FY2024 Earnings Release Conference Q&A

Q What was the order breakdown, by application or by region?

A As for the Q4 orders by application, it was 45% for DRAM, 31% for logic/foundry, and 25% for NAND. By region, orders from China and Korea were large.

Q What is your orders outlook for future?

A As sales revenue from the Equipment business for FY25/3 is planned to increase by 26% compared to FY24/3, we believe that orders will also increase by a similar level. As for the current situation, we expect to receive large orders for Logic/Foundry and DRAM in 1Q of FY25/3. We expect new investment in NAND to return toward the end of FY25/3.

Q What was the reason for the decline in gross profit margin in 4Q compared to 3Q of FY24/3? Also, please tell us your outlook for gross profit margin for FY25/3.

A This was due to a shift in part of service sales to 1Q of FY25/3, resulting in a decrease in profitable service sales compared to 3Q, as well as a change in the product mix. The gross profit margin for FY25/3 is expected to improve from FY24/3 due to increased sales of high value-added equipment for cutting-edge devices.

Q Regarding the factors affecting the increase/decrease in adjusted operating profit forecast for FY25/3, while R&D expenses are increasing, selling, general and administrative expenses have not increased as much. Is it possible to curb SG&A expenses?

A As sales increase, SG&A expenses also increase, but SG&A expenses other than R&D expenses, which include labor costs and depreciation expenses, will not increase significantly.
(Additional Note) In FY23/3, we strengthened our operational base, including by increasing our workforce, in anticipation of future growth, and as a result, SG&A expenses for FY23/3 increased by 8 billion yen compared to FY22/3. As a result, we believe that the future increase in SG&A expenses will be moderate.

Q Regarding your earnings forecast for FY25/3, what opportunities and risks do you see in terms of upside and downside?

A For FY25/3, we are cautiously estimating our sales outlook for China by region and for DRAM by application, particularly in 2H.
If investment in China continues as in FY24/3, or if investment in DRAM exceeds our expectations, this will be a factor that will lead to an upside to our performance.
From the view of current order situation, there is no sign of a slowdown in investment in China, but the gist is that given the current international situation, we should not have excessive expectations of China.

Q What is the status of Logic GAA (Gate All Around)'s POR acquisition?

A We have already obtained development POR for two-thirds of the Logic GAA processes that are important to us. We have said that the combined total of existing and expected orders will reach 10 billion yen, and we expect sales revenue for FY25/3 to exceed 10 billion yen.

Q Is the POR acquisition at Logic GAA for development or mass production?

A It is currently a development POR. We expect that if we can obtain mass production POR, it will lead to larger sales, and we are currently working towards obtaining mass production POR.

Q What level of growth do you foresee in logic's transition from FinFET (Fin Field-Effect Transistor) to GAA and from GAA to CFET (Complimentary Field Effect Transistor)?

A We expect our key processes to increase by 1.2x for the transition from FinFET to GAA, and 1.4x for the transition from FinFET to CFET. We see a larger increase in process for the second generation of GAA than for the first generation.

Q What percentage of your forecast for FY25/3 will be for DRAM in China? Is there a risk that the U.S. will tighten its export controls on China?

A We would like to refrain from commenting on the detailed composition ratio, but we believe that large investments for DRAM in China will continue. Regarding the strengthening of export controls, we do not currently expect there to be any change in the impact on our business.

Q What are your prospects for DRAM, including HBM, other than for China?

A Although we do not have a business that is directly linked to the HBM Manufacturing process, we have been able to secure POR for advanced DRAM. As a result, we believe that as demand for advanced DRAM, including for HBM, expands in the future, the market will become more active, and we will be able to grow our business.

Q With NAND, we may see a shift from greenfield investment to migration investment, as the effect of miniaturization can be achieved by increasing the number of layers. Even if migration becomes the mainstream investment, will batch ALD be able to maintain or even expand its advantages in NAND investment?

A As the number of NAND layers increases, the difficulty of thin film deposition increases, which will result in new requirements that did not exist before, and we believe will expand demand for our batch ALD. In that sense, we believe that even migration investment can attract a certain amount of investment through equipment replacement and upgrades.

Q Looking at the recent market data, it seems that your market share of batch deposition equipment is declining.

A While the batch CVD equipment market remains strong, the batch ALD equipment market is shrinking due to restrained investment in cutting-edge devices. Although we maintain a high share of the batch ALD equipment market, we are aware that our share has declined in the batch deposition equipment market, which includes both batch CVD and batch ALD. We believe there is room for growth in the fields of LP-CVD and oxidation annealing, and we are currently strengthening our efforts to expand our market share in these areas.

Q What are the competitive advantages of your batch ALD equipment compared to competing products?

A Our batch ALD equipment (film deposition equipment compatible with batch ALD) comes in two types: large batch deposition equipment and mini-batch deposition equipment. The mini-batch deposition equipment is capable of more difficult thin film deposition and is the only equipment that our company supplies, so we believe that this will not change our competitive advantage.

Q While increased revenue from equipment for SiC power devices is expected, the outlook for the service business for FY25/3 seems conservative. What is your thinking behind this?

A The Service business consists of sales of equipment below 200 mm, equipment relocation and modification, maintenance, and parts sales. Parts sales are expected to decrease in FY25/3 compared to the previous fiscal year. This was due to the special demand generated when a new factory in a mature node area began operations in China in the previous fiscal year.

Q You have disclosed a mid-term target of revenue of 300 to 330 billion yen and a gross profit margin of 43% or more in case that WFE (Wafer Fab Equipment) is $110 to 120 billion. What is your current outlook?

A We are not yet to say when sales revenue will exceed 300 billion yen, but we believe it will be within reach in FY27/3 or thereafter. We will be carefully watching how the market develops from 2H of this fiscal year through to next fiscal year. Regarding the target gross profit margin of 43%, we plan to reach close level in FY25/3. We expect sales of highly profitable new products to increase in FY26/3 and FY27/3, and we believe we can aim for a ratio of 43% or more.

Q What is the lead time from order to sale?

A It's been about six months so far. At one point, some parts were difficult to obtain and lead times were long, but this has now returned to normal.

Q Considering the lead time, does this mean that sales in 2H of FY25/3 may vary depending on the order situation in 1H?

A Yes. We are cautiously estimating our sales plans for 2H of FY25/3 but will continue to closely monitor future order trends.