

**Q&A Summary of the Online Explanatory Session for Analysts and Institutional Investors for the Second Quarter of the Fiscal Year Ending March 31, 2022**

Ferrotec Holdings Corporation (6890)

◇Date: Wednesday, December 22, 2021, 16:00-16:45

Q1: You've mentioned that your company is expected to achieve the goal for the term ending March 2023, which was set in the mid-term management plan, earlier than expected. How has the market situation changed compared with the initial forecast?

You've also mentioned that it is necessary to invest in equipment as soon as possible. At what pace, is the number of business inquiries from semiconductor manufacturing equipment manufacturers in Japan, the U.S., and China, which are your clients, increasing? Please let us know whether you look ahead to a couple of years from now or a farther future and what kinds of requests you have received from clients especially for the delivery of semiconductor materials.

A1: In the current semiconductor field, equipment and device manufacturers are both busy, and our business grew about 26% this year. When asked until when our business growth will continue at this pace, I expect that our business will grow about 20% next year, too, based on today's forecast. In addition to equipment manufacturers in Japan and the U.S., Chinese manufacturers started placing orders for our products, as they want to increase their production capacities. Amid the trade and high-tech industry frictions between the U.S. and China, the Chinese government hopes to establish device factories inside China as soon as possible, and in response to it, our company has continued enhancing our production capacity for the past two years.

The orders for power semiconductor substrates started increasing in the second half of last year. Their sales are expected to double this year from last year, and double next year from this year. We are increasing production output to 1.1 million products/month for DCB substrates, 200 thousand products/month for AMB substrates, and 800 thousand products/month for DPC substrates. The production line for DCB substrates is in full operation, but we cannot meet the demand fully, so we cannot accept about 30% of orders. The orders for AMB substrates are also increasing. The order quantity is currently 70,000-80,000 substrates, but is expected to reach 150 thousand substrates next year and 200 thousand substrates around the end of next year, making our production line in full operation. Our clients include electric vehicle manufacturers and enterprises in the fields of telecommunications and medical apparatus.

As thermo-electric modules are used for an increasing number of purposes, we will boost the production capacity for them. We started manufacturing products for end users last year, and will develop a system for receiving more orders next year. The sales of temperature-control seats for automobiles declined, but the sales of other products increased, so we would like to enhance our production capacities at a rapid pace.

Against this backdrop, we expect that the growth trend will continue until 2025.

Q2: You've mentioned that a 20% growth is expected in 2022. Do you mean the growth of your company rather than the industry?

A2: Yes. We currently expect that our company will grow at least 15%.

Q2-2: As your company can meet not only the demand for new manufacturing equipment, but also the demand for consumables, it is expected that the growth rate of your company will be higher than the forecast of WFE, which is a general indicator for new manufacturing equipment. Is this correct?

A2-2: As you mentioned, the demand for not only equipment, but also consumables will grow. In addition, leading equipment manufacturers are requesting us to considerably increase our production capacity. We would also like to increase the number of veteran engineers specializing in the pyro-processing of quartz products and invest in automation systems. Our machining equipment is not sufficient, so we are discussing how to increase production output at the Changshan Factory.

In addition, we are thinking of considerably enhancing the capacities to process ceramics, silicon parts, and metal

workpieces, such as vacuum chambers.

Q3: Why has profit margin exceeded the forecast in the mid-term management plan?

A3: The reasons are (1) the increase in quantity, (2) the streamlining through automation, and (3) the focus on labor saving. We have seen the outcomes of our efforts for 3 years, and would like to take these measures in a speedy manner in the following three years.

Q3-2: Your company is proceeding with investment. Does increasing equipment while also taking labor-saving measures improve profit margin?

A3-2: Yes.

Q4: Please let us know the timeline for the IPO of your Chinese subsidiaries.

A4: The exact schedule has not been determined, but our outlook is as follows:

- ① Regarding the IPO of the parts cleaning subsidiary, we applied for listing in June 2021, and the screening process has started. It is expected that an approval for listing will be given around the middle of next year.
- ② The process for the IPO of a silicon wafer subsidiary (equity-method affiliate) is progressing steadily. The application for listing is expected to be submitted around the middle of next year.
- ③ The application for listing of subsidiaries manufacturing silicon parts and quartz crucibles and the application for listing of the subsidiary manufacturing power semiconductor substrates are expected to be submitted in the second half of next year.

Q5: The goal of achieving net sales of 300 billion yen and an operating income of 30 billion yen in the term ending March 2031 seems to be low for your company. I think you can target an operating income of 100 billion yen and an operating margin of 30%. I expect that you will be able to achieve the goal earlier than scheduled, but how much do you need to invest in equipment for achieving the goal?

A5: When our mid-term management plan was announced last year, our net sales did not reach even 100 billion yen, but we became more confident, considering the current performance. We will have discussions so as to set a higher goal for operating income.

We consider that it is necessary to invest over 100 billion yen, which is obtained by adding several tens of billions of yen to the already announced 95 billion yen, in equipment.

Q6: Investors often ask us whether Ferrotec Holdings is a Japanese enterprise or a Chinese enterprise. We sometimes see the Chinese government restricting some enterprises' investment activities. Please let us know the degree of freedom of your investment activities and whether you can work relatively freely based on the support from the Chinese government.

A6: First of all, Ferrotec Holdings is an international enterprise listed in the Japanese market and headquartered in Japan, so it is not a Chinese enterprise.

However, our company has succeeded in receiving preferential treatment in China. The degree of freedom of investment is sufficient, and we have been able to conduct investment as we wish.

Q7: Your subsidiary manufacturing silicon wafers aims to increase production output to 200 thousand products/month for 12-inch wafers. In ten years, the market scale of 300-mm wafers is projected to be 10 million wafers per month. In this situation, how much do you want to enhance your production capacity in ten years?  
Is the quality of your products expected to meet the needs from Chinese and global enterprises?

A7: As you know, business operation in the semiconductor field is endless, and we have to keep up with the advancement of the market.

Currently, we aim to manufacture 200 thousand 12-inch wafers per month and 450 thousand 8-inch wafers per month, but I think that we will have to increase product output further after achieving them. On November 17, we held a groundbreaking ceremony for a factory of epitaxial wafers in Lishui, Zhejiang. We will expand investment like this, but we still cannot mention the level 10 years from now.

We think that the quality of our products is quite high among manufacturers inside China. Of course, our level is still below those of leading companies of silicon wafers, but our products are highly evaluated inside China, and also being recognized by Japanese enterprises, as we supply high quality wafers to various Japanese enterprises. We have expanded our business into the U.S., Singapore, Europe, South Korea, and Taiwan, where our products are being recognized.

Q8: When your financial results are announced in May next year, do you plan to revise the current mid-term management plan? Please let us know whether you will leave your goals unchanged or set new goals, when it becomes certain that you will achieve the current goals in the final fiscal year of the plan.

A8: We are discussing it, but we have an intention to revise the mid-term management plan and announce it.

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