

News Release: Ferrotec Holdings Corporation (6890 TSE Standard)

Q&A Summary of the Online Explanatory Session for Analysts and Institutional Investors for the Second Quarter of the Fiscal Year Ending March 31, 2024

Ferrotec Holdings Corporation (6890)

☆Date: Wednesday, December 6, 2023, 16:00-17:00

Q1: With regard to the IPO of the subsidiary, the CCMC listing date has been changed to 2024 in the document this time. It is stated that FTNC is also scheduled to be listed next year. Please explain the status of the IPO, including whether it will be possible for two companies to be listed in one year.

A1: In China, a new policy regarding IPO came out on August 23. It appears that examination of IPO will become stricter from now on, as there are currently a large number of IPO and stock prices are low. CCMC is planning to get listed on the Science and Technology Innovation Board, but the listing on the Science and Technology Innovation Board is also becoming stricter than before. Originally, businesses encouraged by the government tended to be listed quickly, but now, on the contrary, it is slowing down. It is said that at the current speed, only about 100 companies will be able to go public each year, and the IPO period is getting longer and longer. At this point, it is difficult to say when we will be able to go public.

The CCMC has already completed the two rounds of questions during the exchange examination and has already submitted this year's projected figures and next year's planned figures. It is up to the exchange to decide on the timeline.

FTNC's results are better than the initial forecast, and related documents will be disclosed soon after the first round of IPO examination question is completed, after which the second round of question is expected. The procedures are progressing smoothly, but the IPO speed is slowing down, and the exchange has said that it may be difficult to list the company at the same speed as before.

Q2-1: You have mentioned that business with local Chinese manufacturers is expanding in the semiconductor and other equipment-related business; is it your understanding that China accounts for about half of this business?

A2-1: As you mentioned, about half of our semiconductor and other equipment-related sales come from China. In particular, sales in China have compensated for the decrease of orders from major U.S. companies in the current fiscal year.

Q2-2: Will the share of deliveries to major U.S. companies change as the Malaysian factory starts operating? Also, I heard that the semiconductor market will recover in the third quarter of next year, does that mean July to September or October to December?

A2-2: As for the current situation in Malaysia, the factory in Kulim (the northern part of Malaysia) is almost completed, with just the installation of equipment pending, and we hope to start production in January next year. In Malaysia, we will manufacture and deliver products that are not manufactured in China. The third quarter refers to the period from July to September.

Q3: It seems that the profit margin for power semiconductor substrates declined a little this fiscal year. Please tell us your analysis of the current situation and your outlook on whether or not you will improve profitability to get back on track for future growth.

A3: The sales of power semiconductor substrates grew rapidly until August, then slowed down until mid-November, picked up in late November, and returned to the expected growth trajectory in December. The sales in the current fiscal year were 34.6 billion yen, slightly lower than the initial forecast of 36 billion yen. However, we now believe that the power semiconductor substrate business will not decline much in the future, on the contrary, it is expected to increase rapidly. For automotive applications in particular, although the certification period is long, the current prototype production has already been completed and we expect to move into the full-scale adoption stage, so we expect at least a 20-30% growth next year. Despite the positive and negative effects of the EV (electric vehicle) market, we think that the medium/long-term trend will not change.

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Q4: The plan for quartz crucibles for solar power generation has changed significantly in response to this financial results, please tell us about the situation.

A4: Although a temporary decline is expected, the market has still been growing rapidly compared to the previous year. In addition to costs, the specs for quartz crucibles for solar power generation are becoming more demanding in terms of usable hours, for example, from the conventional 200 hours to 300, 400, and 500 hours, and we are facing difficulties in terms of performance and quality. We hope to resolve these issues and return to a growth trajectory in the first quarter of next year.

In addition, the current price of quartz crucibles has skyrocketed, and once the price of quartz powder, which is the cause of the price hike normalizes, the price of quartz crucibles will match the price of quartz powder. We expect prices to normalize in the next year or so.

Q5: Page 24 of the Mid-Term Management Plan document mentions that you aim for sales of 270 billion yen and an operating profit of 45 billion yen in the fiscal year ending March 2025, but given that the semiconductor market is expected to recover in mid-2024 or later, how do you plan to achieve significant growth? I would like to know the factors behind how the market will grow significantly compared to the market growth.

A5: In the semiconductor and other equipment-related business, we have worked on quartz this year to strengthen the pyro-processing capacity and have established a system with 600 quartz engineers. We expect sales of pyro-processed quartz products to increase by around 30% next year. We will also increase sales of machined products for overseas customers and expect overall quartz sales to grow by about 25%. As for ceramics, we expect sales to grow by around 30% in China and a little more in overseas once the semiconductor industry recovers. CVD-SiC will be launched at Changshan Plant in China. Contribution to sales will start in July 2024, which will produce a positive effect. The sales of CVD-SiC in Japan is also expected to grow about 15%. In the commissioned metal processing business, the sales at the Malaysian factory are expected to grow about 4 billion yen, and even within China, sales are projected to grow about 20%. Since November, we have been undertaking tasks on spare parts and assembly for vacuum chambers and robots. Quartz crucibles can also contribute significantly to growth. We are aiming to further develop the overseas market for silicon parts.

In electronic devices, the sales of power semiconductor substrates have grown by 20-30%, and our ability to develop materials and supply them in-house has contributed to earnings, while removing supply bottlenecks. Thermo-electric modules are often used in automotive applications to cool parts of EVs that generate heat during communication-related operation. We believe that in-vehicle refrigerators will become popular with EVs, and so far, four companies have successfully produced prototypes, and we believe that a large number of them will be produced in the future. We also expect to see more and more cold cups (for keeping beverages cool), and more optical transceivers will be used in ChatGPT (Generative AI server). The number of 800GB types is increasing, and we expect that the number of cutting-edge 1.6TB types will increase next year. Also, chillers have been introduced to the market and have been well received, so we should be able to increase our sales in this area as well.

We use our ingenuity in various ways, so we expect that sales will reach 270 billion yen.

Q6: Also, in the slide on page 14, the forecast calls for sales of 126.7 billion yen in the semiconductor and other equipment-related business. Is it correct to understand that about half of this will be sales to local Chinese customers, that is, about 60 billion yen? Also, how much was it last year and how much is it likely to be next year?

A6: Domestic sales in China are about 60 billion yen. The previous year was about 50 billion yen, and we expect sales to grow by 20-30% next year.

Q7: We are aware that China accounts for a high percentage of power semiconductor substrates, but will the opening of a factory in Malaysia actually expand your customer base?

A7: As you mentioned, rather than a decline in China, we see it as an expansion of the customer base. Once the Malaysian factory (Johor Bahru, the southern part of Malaysia) is completed, the production capacity will be 2 million DCB substrates/month and 1 million AMB substrates/month (combined with China). Also, the number of DPC substrates is

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increasing.

Q8: We heard that you will be operating cleaning and quartz businesses in Kumamoto, what are your expectations for this factory?

A8: For parts cleaning, there are four device manufacturers and one equipment company in Kumamoto, which seem to have sufficient capacity, but there may be a slight shortage. We are planning to do pyro-processing and machining for quartz, and although the capacity is not that large, we think it will be sufficient at this point. The construction of the Kumamoto factory is underway, and we are working hard so that it will be ready by the end of next year. Going forward, we will monitor business trends and gradually expand the factory if necessary.

Q9-1: Please tell us about the sales and profit margin of thermo-electric modules for optical transceivers for the current and next fiscal year.

A9-1: We are expecting about 3-4 billion yen for the full year of 2023, less than one third of that last year, and probably twice that next year. The profit margin is higher than average.

Q9-2: What is the composition ratio for each communication capacity to 100-800 GB and 1.6 TB? Please tell us as far as you know.

A9-2: Currently about half are 800GB and we expect the percentage to increase even more in the future. Next year, 1.6TB will be released, but it will take time to shift to them.

Q9-3: What is the ratio of exports to the U.S. and China? Are there more exports to the U.S. than to China? Also, will exports to the U.S. grow more than China in the future?

A9-3: It seems that many of our customers export to the U.S. Although we have not yet compiled the data properly, our image is 60% for the U.S., 30% for China, and about 10% for other countries. However, we believe that the growth rate for China will be higher in the future. Meanwhile, Japan's exports are still small.

Q10-1: Please tell us about the outlook for the current and next fiscal year regarding the composition ratio of sales of DCB and AMB to the sales of power semiconductor substrates.

A10-1: This fiscal year, the ratio of sales is about 2:1 (DCB : AMB), but next fiscal year, 60% of sales will come from AMB. Many of our customers are EV manufacturers and electronics manufacturers.

Q10-2: Is the profit margin higher for AMB?

A10-2: Yes, AMB has a higher profit margin.

Q10-3: Then is it correct to assume that the profit margin for overall power semiconductor substrates will improve in the next fiscal year?

A10-3: Yes, we believe so.

*This document was produced by the IR/Publicity Department in the IR Office from the viewpoint of fair disclosure in accordance with our "Disclosure Policy."