

FAQ on Earnings Presentation for FY2024/03

Q1	SPE	In January, regarding trends in the Chinese market, you explained that investment would remain firm. Is the outlook still the same at present?
A1		The ratio of sales to China is expected to be 49% in 1H of FY2025/03. Although we expect the ratio to decrease slightly in 2H, given the current inquiries and orders received, we expect it to remain at a high level in the whole year of FY2025/03 as well.
Q2	SPE	What will be the drivers of reaching the targets set in the new medium-term management plan, Value Up Further 2026 (hereafter referred to as "medium-term plan"), exceeding the current level?
A2		<ol style="list-style-type: none"> SPE will be the driver of our net sales. During the new medium-term plan period, the WFE outlook assumes a compound annual growth rate (CAGR) of 5.3%. Based on this assumption, the results of our current efforts are expected to surpass the present earnings by a certain amount. The OP margin for SPE has started from the 23% level, and we will make efforts to raise it to 25% during the new medium-term plan.
Q3	SPE	What is the background of the change in the WFE outlook from the previous one?
A3		<ol style="list-style-type: none"> The reason for revision is that the WFE growth for CY2023 did not fall as much. Based on this update, we expect the WFE market to grow by about 4% in CY2024. The overall strength of investment momentum has not changed much from three months ago, but there are varying signs, such as a shift to an adjustment phase in Power Devices on the one hand, and an acceleration of cutting-edge investment in foundries on the other hand.
Q4	SPE	Is there a target for capacity increase during the new medium-term plan period?
A4		<ol style="list-style-type: none"> Once S³-5 is in full operation, annual sales capacity will reach ¥500 billion. During the period under Value Up Further 2026, we would like to increase capacity by 10-20%, without adding any new building, but by improving production technology and promoting automation at the five existing facilities: S³-1 to 5. The new building currently under construction in Hikone is a facility for hydrogen-related business and will also function as SPE's office, but it will not contribute to increasing SPE's production capacity.
Q5	SPE	Are the net sales targets in Value Up Further 2026 based on the growth of the WFE market and the increasing total addressable market (TAM) assumed for semiconductor cleaning equipment?

A5		These quantitative targets take into account the increase in TAM for cleaning due to miniaturization and also envisage capturing opportunities brought from more cleaning processes needed in the advanced package area. Specific figures will be presented at IR Day and other events going forward.
Q6	ALL	How are the market shares in CY2023?
A6		Third-party market share data is on a dollar basis. Our yen-based sales therefore appear discounted due to the current weaker yen. There is no change in market share on a dollar basis from CY2022 to CY2023. We expect to complete the data analysis by the end of May.
Q7	SPE	What is the reason for projecting an OP margin target of 23% for FY2025/03, which is unchanged from FY2024/03?
A7		In order to enhance the added value of our products for our clients, we will front-load strategic investments in R&D, human resources, and other areas this fiscal year. This 23% target is not the final goal, and we will aim higher in the next fiscal year and after.
Q8	SPE	What is your opinion on rush orders from China due to U.S. export restrictions? Also, I have heard that some cancellations had occurred?
A8		<ol style="list-style-type: none"> 1. We do business in accordance with the Japanese government's listing regulations issued in July 2023. We are not in a position to comment on future prospects, but we will continue to monitor movements closely. 2. We record orders just prior to the start of production to adjust delivery times with clients. There has been no cancellation at the present.
Q9	SPE	The OP margin target for the new medium-term management plan seems lower than the (market) expectation. What is the reason for settling on this figure?
A9		We are not intending to settle on this figure – we will aim higher once the strategic investment phase is over under this medium-term plan. Please understand that the next three years will be a phase to implement strategic steps for us to be able to generate higher added value than our competitors.
Q10	SPE	How does the composition of sales, by application or by destination, looks like for 2H of FY2024/03 and in CY2025?
A10		Sales to China are expected to remain strong in 2H. However, the overall picture may change with the increase in DRAM investment and the front-loading of leading-edge investment in foundry. We will update on this based on the 1Q and 2Q order data.
Q11	ALL	Which fields are targeted for M&A and other strategic investments under the new medium-term plan? If there is no appropriate M&A opportunity, will these funds be allocated to shareholder returns instead?
A11		<ol style="list-style-type: none"> 1. As for M&A, we target the four areas emphasized in the Management Grand Design (DX, GX, Humanics, Mobility), as well as existing business fields including SPE. 2. Regarding shareholder returns, your understanding is correct.

Q12	ALL	<ol style="list-style-type: none"> 1. What is the breakdown of ¥22.0 billion fixed cost increase for FY2025/03? What will it be like in FY2026/03 and after. 2. What is the breakdown of ¥100.0 billion CAPEX planned over the next three years? 3. The ROIC target for the new medium-term plan is 15%, less than 15.9% achieved under the previous four-year medium-term plan. When will it recover?
A12		<ol style="list-style-type: none"> 1. The ¥22.0 billion increase in fixed costs consists of labor costs associated with capacity expansion, depreciation/amortization, and R&D expenses, mainly in SPE. 2. Growth investment for the next three years mainly consists of enhancing the structure and facilities for R&D in SPE. We are also searching for a location other than Hikone for expansion. 3. We assume the ROIC recovery will happen during the next three-year period starting April 2027. *This answer is added after the Q&A session.

Notes:

HD = SCREEN Holdings Co., Ltd.

SPE = Semiconductor production equipment business

GA = Graphic arts equipment business

FT = Display production equipment and coater business

PE = PCB-related equipment business