

**Q&A Summary of the Explanatory Session for Analysts and Institutional Investors
for the Fiscal Year Ended March 31, 2025**

Ferrotec Holdings Corporation (6890)

✧ Date & Time of Briefing: Wednesday, June 4, 2025, 16:00-17:00

Q1: Please explain the timeline for streamlining factory operation. You mentioned that as profit margin temporarily declined due to the start-up of operation of new factories, efforts to improve factory efficiency are underway. Could you elaborate on the specific initiatives being implemented and when these are expected to contribute to profitability improvement?

A1: Our company has pursued automation and efficiency enhancement gradually after 2000. Starting with thermo-electric modules, power semiconductor substrates, and machining processing, we have promoted automation, digitalization, and the use of AI. We also worked on labor-saving measures, such as developing systems that allow operators to manage multiple machines simultaneously. Recognizing that such efforts would be meaningless without full system integration, we have also adopted a series of management systems, including ERP, MES, MMS, WMS, and QMS. Furthermore, we are promoting unmanned operations between production processes with AGVs (Automated Guided Vehicles).

We expect to make significant progress in improving efficiency over the next three years, including the current year. In warehouse operations, AGVs will be used for automatic loading and unloading, as well as for delivering materials to each production process. In addition, we plan to install electronic stockers on site so that jigs, tools, and products can be stored within the stockers and managed through an integrated system. This will enable full visibility of all inventory and reduce the amount of movement required by workers.

Q1-2: The initiatives you just explained appear to relate to the electronic device business and automotive-related business segments. Do you expect profit margin, which is currently around 14-15%, to recover to approximately 30% as they were three years ago?

A1-2: That is correct. Over the past five to six years, we have continued to make investments, and production capacity is expected to be largely in place by around next year. We believe that these ongoing efficiency improvement initiatives, together with the full operation of our factories, will lead to an improvement in profit margin.

[Supplementary Notes for IR: Abbreviations]

ERP (Enterprise Resource Planning): Integrated mission-critical operation system

MES (Manufacturing Execution System): System for executing manufacturing operations

MMS (Manufacturing Management System): System for managing machining and manufacturing

WMS (Warehouse Management System): System for warehouse management

QMS (Quality Management System): System for quality management

AGV (Automated Guided Vehicle): Unmanned vehicles for in-factory material handling

Q2: Please share your view on the current situation and future outlook for OHIZUMI MFG. CO., LTD.

A2: OHIZUMI MFG. CO., LTD. became a wholly owned subsidiary of our company in December 2023. In January, we implemented structural reforms at DDC (a subsidiary of OHIZUMI MFG. CO., LTD. in Dongguan, China), and achieved improvement within about six months. At DDC, automation has gradually progressed. Although sales were initially small and the subsidiary was in the red, sales have doubled from the initial level, and the company has moved into the black. When OHIZUMI MFG. CO., LTD. first made a subsidiary, its business was almost entirely focused on sensor sales. We are now expanding the scope to include sales of elements along with sensors, aiming for elements to account for roughly 70% of total sales in the future. These elements offer high profit margins and are available in a variety of types used in applications such as optical fiber communications, generative AI-related devices, and data centers.

We have also confirmed that demand for the three products (thermo-electric modules, power semiconductor substrates, and sensors) tends to arise concurrently in these application areas. Accordingly, we decided to construct a mass-production factory in Lishui, Zhejiang Province, China. The factory building, with a total floor area of 130,000 square meters, was completed in April this year, and installation of automated production lines is progressing rapidly. We believe this facility will eventually evolve into an unmanned factory.

In addition, OHIZUMI MFG. CO., LTD. originally had five small factories that had been in operation for 40 to 50 years in Aomori and relied on manual work. In August last year, we decided to consolidate these operations into a single site in Towada, Aomori Prefecture, with completion targeted no later than 2027.

We expect OHIZUMI's sales to reach approximately 16 to 17 billion yen this year and aim to expand the business to earn sales of around 50 billion yen within the next three years. We view this as a promising business.

Q2-2: How much do you expect the Towada Factory in Aomori will earn revenue?

A2-2: As we do not plan to manufacture a large volume of products domestically, we expect the Towada Factory in Aomori to operate at a scale of approximately 5 to 6 billion yen in sales.

Q3: It was mentioned that the semiconductor equipment-related production in Malaysia is now reaching its full capacity, leading to improved profitability. Could you explain the level of profit currently being achieved and the background of customer demand behind this trend?

A3: As you are aware, due to the ongoing U.S.-China trade friction, we received requests from customers to realize Ex-China manufacturing (production outside of China) by 2026. In response, our company constructed a factory in

Kulim in northern Malaysia. At present, annual sales are approximately 100 million US dollars, and are expected to exceed 150 million US dollars next year. Several U.S.-based equipment manufacturers have asked us to further increase our supply of quartz, ceramics, and commissioned metal processing, as our current capacity remains insufficient to meet demand. Consequently, we decided to build the second factory in Kulim. Demanded products include aluminum showerheads, gas lines, and gas boxes, which we consider more suitable for manufacturing in Malaysia than in Japan.

In southern Malaysia, our Johor Factory was established in response to requests from European customers who, due to tax-related and other concerns, sought to shift to production outside of China. The Johor Factory held its completion ceremony in April and has begun production. Although we expect a loss in the current fiscal year, profitability is anticipated from next year onward.

We have also received strong customer requests for Ex-China production of silicon parts. We plan to install major equipment at the Johor Factory around August and begin manufacturing in September.

Q4: Your company's growth rate exceeds that of the wafer fab equipment (WFE) industry. Could you explain the reason behind this difference?

A4: We do not consider our growth rate to be particularly high. Some semiconductor equipment manufacturers, which can no longer procure components from China, are placing greater expectations on our company, which operates manufacturing bases in Malaysia, and will increase their orders accordingly. We expect demand in the semiconductor equipment-related market to begin rising in the second half of this year and to grow by approximately 10% to 15% next year.

Q4-2: You mentioned that your company is capturing demand for shifting from China to Malaysia. Does this mean that there will be some excess production capacity in China? At the same time, China's domestic semiconductor industry appears to be gaining strong momentum. Could you explain your company's initiatives in the Chinese market and its relationships with local semiconductor-related companies?

A4-2: Our company has placed great importance on the Chinese domestic market for the past decade. We have long recognized the need to maintain a balanced presence in both overseas markets (outside China) and the Chinese market. Since 2015, China's semiconductor industry has been expanding little by little. Although trade frictions have intensified, particularly under the U.S. administration's efforts to curb China's semiconductor development, we anticipated that China would take some measures. Having entered the Chinese market at an early stage, we now conduct business with nearly all major domestic semiconductor equipment manufacturers as well as device makers other than original equipment manufacturers (OEMs). We recognize that our production capacity in China is currently insufficient to fully meet local demand.

Q4-3: What rate of growth do you expect in the market for Chinese domestic manufacturers over the next one to two years?

A4-3: We expect growth rate to be in the range of about 10% to 20%.

Q5: Regarding the sale of shares in the listed company in Anhui (FTSVA, parts cleaning business), it is understood that the three-year lock-up period will expire next year, after which your company will be able to sell the shares you hold. The intent appears to make effective use of these assets at an appropriate time. Could you elaborate on how the proceeds will be allocated in your financial planning? For example, are they used for capital investment, share repurchases, or dividends? In addition, some investors have raised questions about the return of proceeds from the sale of shares in a Chinese subsidiary, specifically, whether such funds can be smoothly transferred to Japan and whether any taxes or deductions would apply when doing so.

A5: There are no issues with remitting funds from China to Japan. In terms of taxation, approximately 20% tax will be imposed at the time of the sale of shares. If a wholly owned subsidiary sells its shares and transfers the proceeds to Japan, there are no restrictions on such remittance. While we cannot say with certainty that everything will proceed exactly as planned, we have begun discussions with investors, funds, and securities firms. We also believe that we need to consider conducting share repurchases.

Q5-2: It appears that FTSVA has received approval to merge with its subsidiary that manufactures power semiconductor substrates. Could you update us on the current status of the other two companies that had been preparing for IPOs, the silicon parts company (FTNC) and the wafer company (CCMC)?

A5-2: CCMC temporarily withdrew its initial listing application, but plans to reapply for listing on the Beijing Stock Exchange, while conducting a new round of fundraising. Production has also been increasing. As for FTNC, the plan remains under review.

Q5-3: You mentioned that CCMC is considering reapplying for listing. Does this mean that it will continue to be treated as an equity-method affiliate? Also, what is the current status of CCMC's profitability?

A5-3: The company is still operating at a loss. We estimate that it will likely break even around the year after next.

Q6: Around March, an activist fund filed a report as a shareholder who holds over 5% of outstanding shares in Ferrotec, and around that time your company announced a new shareholder return policy, which may have already been under consideration. It appears that the fund later sold its shares. Could you share what kind of

discussions took place, and within the possible range, describe your company's current direction regarding shareholder returns?

A6: While we refrain from disclosing the names of specific shareholders, we engaged in very constructive and meaningful discussions with the fund. Through this engagement, we received valuable input on equity-related matters, including share repurchases. Although our company had already been considering measures to enhance shareholder returns, it is true that we announced the policy after taking those valuable insights into account.

Q7: Is the profitability achieved in Malaysia on a pre-depreciation or post-depreciation basis? Also, what enabled the business to turn profitable at this timing? We have heard that your factories in China are able to start up quickly due to their accumulated know-how, but given that customer qualification processes can take time, how did you address this?

A7: The profitability we are referring to is on a post-depreciation basis. About six months before completion of the factory in Kulim, we sent Malaysian team members to China for on-site training. After the completion ceremony was held in January 2024, we dispatched some of our most skilled engineers from China to Malaysia to support the start-up phase. Currently, approximately 300 employees from China are stationed in Malaysia. A large number of personnel have been assigned to projects involving contract commissioned metal processing, ceramics, and quartz, working closely with local Malaysian staff to accelerate operations. Our clients, that is, semiconductor equipment manufacturers hoped that we would begin production as soon as possible and provided strong support. As a result, the factory was operating at nearly full production capacity around December last year.

I personally visit Malaysia once a month to review the production status, and also visit the United States monthly to hold discussions and meetings with semiconductor equipment manufacturers. This year, both the commissioned metal processing and ceramics businesses are almost as planned, while the performance of quartz is slightly below the forecast. However, we have already reached the stage where complex, high-specification products can be manufactured in Malaysia. These continuous follow-up efforts have accelerated the pace of improvement in business administration, although I feel that operations in Japan are still progressing somewhat slowly.

Q7-2: I understand that your vision is to cover demand from U.S. customers through production in Malaysia. For example, based on your current production capacity for products such as quartz and ceramics across the three relevant companies, roughly what percentage of demand from U.S. customers are you able to meet at present? Is that about 20%, 50%, or another level? Also, referring to the figures presented in your materials, which show a combined production volume of around 43 billion yen projected for 2028 to 2029, how should we interpret that level in terms of the proportion of total demand from U.S. equipment manufacturers that they will cover?

A7-2: At present, the production capacity of our Kulim Factory in Malaysia covers roughly 40% or slightly less of total demand. Even after adding the capacity of the second Kulim Factory, supply is still considered to fall somewhat

short of overall needs. However, some customers have indicated that it is acceptable for standard products to be manufactured in China.

Q7-3: In that case, is it OK to understand that export-related or tariff-related regulatory risks will be manageable within a few years, and that the risk of restrictions on products made in China will be reduced?

A7-3: We think so. Products manufactured in China are not shipped directly to the United States. Most are shipped to Singapore or Malaysia, so we do not expect the tariff issue to become a significant problem.

Q7-4: Conversely, is there a possibility that China will impose its own regulations?

A7-4: We are unable to infer that at this point.

Q8: Could you tell us about the scale of the optical transceiver business in the previous fiscal year and the current fiscal year, as well as your expectations for the long term?

A8: Excluding automotive applications, sales of thermo-electric modules in the electronic device segment were approximately 27 billion yen in the previous fiscal year and are expected to be around 31 billion yen in the current fiscal year. Of this total, business related to AI and optical communication transceivers accounts for about 60% to 70%. We expect this proportion to remain unchanged over the medium term.

Q9: We understand that the solar cell-related business is facing very difficult conditions. Could you tell us about the current situation of the crucible business?

A9: Production of crucibles for solar panels has been temporarily suspended. At present, crucibles are manufactured only for semiconductor applications, and the business turned profitable last month including depreciation. All major semiconductor manufacturers in China have become our customers.

Q9-2: About a year ago, your crucible business for solar panels was performing very well, but it suddenly lost momentum and stopped contributing to profit. Is it correct to assume that discontinuing in-house production does not have a negative impact?

A9-2: For 32-inch crucibles, the unit price of products for solar panels is only about one-fifth of that for semiconductor manufacturing, making production highly unprofitable. Our company is currently the only one

capable of mass-producing crucibles for semiconductor manufacturing, and we intend to further expand this business.

The year-on-year decline in profit for the semiconductor and other equipment-related segment in the fiscal year ended March 2025 can be attributed almost entirely to the decrease in profit from crucibles. In the fiscal year ended March 2024 and through the first quarter of the fiscal year ended March 2025, the solar panel-related business contributed significantly to earnings, but it then declined sharply and recorded a loss in the previous fiscal year. At present, the business has returned to profitability, and this has been factored into our profit and loss forecasts.

Q9-3: In that case, operating income for the semiconductor and other equipment-related segment changed from 4.5 billion yen, 3.8 billion yen, and 8.4 billion yen in the first three quarters and dropped to 1.5 billion yen in the fourth quarter of the previous fiscal year. Since production of crucibles for solar panels has been suspended, is it reasonable to expect results to improve going forward?

A9-3: That is correct. We implemented structural reforms in the crucible business last year, and the business turned profitable last month.

Q10: Are there any other businesses that are not contributing to profitability?

A10: The recycled wafer business and the non-consolidated wafer business are currently operating at a loss.

Q10-2: How is Asahi Seisakusho performing?

A10-2: Asahi Seisakusho has transferred most of its production to China and is expected to return to profitability in the current fiscal year. The business in China continues to expand steadily, and our company is placing strong emphasis on developing automated and unmanned factories.

Q10-3: Then, is it OK to assume that profits and losses in the other segment will remain generally stable?

A10-3: Yes, we think so.

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