

January 17, 2020

## Announcement of the Second Issue of Unsecured Convertible Bonds with Stock Acquisition Rights through Third Party Allotment

Ferrotec Corporation at the board of directors meeting held on January 17, 2020 resolved to offer the first unsecured convertible bonds with stock acquisition rights (hereafter referred to as "the Corporate Bonds with Stock Acquisition Rights"; stock acquisition rights in the Corporate Bonds with Stock Acquisition Rights is referred to as "the Stock Acquisition Rights") through third party allotment as follows.

### 1. Summary of offering

The Second Issue of Unsecured Convertible Bonds with Stock Acquisition Rights

(1)	Payment date	February 5, 2020 (hereinafter the "Payment Date")
(2)	Total number of Stock Acquisition Rights	49 shares
(3)	Issue price of corporate bonds and Stock Acquisition Rights	100 yen for each 100 yen of the corporate bonds However, that no cash payment is required in exchange for the Share Acquisition Rights.
(4)	Number of diluted shares through the issuance	3,935,600 shares
(5)	Funds to be procured	3,734,976,000 yen (Net approximate amount of proceeds: 3,704,976 thousand yen)
(6)	Exercise price or conversion price	949 yen per share
(7)	Method of offering or allocation	Third party allotment
(8)	Planned allottee	IXGS Investment I, L.P.

### 2. The Purpose of and reasons for the offering

Our group focuses on the businesses related to equipment for semiconductor devices such as vacuum seals and quartz products in the electronics industry, and we aim to be a global corporation that provides the world with high-quality products at internationally competitive prices by enriching the elemental technologies for the craftsmanship field without being limited to the electronics industry.

The technology has significantly advanced in the electronics industry, to which our group belongs, and we need to adapt to the innovation, which has transcended conventional needs. In order for our group to make stable growth in such an environment, it is imperative to foster new product businesses along with enriching the existing products.

In this perspective, we are upgrading the production system and developing technologies while considering that semiconductor wafers, semiconductor materials (quartz, ceramics, silicon, CVD-SiC<sup>\*1</sup>), power semiconductor substrates and precision parts reclaiming and cleaning as the strategic products/services for the medium to long term. For semiconductor wafers, we are making investments, etc. in manufacturing equipment of large diameter semiconductor wafers and strengthening the production in response to the increasing demand overseas. Moreover, we have been making efforts to meet our clients' needs to increase production; we established new plants in Changshan, Zhejiang Province and Dongtai, Jiangsu Province so that the materials used in the semiconductor manufacturing processes would become mainstay products. Additionally, for the precision parts reclaiming and cleaning business, we established a flagship plant in Tongling, Anhui Province, and installed the latest cleaning equipment that meets the needs for reclaiming and cleaning of advanced precision parts, as such needs have increased along with the miniaturization trend.

Furthermore, regarding the power semiconductor substrates, we succeeded in developing AMB power semiconductor substrates, for which demand is expected to increase especially in the machine tool and automotive fields (\*2) and we plan to make capital investments (including automation) in order to start mass production.

In order to handle the aforementioned capital investments, we implemented the third-party allotment of the bonds with stock acquisition rights to the fund offered by Advantage Advisers, Inc. (Address: Toranomom Towers Office, 4-1-28 Toranomom, Minato-ku, Tokyo; Representative Director: Taisuke Sasanuma) (hereinafter, "Advantage Advisers"), which has a track record in providing several listed companies with not only funds, but also with consulting services, etc. to

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support overseas expansion and to improve production, thanks to which we were able to receive advice regarding management and fund-raising, and then, we decided to issue the bonds with stock acquisition rights as we judged that it will be possible to contribute to increasing our corporate value.

- (\*) 1. SiC is a chemical compound consisting of equal amount of silicon (Si) and carbon (C), which is characterized by its superior resistance to heat, wear, corrosion, etc. It is a widely utilized jig, which is used mostly at high temperatures; it is used in applications such as wafer boats and tubes that are used in the manufacturing process of semiconductors, and dummy wafers used as an alternative for silicon wafers. Furthermore, "CVD" is an abbreviation for Chemical Vapor Deposition and refers to the manufacturing method where SiC is made from a gas that contains silicon components and carbon components; this method is characterized by producing a high-purity fine SiC.
2. "AMB power semiconductor substrates" refer to substrates made by the AMB (Active Metal Braze) method, where brazing is done by using the active metal, titanium, with copper joined with an insulator. In addition, producing a substrate more reliable than our conventional DCB substrates (an insulating substrate for thermal radiation joined by the method of connecting a copper circuit board on top of alumina ceramic substrate through a eutectic reaction) will be possible. In case of using a silicon nitride (SiN) substrate for insulation, even if stressed under temperature change cycles of minus 55 to 150 degrees Celsius for 1,000 to 2,000 cycles, no delamination of copper layers nor crack formation in ceramics were observed. Further, as we can manufacture AMB substrates with aluminum nitride (AlN), which has a high thermal conductivity, there will be merits such as having a range of materials to select from with each application.

### 3. Amount to be procured, use of funds and timing of expenditure

#### (1) Amount to be procured (estimated net proceeds)

Total amount of payment (yen)	Estimated issuing expenses (yen)	Estimated net proceeds (yen)
3,734,976,000	30,000,000	3,704,976,000

(Note) 1. The estimated amount of the issuance costs does not include consumption tax, etc.

2. Issuance costs mainly consist of financial advisory expenses, legal fees, expenses for investigating antisocial forces, expenses for valuing bonds with stock acquisition rights, expenses for financial agents, registration and license taxes, and other administrative expenses (printing administrative expenses, registration expenses).

#### (2) Usage of the proceeds to be raised

Regarding the aforementioned approximate net amount of 3,704,976,000 yen, we plan to allocate it by December 2021 to fund the capital investments for semiconductor materials (quartz and ceramics) and the production of power semiconductor substrates(\*), and R&D investments for semiconductor silicon wafers. The breakdown of such funds is as below.

We plan to manage and hold the procured capital as stable financial assets, such as bank deposits.

- (\*) "Power semiconductor substrate" refers to an insulating substrate for thermal radiation produced by joining aluminum oxide, aluminum nitride ceramics, and a copper circuit board through a eutectic reaction. The power semiconductor is used for miniaturization and improving the energy efficiency of trains, electric vehicles, air-conditioners, servers, etc.

Purposes of use of raised funds	Amount (million yen)	Timing of expenditure
(1) Upgrading the production facilities for semiconductor materials and investments to improve production capabilities in Japan and China	1,105	February 2020- March 2021
(2) Capital investment to mass-produce the new power semiconductor substrates and investment to develop technologies in China.	1,600	February 2020- December 2021
(3) R&D investment to mass-produce large-diameter semiconductor silicon wafers in China	1,000	February 2020- December

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6. Reason, etc. for selection of planned allottee

(1) Summary of the allottee

(As of January 17, 2020)

①	Name	IXGS Investment I, L.P.	
②	Location	Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands	
③	Foundation for establishment, etc.	The Exempted Limited Partnership Law of the Cayman Islands	
④	Purpose of compilation	Mainly conducts minority investment in equity and equity-related securities issued by companies listed in the financial instruments exchange in Japan	
⑤	Date of incorporation	November 28, 2019	
⑥	Number of issued shares	3,912,000,000 yen	
⑦	Outline of investors, ratio of investments, and investors	Investment Limited Partnership Inflation II 49.72% Advantage Advisors Growth Support Investment Limited Partnership 25.82% InfleXion II Cayman, L.P. 18.75% APIP, Inc. 5.71%	
⑧	Overview of General Partner	Name	IXGS, Inc.
		Location	Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands
		Title and name of representative	Douglas R. Stringer, Director
		Business	Investment and management of investment business partnership assets
		Capital	1,000 US Dollar (Approx. 109,930 yen)
⑨	Outline of Domestic Agents	None applicable	
⑩	Relationship between the parties	Relationship between the listed company and the fund (including officers, officers' related parties, and major shareholders)	Our company and our related parties or affiliates have no direct or indirect investment in the fund. In addition, there are no notable share, personal or business relationships between us, our stakeholders and related companies, and the investors (including the investors) of the fund.
		With listed companies Business execution Relationship with the union members	There are no capital, personal or business relationships to be described between us and the fund's operating union members. In addition, there are no noteworthy capital, personnel, or business relationships between our company, our related parties or affiliated companies, and the related parties and affiliates of the operating partners of the fund.
		With listed companies Domestic representative Relationship with	None applicable

\*1. The exchange rate to Japanese yen: US \$ 1 = 109.93 yen (Exchange rate as of January 16, 2020)

(3) Holding policy for allottees

The allottees have put their expectations in our medium to long term growth and they aim to earn capital gain by working towards maximizing our company's stock price and our corporate value in the medium to long term (the return on investment when selling the ordinary shares converted from the bonds with stock acquisition rights). They have verbally explained to us their intent of holding the bonds with stock acquisition rights and our company's ordinary shares, which will be issued through the exercise of the stock acquisition rights related to the bonds with stock acquisition rights, for the medium to long term. However, they will probably decide whether to hold or sell our shares while considering our group's earnings, dividend disbursements, market trends, etc. Further, in the period from February 6, 2020 to February 4, 2021, we plan to set a general

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rule to prevent allottees from exercising the stock acquisition rights. Additionally, regarding the stock acquisition rights, pursuant to Article 254, Paragraphs 2 and 3 of the Companies Act, the stock acquisition rights and the corporate bonds may not be transferred individually. However, the regulations in the underwriting agreement between our company and the allottees stipulate that the transfer of the bonds with stock acquisition rights requires approval through the board of directors' resolution.

7. Major shareholders and ownership ratios after the offering

Before offering (As of September 30, 2019)		After offering	
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2.84%	IXGS Investment I, L.P.	9.59%
Akira Yamamura	2.25%	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2.57%
Japan Trustee Service Bank, Ltd. (Trust Account)	2.01%	Akira Yamamura	2.03%
Tachibana Securities Co., Ltd.	1.84%	Japan Trustee Service Bank, Ltd. (Trust Account)	1.82%
BBH LUX/DAIWA SBI LUX FUNDS SICAV-DSBIJAPAN EQUITY SMALL CAP ABSOLUTE VALUE (Standing proxy: Sumitomo Mitsui Banking Corporation)	1.62%	Tachibana Securities Co., Ltd.	1.66%
SMBC Nikko Securities Inc.	1.61%	BBH LUX/DAIWA SBI LUX FUNDS SICAV-DSBIJAPAN EQUITY SMALL CAP ABSOLUTE VALUE (Standing proxy: Sumitomo Mitsui Banking Corporation)	1.46%
JR MORGAN CHASE BANK 385166 (Standing Agent, Mizuho Bank Settlement Sales Department, Ltd.)	1.53%	SMBC Nikko Securities Inc.	1.45%
RE FUND 107-CLIENT AC (Standing proxy: Citibank, N.A. Tokyo Branch)	1.49%	JR MORGAN CHASE BANK 385166 (Standing Agent, Mizuho Bank Settlement Sales Department, Ltd.)	1.39%
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, N.A. Tokyo Branch)	1.19%	RE FUND 107-CLIENT AC (Standing proxy: Citibank, N.A. Tokyo Branch)	1.35%
Mitsubishi UFJ Bank, Ltd.	1.13%	DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, N.A. Tokyo Branch)	1.08%

(NOTE) 1. The number of major shareholders and the shareholding ratio before the offering are calculated by dividing the number of voting rights related to the number of shares held as of September 30, 2019 by the total number of voting rights as of the same date.

2. It is stated that Wellington Management Company LLP and its co-owner Wellington Management Japan Pte. Ltd. held the following shares as of June 28, 2019. However, as we cannot confirm the actual number of shares held as of the issuance resolution date, they are not included in the above conditions of major shareholders.

Name	Location	Number of shares held (thousand shares)	Share holding ratio (%)
Wellington Management Company LLP	02210 Congress Street 280, Boston, Massachusetts, US	1,638	4.41
Wellington Management Japan Pte Ltd	Palace Building 7F, 1-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo	414	1.12
Total	-	2,053	5.53

3. Although it is stated that Sumitomo Mitsui Banking Corporation and its joint owner Sumitomo Mitsui DS Asset Management Co., Ltd. each held the following shares as of October 15, 2019, we are not able to confirm the actual number of shares held as of the issuance resolution date, and therefore are not included in the above status of major shareholders.

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Name	Location	Number of shares held (thousand shares)	Share holding ratio (%)
Sumitomo Mitsui Banking Corporation	1-1-2, Marunouchi, Chiyoda-ku, Tokyo	100	0.27
Sumitomo Mitsui DS Asset Management Co., Ltd.	28th Floor, Atago Green Hills MORI Tower, 2-5-1, Atago, Minato-ku, Tokyo	1,855	4.99
Total	-	1,955	5.26

#### 8. Future outlook

Issuing the bonds with stock acquisition rights through third-party allotment will have insignificant effects on our group's earnings in the term ending March 2020. However, we think that the issuance of the bonds with stock acquisition rights using the third-party allotment method will enrich our equity ratio, contribute to establishing our company's financial soundness and strengthening its financial base further with the help of the advice from Advantage Advisers, and that we will be able to implement management reforms even in this harsh economic environment.

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