

**Q&A Summary of the Online Explanatory Session for Analysts and Institutional Investors for the  
Fiscal Year Ended March 31, 2023**

Ferrotec Holdings Corporation (6890)

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Q1: Your mid-term management plan is quite ambitious. For which business fields do you envision future growth? In particular, which business fields will lead profitability? You plan calls for semiconductors to perform extremely well and for sales of quartz crucibles to grow at astonishing speed; however, can you identify any other highly-profitable fields for your company which will also contribute to shareholder returns?

A1: The field of metal processing and assembly is likely to experience business growth in the future. In the business field of manufacturing units and delivering those units to equipment manufacturers, the metal processing that was previously done in Hangzhou will be expanded to Changshan and Malaysia. I forecast a large amount of growth in this business field.

Another business field expected to grow is CVD-SiC, which can be used for various purposes. Currently, CVD-SiC from our Okayama Factory is selling as fast as it can be manufactured. We forecast around 6 to 7 billion yen in sales for this term, and aim to reach around 10 billion yen in the next term. We also plan to launch a CVD-SiC factory in China within this year. The use of CVD-SiC has increased considerably in China as well. There is demand for CVD-SiC in places where polycrystals and materials are made, as well as in hot zones for lifting equipment. The majority of equipment manufacturers in China are our customers, so we can expect considerable growth. We have engaged in various business fields, and these efforts are finally becoming fruitful.

Q2: In regard to demand for power semiconductors, it seems that demand in China is increasing. However, how many requests are you actually receiving? China produces about 30 million automobiles a year, and procurement from European and Japanese companies whose EVs (electric vehicles) are manufactured in China is increasing at an accelerating pace. How much demand do you expect in a few years? Please give an overview in terms of a 5-year period.

A2: Europe is the largest market for power semiconductor substrates, and European companies involved in power semiconductors are growing rapidly. Furthermore, about 9 million EVs will be sold in the Chinese market this year. This means that 1 out of every 3 vehicles will be an EV, and those EVs will use power IGBTs. In addition to EVs, a large number of power IGBTs are now being used in bullet trains, aviation equipment, and medical equipment. The briefing materials stated that the target is 35 billion yen in the fiscal year ending March 2026, but this is conservative. Moreover, in the future, we will develop the ability to manufacture from substrates (raw materials). We also have our own research institute. Based on our current outlook, we believe that the scale of the power semiconductor substrate business will reach

around 100 billion yen in 2030.

Q2-2: When the sale of power semiconductor substrate business reaches 100 billion yen, what will operating income be approximately?

A2-2: The current profit margin is about 15%, but we would like to increase it to about 20%.

Q3: In regard to capital investment funds, the materials give an explanation of the fund procurement results which states that the majority of the investment amount will be covered by the total operating cash flow for three years and the funds raised. The difference is small, but since it is assumed that you will invest 60 billion yen in the next fiscal year as well, please tell us about your thoughts on fund procurement. I am confirming this point because of how the stock price fell due to the public offering two years ago.

A3: We have always viewed fundraising as being about securing an appropriate balance between investment opportunities and financial standing. There is no change in our way of thinking. In the past, there was a time when we relied heavily on interest-bearing debt, but we now operate in a balanced manner. We are currently making aggressive investments; for example, our current mid-term management plan calls for investment of 195 billion yen. This is because we were able to procure capital at a relatively good valuation through capital increase of subsidiaries, and we intend to procure funds while maintaining this balance.

Q3-2: From the perspective of your shareholders, there has been dilution in the past. Do you anticipate that your shareholders will be impacted by dilution in the future? My point is that there is a sense of caution that there may be another dilution similar to the public offering at the end of 2021. You are outlining a tremendous growth scenario. When considering the expansion of production capacity for power semiconductor substrates and semiconductor materials and the large scale of commercialization, the company itself is likely to grow significantly in terms of sales and profits. Although you may be confident in regard to your performance, shareholders feel a great deal of anxiety. If the stock price drops by 20% in one month due to dilution caused by capital increase, the investment managers may lose their jobs. As a result, long-term investors may find it difficult to invest in your company. What do you think about this scenario?

A3-2: I will refrain from discussing the future. Currently, while actively investing, we are maintaining our financial standing and engaging in management that balances various factors. Moving forward, we will continue to manage our financial affairs while paying attention to maintaining an appropriate balance.

Q4: Once again, please summarize and explain your approach to the dividend payout ratio.

A4: We are strongly motivated to actively invest and continuously increase earnings. In accordance with

this approach, our basic policy is to strengthen shareholder returns. Furthermore, our financial results briefing materials state that we will make decisions while aiming for a dividend payout ratio of 20%. And, we did not mechanically calculate dividends for the fiscal years ended March 2023 and ending March 2024 at 20% of net income; instead, we made a comprehensive judgment which aims for a dividend payout ratio of 20%. The dividend payout ratio for the fiscal year ending March 2024 will be 26%. We made a comprehensive judgment by considering factors such as the outlook for significant growth in the fiscal year ending March 2025.

Q5: You are actively investing in quartz crucibles for solar cells. You have stated that the scale of this business will reach 60 billion yen. At that scale, what will be the approximate profit level? Solar cells have had poor results in the past, so please explain your thoughts on this business field.

A5: As you mentioned, the bubble burst in the solar cell market in 2011. We are still aware of how we were significantly adversely impacted at that time. However, we view the current situation as being completely different than in 2011. The only way to achieve the goal of becoming CO<sub>2</sub>-free by 2050 is to produce an increasing amount of green energy sources such as solar power, hydroelectric power, and wind power. In general, Chinese companies tend to go too far. Consequently, at the current point in time, we are being slightly conservative in our approach to the solar panel business. Due to large technical barriers, investment in quartz crucibles is small compared to sales. The first point in regard to high-quality quartz crucibles is that they can be used for a long period of time. Conventionally, the standard lifespan was 200 hours, and it is currently around 300 hours. We can manufacture quartz crucibles with a maximum usage of 500 hours. Second, no bubbles that might affect ingot quality are generated even after long-term use. Third, single crystallization can be smoothly performed when the ingot is pulled. Additionally, we also possess extremely high quality for various technical elements such as oxygen concentration and resistance value. We believe that we can achieve sales of 60 billion yen even if prices gradually decline from the current level.

In the PV wafer business, we are only involved in n-type OEMs. We do not intend to make our own products and aggressively enter the market. We will limit our trading partners to two major global companies. From time to time, Chinese manufacturers ask us for an n-type wafer. Initially, the size of wafers was 160 mm. We now have 180 mm wafers. We currently manufacture 210 mm wafers, and will increase the size to 230 mm and 260 mm in the future. We will work closely with our OEM partners and ensure that our manufacturing will lead to sales at OEM partners. Therefore, we do not plan to actively enter the market for PV wafers. The current scale is completely different (compared to the past). When we were engaged in this business, even 1 GW had been considered a large capacity. Currently, 20 GW is a normal size, and the large size is 50 GW. This makes it impossible to compete.

Q6: In regard to the semiconductor and other equipment-related segment, I understand that the reason why earnings will grow starting from next year is that the market will recover. I also guess that another reason is that you will be able to increase your share among customers due to the enhancement of your

production bases. Is it correct to understand that the amount per unit delivered will increase, as you just mentioned when discussing metal processing? Also, please discuss the status of work for local equipment manufacturers in China.

A6: This fiscal year will be the toughest for the semiconductor and other equipment-related business. We are working to overcome the challenges faced this year. There are many opinions on what the market will look like in the first half of the next fiscal year. It depends on the trend of US policy and strategy. It is assumed that the global semiconductor market will grow significantly. However, if we assume that Chinese semiconductors are excluded from the global market, achieving large growth seems difficult. In that respect, we believe that the direction of the Chinese semiconductor market will affect our semiconductor business. The metal processing and assembly products which we discussed earlier are delivered to equipment manufacturers. Starting a business in Malaysia will make it easy to export to two major US companies and three Japanese companies, and the tariffs are cheap.

In regard to local equipment manufacturers in China, each company is now conducting development in a hurry and business is growing significantly. Currently, we believe that it will be possible to overcome the current impact in 3 to 5 years. However, China has a shortage of resources, and overcoming this issue is expected to take some time. If there is growth of local Chinese equipment manufacturers, our business will also expand. We believe that local sales in China will be about 30% to 40% of the segment.

Q6-2: What is the situation of local device manufacturers in China?

A6-2: In regard to device makers, the United States has stated that it will sanction any company that manufactures anything below 14 nm. Although some companies are suffering, sanctions have been relaxed for some companies. There are also companies that are not subject to sanctions. Even if companies do not manufacture products of 14 nm or less (sizes currently subject to US sanctions), products with a line width of over 14 nm account for 80% of the market. Manufacturers are taking an optimistic stance that market scale of this size will be fine.

Q6-3: Does this mean that you anticipate increased commercial viability for products that are 14 nm and larger?

A6-3: That's correct.

Q7: In regard to quartz crucibles, it seems that major solar panel manufacturers in China have recently reduced prices by about 30%. How will this impact your business performance?

A7: Although there are companies that can manufacture quartz crucibles, two barriers exist. The first is the technical barrier. Technically speaking, manufacturing high-quality quartz crucibles is no easy task. Another barrier is the procurement of powder. Powder is not readily available, thereby creating a barrier

to entry for general companies. We do not anticipate that the current price level will be maintained. However, we are confident that we can handle a small drop in price because we have been in the quartz crucible business for a long time and have continued to innovate through automation, visualization, and efficiency.

Q8: I would like to confirm the accounting treatment of depreciation and subsidies. At the previous briefing session, you mentioned that the subsidy from China is around 20%, and that a cash benefit is also paid. In this regard, please tell us how to understand your accounting treatment method and how such treatment affect the cash flow. Furthermore, your depreciation cost seems small (compared to the investment). Is there the possibility that the asset value is offset with accounting treatment for subsidies?

A8: Subsidies can be posted as non-operating income or a reduced entry for equipment (offset with asset value).

(Supplementary note: Reduction entry can also be used as an accounting treatment. However, in the fiscal year ended March 2023, it was mainly recorded in batch as non-operating income or recorded as fixed liabilities.)

Depreciation and amortization is rising due to the recent aggressive investment. It increased from 8 billion yen in the fiscal year ended March 2022 to 17.4 billion yen forecast in the fiscal year ending March 2024. We forecast depreciation and amortization exceeding 30 billion yen in the fiscal year ending March 2025.

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