

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

**Ferrotec Holdings Corporation (6890)**

◇ Date: Wednesday, May 31, 2022, 16:00-16:45

Q1: Regarding this term's plan, a significantly high sales growth rate is expected for parts for semiconductor manufacturing equipment such as quartz and silicon parts. Could you explain the reason for the rise in sales and the contributing factors such as market expansion and market share increase?

A1: There is a continuing shortage of materials in the semiconductor industry. Equipment manufacturers and device manufacturers are facing a shortage of our products, and they cannot obtain them. In addition, we initially supplied products to countries other than China. As the number of device and equipment manufacturers has increased in China, we can now enjoy the benefits of both market expansions.

Under such circumstances, the number of veteran engineers for pyro-processing products in our quartz business is currently 250, but orders are more than double our production capacity. Thus, we are preparing to increase the number of veteran engineers to 500. In the past, there were many machined products targeting the United States primarily, but recently, the number of customers for machined products has increased in China as well. I think the sales of the quartz business will probably reach more than double in these three years.

We were not able to expand the silicon parts business much between 2010 and 2015 because we thought it would be possible to grow the boat and focus ring businesses by acquiring an American company in 2010. However, after that, we were able to expand the business steadily. For example, the focus ring users were mainly overseas, but now it is used quite a lot in China. The number of users of shower heads is also increasing. Initially, in the field where CVD-SiC was often used, the latest turnaround time of CVD-SiC was two years or it was not available at all, so we saw it as an opportunity to propose product switching and penetrate the market. Sales of silicone parts are doubling yearly, and we cannot keep up with the demand. Even the two factories in Hangzhou and Yinchuan are not producing enough products, so we are building the Changshan factory.

The ceramics business is also expected to grow considerably. We expect it to grow about 1.5 times from last year, and we think it is on a growth path.

Regarding the 12-inch and 8-inch silicon wafers, which are handled by our equity-method affiliates, the 12-inch factory is in full operation. The 8-inch factory is producing 320,000 wafers/month this month and is predicted to be in full operation in the first quarter of next year.

There are currently six factories in the cleaning business, and we have set up a material analysis center, and we plan to expand business overseas in the future. The review of the IPO for the listing on the Shenzhen Stock Exchange has ended, and we have entered the final stages, and if everything goes well, the listing approval will be given around the end of August.

Our business is increasing sales and profits yearly for semiconductor materials and electronic devices. Sales of power semiconductor substrates are also growing steadily. The production capacity of DCB substrates will finally reach 1.1 million substrates per month by the end of this year. The monthly production of AMB substrates, which contribute significantly to profits, is 100,000 substrates, and it will probably reach 200,000 substrates by the end of the year. I think we can probably add 250,000 substrates in the first or second quarter of next year. The number of DPC substrates has increased steadily. These three products will become our pillars in the future, and next year we will double the current business scale. We also want to build a factory in Neijiang, Sichuan Province, and start production in May 2023. Overall, we recognize that things are going well for now.

Q2: You mentioned that you would increase the production capacity of factories in Ishikawa and Chiba. Please tell us why you are reinforcing factories again in Japan.

A2: I had a meeting with leading Japanese manufacturers the other day and was told in it that the company mainly procured their parts and materials in Japan. Other customers have been procuring parts and materials from the Japanese market quite

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a bit, so I felt that Japanese manufacturers have become more willing to procure them in Japan. Also, I heard that companies wanted to improve supply chains in their own countries. That is why we decided we should return to Japan and strengthen our presence there. In addition, we have recently established a foundation in China for automation, digitization, and visualization. When I talked about doing the same thing in Japan and how this would enhance the production of ceramics, CVD-SiC, metal processing, vacuum parts, and vacuum chambers, they told me that they really wanted us to do so (in Japan as well) as they were facing a serious product shortage. That is why we decided to move in that direction.

Q3: Why do you think your company can respond quickly to customer requests and increase your market share? Please tell us the reason behind this.

A3: Firstly, we look closely at customer trends. Secondly, we have close discussions with customers, and thirdly, we have a good grasp of market trends. Based on these three steps, we plan to increase production capacity while listening closely to our customers to see how we can satisfy their requests. I believe that that is where our strength lies.

Also, when increasing the number of factories, we make sure to finish them in a short period. We always proceeded with the idea that a factory should be completed within one year. I think that such continuous efforts have enabled us to acquire market shares more speedily than other companies.

Q3-2: Regarding speed, do you think you can do the same in Japan, and if so, how can you establish factories quickly?

A3-2: I've heard that in Japan, building a large-scale factory (such as a mass-production factory in China) is often difficult due to a lack of experience, but we are thinking about ways to build the factories early. For example, when setting up the Kumamoto Factory, I was informed that the turnaround time for steel frames would be about 18 months. However, I am investigating whether exporting steel frames from China to Japan is possible. By doing so, we plan to speed up the establishment of bases in Japan.

Q4: Most of Ferrotec's fixed assets have been in China so far, but I think you will increase assets in Japan and Malaysia in the next 3 to 5 years. What is the ratio of tangible fixed assets outside China and in China? How do you think it is going to change?

A4: In about five years, we plan to have 60% of our fixed assets in China and the remaining 40% outside China (Japan, Malaysia, the United States, and Europe).

Q5: What are your views on the recent Ukraine issue?

A5: The problem in Ukraine has become critical recently, but it has had a minimal impact on our business so far. We might switch exporting thermo-electric modules to Europe from Russian subsidiaries to a Chinese subsidiary, but there is almost no impact when considered on a consolidated basis. We are also discussing with the Russian subsidiaries how to minimize the effect of the Ukraine issue. No one can predict how the Ukrainian issue will be resolved. We would like to try to remain as unaffected by these political issues as possible.

Also, I would like to touch on the Shanghai lockdown. Shanghai has been partially closed since mid-March, and the number of closed areas has increased gradually. There was a lockdown in the eastern area from March 28 and in the west area from April 1. It was initially reported that it would be lifted on April 5, but it has not been lifted until today (May 31). However, the government announced that the lockdown would be lifted tomorrow (June 1). As for the impact this had on our company over the last three months, I would like to report to you that there has been almost no impact on our business. The production base in Shanghai was able to operate without stopping production for even a day after the lockdown began. At the same time, we took proper measures to prevent the novel coronavirus infection. We sufficiently provided meals and holidays so employees could spend their time in good health, and the three months went smoothly. We will continue taking strict infection control measures and providing employee care.

Q6: It was announced that the dividend payout ratio would be 20%. Considering that you plan to make considerable

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investments in the future, please tell us about your thoughts on the conditions in which the dividend payout ratio was decided and the change to the shareholder returns you intend to make.

A6: From a financial point of view, in terms of the dividend payout ratio, we had significant policies for increasing shareholder returns by raising revenues along with our aggressive investments. As our financial balance has improved significantly, and our company's earnings base has been considerably enhanced, there was no need to change major policies. Considering the current situation and, ultimately, the balance between finance and investment, we decided that the dividend payout ratio would be 20%.

Q7: I hope you could talk to us about the company's governance and the mid-term management plan. Subsidiaries and affiliated companies are getting listed one after another in the Chinese capital market. Please tell us how this would change the main body of management. I understand that the company will actively conduct investments, but in terms of governance, it seems that it is becoming very unclear when it comes to Japan.

A7: In laying the foundation for today, I think that the strategy of diversifying the sources of funds has basically succeeded. As for the main body of management of the subsidiaries, our share is the largest. Even if other shareholders are involved, the fund shareholders are shareholders for investment purposes, so we control the business.

Q7-2: As a result of the listing of subsidiaries, the earnings forecasts for the mid-term management plan indicate that the operating income for the fiscal year ending March 2025 will be 52 billion yen, while net income will be 27 billion yen. The difference is too significant considering the effective tax rate. As the silicon wafer business will grow and the equity method subsidiaries will make a profit, it seems unbalanced. How do you explain this? I would like you to clarify the figures for equity gains (losses) of affiliates. What is the effective tax rate included in the plan? Net income fluctuates due to profits related to non-controlling shareholders, profits which would outflow when subsidiaries are sold to external shareholders, and gain on change in equity. Even if the dividend payout ratio is 20%, it seems that there are not many things that guarantee net income.

A7-2: Regarding the difference between the operating income and net income, the profit in the plan is calculated by taking into account the investment profit/loss by the equity method and the profit of non-controlling shareholders in addition to taxes. As for investment profit (loss) on equity method, the 13-million-yen deficit for the fiscal year ended March 2022 is shown as a net value, and the wafer business roughly has a 1-billion-yen deficit. We are also promoting new businesses, such as the SiC ingot pull-up business. We are not very optimistic about the earnings plan. It is expected that the burden will continue to some extent for a while, and that it will have a negative effect on the company.

The effective tax rate is assumed to be 30%. Net income attributable to non-controlling shareholders\* is calculated while taking into consideration the changes in net income and investment ratio of the target subsidiary. (Additional note\*: The main elements of profit/loss attributable to non-controlling shareholders for the fiscal year ended March 2022 are 500 million yen for the cleaning business, 400 million yen for the silicon parts and crucible business, and 400 million yen for the power semiconductor substrate business.) After deducting such outflows, the net income forecast was calculated, and the dividend policy was decided based on it. Gain (loss) on change in equity was recorded at 9.3 billion yen in the fiscal year ended March 2022, but is not included in the earnings plan.

\* 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."