customers evaluate both Die to Die and Die to DB inspection systems with our previous version of High-NA. We have received feedback and are working on improvement activities in response to the feedback, so by the time our competitors come out with their products, we will make our products more valuable by stepping up the level of our improvement activities.

Saito [M]: I understand. I'm very relieved. Thank you.

Misawa [M]: Next, Mr. Sasaki from TOYO KEIZAI INC.

Sasaki [Q]: Thank you. I'm Sasaki from TOYO KEIZAI. Thank you. Thank you for today. I see that the gross profit margin may have fallen a little too much, and I thought it would be about 8 percentage points lower than the previous quarter, if I counted backwards. Is this correct?

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If that is the case, although you explained that several units of the first lot of ACTIS were delayed, what is the situation? You mentioned adjusting specifications with customers, but what is happening when gross profit margins drop by about 8% points in the face of such a weak yen?

Okabayashi [A]: Regarding the gross profit margin, we have disclosed it for the previous year, but not for this fiscal year, but it is true that several of the ACTIS units in the first lot have not sold up, and the impact of that carrying over to this year is strong.

Regarding exchange rates, for products to be shipped overseas, or for products with long delivery times, such as ACTIS and ABICS using EUV light sources, we receive money from customers in the form of an advance payment, which is promptly converted to yen, so not everything is linked to the current exchange rate.

Sasaki [Q]: Thank you very much. As for the several units, would you say that they are rather large? Considering the fact that the gross profit margin is so low.

Okabayashi [A]: In that sense, it is true that they are having an impact.

Sasaki [M]: Thank you very much.

Misawa [M]: Thank you very much. We have run out of time, so we would like to conclude the financial results briefing. Thank you very much for your time today.

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Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
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