

Moderator: Opening remarks

It is now time for us to start the Tokyo Electron Financial Announcement for the Second Quarter of the Fiscal Year Ending on March 31, 2023. Thank you very much for joining us today despite your busy schedule. I am Koichi Yatsuda of the IR Department, acting as the moderator for today's session.

I would like to introduce today's attendees. Mr. Toshiki Kawai, Representative Director, President & CEO. (I'm Tony Kawai, nice to meet you everybody.) Next, Mr. Hiroshi Kawamoto, Vice President and General Manager, Finance Unit. (I'm Hiroshi Kawamoto. Thank you very much for joining us.)

Prior to the presentations, let me explain the flow of today's conference. First of all, Mr. Kawamoto and Mr. Kawai will make presentations. After that, until 6:30 Japan Time, we will take questions from your side. This meeting will use two channels on Webex for simultaneous interpretation between Japanese and English. As we explained in our email, you are kindly requested to use apps, PCs or mobile terminals if you plan to ask questions. But if you are not going to ask questions, you can join by telephone. In addition, since this conference is intended for institutional investors and analysts, we would appreciate your understanding that we receive questions only from institutional investors and analysts.

We will post the audio contents of this conference in Japanese and English on our website within a couple of days, so it would be appreciated if you could also visit our website.

Now, Mr. Kawamoto, Vice President and General Manager, will present the consolidated financial summary.

Q2 FY2023 Consolidated Financial Summary

Hiroshi Kawamoto – Vice President and General Manager, Finance Unit

Good afternoon. I am Hiroshi Kawamoto of the Finance Unit. I would like to present the consolidated financial summary of the second quarter of the fiscal year ending in March 2023.

Financial Summary: Slide 4

This slide shows the quarterly results. In the second quarter, we generated net sales of ¥709.2 billion, a 49.7% increase from the previous quarter, as shown in the red box. In the first quarter, there were delays in equipment shipment and startup due to the impacts of the lockdown, and also a supply shortage due to a disruption in logistics. As these difficulties were resolved in the second quarter, the result exceeded our financial estimates for the first half of this fiscal year.

By segment, SPE net sales recorded ¥689.0 billion, delivering our highest ever quarterly net sales. FPD net sales were ¥20.1 billion. Net sales, operating profit and operating margin hit record highs. Gross profit margin remained high at 46.3%.

Financial Performance: Slide 5

This is a graphic representation of the financial summary on the previous slide.

Financial Summary (H1): Slide 6

Next, this slide shows the financial results for the half year. Again, I'd like you to look at the figures in the red box. In the first half of this fiscal year, we generated net sales of ¥1 trillion, 182.8 billion, exceeding the financial estimate we announced on August 8th. This is a record high. Regarding sales by segment, SPE net sales recorded ¥1 trillion, 153.0 billion, exceeding our financial estimates. FPD net sales were ¥29.7 billion, which was almost as expected. Gross profit margin was 44.7% and operating margin was 29.6%.

Segment Information: Slide 7

This shows segment information. For SPE on the left-hand side, you can see FPD in the middle, and you can see total sales composition on the right. For SPE, we generated net sales of ¥689.0 billion and achieved a segment profit margin of 36.7%. While we keep investing in such areas as R&D for future growth, thanks to the significant increase in net sales, the segment profit margin rose by 7.9% from the first quarter. For FPD, net sales were ¥20.1 billion, and the segment profit margin was 10.0%. For the composition of net sales in the second quarter, SPE sales accounted for 97%, while FPD sales accounted for 3%.

SPE Division: Sales by Region: Slide 8

This slide shows SPE sales by region. As you can see, SPE sales showed a considerable increase from the first quarter in many regions such as Japan, North America, Taiwan and China. As for China, the impacts of the lock down in the first quarter were resolved.

SPE Division: New Equipment Sales by Application: Slide 9

This slide shows SPE new equipment sales by application. On the right, where you can see the second quarter from the bottom of the chart, sales from logic manufacturers accounted for 61%, non-volatile memory accounted for 24% and DRAM accounted for 15%.

Field Solutions Sales: Slide 10

Next, this shows Field Solutions sales. In the second quarter, sales amounted to ¥131.7 billion, increasing by 20% from the previous quarter, driven by an increase in sales such as modifications. As you can see, sales have been increasing along with time.

Balance Sheet: Slide 11

This shows the balance sheet. Total assets were ¥2 trillion, 138.0 billion. Cash and cash equivalents were ¥484.6 billion. Accounts receivable and contract assets were ¥507.7 billion. Cash and cash equivalents as well as accounts receivable and contract assets increased due to the increase in net sales. Inventories were ¥552.9 billion. Along with revenue recognition, many products in inventory were shipped, but due to the proactive arrangement of raw materials, inventories remain almost unchanged. Liabilities were ¥645.8 billion, net assets were ¥1 trillion, 492.1 billion, increasing by 177.3 billion yen due to the increase of net income. The equity ratio was 69.2%.

Cash Flow: Slide 12

My last slide shows cash flow. The cash flow from the operating activities increased to ¥193.4 billion due to the profit achieved along with the net sales increase. The cash flow from investing activities was minus ¥23.1 billion. This includes CAPEX. The cash flow from financing activities was minus ¥2.1 billion. As a result, the free cash flow was ¥170.2 billion, which was at a high level. This concludes my presentation about the consolidated financial summary.

Moderator: Introduction of the next presentation

Now, Mr. Kawai, our CEO, will present the business environment and financial estimates. Mr. Kawai, please.

Business Environment and Financial Estimates

Toshiki Kawai – Representative Director, President & CEO

Once again, good afternoon, everybody. Thank you so much for joining us despite your very busy

schedules. I'm Tony Kawai. I'd now like to talk about the business environment and financial estimates.

CY2022 Business Environment (Outlook as of November 2022): Slide 14

First of all, let me start with the business environment. In the financial announcement in August, I said that the WFE market in CY 2022 was expected to grow by 5 to 15% on a year-on-year basis. We currently expect that the growth rate will land at around 10%. Due to expectations for semiconductor technology innovation driven by the progress of the digital shift in society, and the realization of a decarbonized society, our outlook remains unchanged for mid- to long-term growth of the SPE industry.

For the FPD production equipment market (TFT array process), there is no change. A slight increase is expected in investment on a year-on-year basis.

FY2023 Q2 Business Progress: Slide 15

Next, this shows business progress in the second quarter of the fiscal year ending in March 2023. Our sales to logic and NAND manufacturers increased significantly. For all of our key products, shipments increased considerably. As a result, we generated net sales of ¥709.2 billion, delivering record high quarterly net sales. Operating margin was 32.8%, again the highest ever for a quarterly basis. Sales in the Field Solution business also hit a record high of ¥131.7 billion, thanks to steady sales generated by upgrades and modifications for memory device scaling. This achievement of quarterly net sales exceeding ¥700 billion, despite various challenges in such areas as procurement and logistics, serves as a touchstone for our efforts to pursue net sales of ¥3 trillion, set as a target in the Mid-term Management Plan. This has given us great confidence. Such achievement is strongly supported by the cooperation of our partners. It was the quarter that we reinforced our belief that our company's strengths heavily rely on our solid supply chain. Penetration of strategic products and winning of development PORs for our future growth proceeded steadily in accordance with the Mid-term Management Plan.

Highlights: Slide 16

Just as an example, we have delivered promising results in the items shown over here. We are winning PORs steadily. All of these constitute the seeds of our future growth.

FY2023 Financial Estimates: Slide 17, 18

Next, I will present the financial estimates for the fiscal year ending in March 2023. We are going to revise the financial estimates, primarily reflecting the changes in memory manufacturers WFE investment and export administration regulations against China that have been further enforced by the US government. On a full year basis, we expect net sales of ¥2 trillion, 100.0 billion. Gross profit of ¥910.0 billion. Operating income of ¥546.0 billion, and net income attributable to owners of parent is ¥400.0 billion.

FY2023 SPE Division New Equipment Sales Forecast: Slide 19

This slide shows the SPE new equipment sales forecast. Due to the same reasons that I stated for the revision of financial estimates, we have revised the new equipment sales forecast for the second half of this fiscal year. In the first half of this fiscal year, we generated new equipment sales of ¥917.7 billion, hitting a record high which exceeded the financial estimates by about ¥67.7 billion. New equipment sales are expected to be ¥700.0 billion in the second half and ¥1 trillion, 617.7 billion yen for the full year. On a calendar year basis, we expect growth of about 20%. On a fiscal year basis, we expect about 8% growth from the record high new equipment sales delivered in the previous fiscal year.

Initiatives for Medium- and Long-term Growth: Slide 20

Let me now present initiatives we are working on toward mid-term and long-term growth using several slides.

WFE Market: Slide 21

As you know, semiconductor is becoming increasingly important to promote ICT, digital transformation and build a decarbonized society. Electric vehicles and fuel cell vehicles are expanding while autonomous driving is being introduced more widely. Along with the spread of AR, VR and MR, the metaverse will pervade even further. While 5G communication continues to be deployed broadly in the industry and society, development of post-5G technology will proceed to realize higher speed, larger network capacity, lower latency, and multi-connectivity. Such innovation of new technologies will drive continuous growth of the WFE market.

As announced by SEMI, as many as 67 new 300 mm fabs are expected to begin construction from 2022 to 2025. Therefore, SPE demand is expected to increasingly grow in the future.

Evolution of Logic Device Structure and EUV Lithography Technology: Slide 22

In addition to the increase of fabs and manufacturing lines, constant technology innovation also drives WFE demand. As you can see here, the structure of logic devices changes about every two years. At present, logic devices of three nanometer, FinFET structure, are manufactured in high volumes. The structure will evolve to gate all around (GAA) nanosheet structure, and eventually to the CFET structure to achieve higher performance and lower power consumption of logic devices. EUV lithography is one of the critical technologies to realize such complex and dense structure. EUV lithography has already been deployed in high volume manufacturing lines while high-NA EUV is expected to be introduced as innovative lithography technology for further device scaling from the technology node of 1.4nm.

Joint Development of High-NA EUV with imec and ASML: Slide 23

To support the development of next generation logic device materialized by this high-NA EUV, our company is currently working on joint development with imec and ASML. In order to contribute to the development of next generation leading edge devices, Tokyo Electron works with customers around the world and promotes collaboration in consortia and with multiple companies.

Business Opportunities and Focus Areas by FY2025: Slide 24

This slide shows business opportunities and focus areas for the coming three years. For logic devices, to achieve lower power consumption and higher speed CPU in the 2nm node, the GAA nanosheet and backside PDN structure will be at the center of changes to the technology. For DRAM, to deliver DDR5, high speed working memory, EUV lithography and high-k metal gate will be introduced. For NAND, to realize larger storage, an initiative to deliver a high stacking structure of 300 layers will begin. In addition, the NAND manufacturing process is expected to adopt multi-tier stacking, and bonding technology to bond memory cells and peripheral circuits fabricated on different wafers. Our company offers a broad product portfolio coping with such future technology innovation. We believe the area indicated in bold face, in particular, will provide us with great business opportunities. We aim to expand our share in high value-added areas.

Further Expansion of Field Solution Business: Slide 25

In the Field Solution business, in addition to the current business area including reengineered models, modifications and parts sales, we think it's very important to make attractive proposals about new solutions that leverage existing process tools effectively when we pursue our future growth. Firstly, establishing the infrastructure essential for data utilization such as servers associated with process tools and groups of process tools. Secondly, establishing sensing technology to monitor process tools and wafer processing condition. Thirdly, analyzing domain knowledge of equipment and process through effective use of digital support tools, and last but not least, utilizing AI for efficient process improvement and equipment function development. Accumulating these efforts and enhancing each one of them will provide optimal solutions and strive to maximize equipment performance and enhance productivity. With keywords such as IoT, communication, metaverse and green application, the business opportunities for Field Solutions will be increasingly expanding. We are working on the strategy for further growth of this

Field Solution business.

Medium-term Management Plan: Slide 26

By promoting these various activities, we will go forward to achieve the Mid-term Management Plan that we announced in June 2022. Aiming at net sales of ¥3 trillion or more, operating margin of 35% or more and ROE of 30% or more, we will make every effort to outperform the market and facilitate further growth so that we can become the one and only company in the prime market of Tokyo Stock Exchange to do so within five years.

FY2023 R&D Expenses, CAPEX Plan: Slide 27

This shows our plan for R&D expenses and CAPEX. The plan remains unchanged. As we previously announced, we will invest more than ¥1 trillion in R&D and more than ¥400 billion for Capex for the next 5 years, especially for evaluation tools. To achieve the Medium-term Management Plan, we will continue proactive R&D investment and capital investment.

FY2023 Dividend Forecast: Slide 28

My last slide shows the dividend forecast. For interim dividend, we plan to pay ¥857, which is a record high interim dividend. Along with the revision of our financial estimates, the year-end dividend is expected to be 425 yen.

Tomorrow, on November 11th, Tokyo Electron will mark its 60th year foundation day. In this fiscal year, we expect to deliver record high net sales and we have been promoting various initiatives for further growth in the future. Furthermore, we are steadily winning POR by leveraging our strategic equipment. With our sincere gratitude to the shareholders who kindly supported our growth, we are planning a commemorative dividend of ¥200 per dividend at the end of this fiscal year.

Thank you very much. This concludes my presentation. Thank you very much for listening today.