

Financial Results Briefing for the Second Quarter FY2020: Q&A Session Summary

Q1: What is the current business situation?

A1: North American and Chinese customers are the two pillars of our smartphone business. There are a number of R&D subjects to handle in relation to North American smartphone manufacturers, many of which are progressing in the form of joint projects. In the Chinese market, the slowdown in the domestic market has been making our customers cautious in placing orders, but we think strong latent demand for development is still there.

With regard to camera lenses, capital investment appetite in surveillance camera sector is weak, but we anticipate some improvement in future demand given that there is clear need for product upgrading despite the current harsh business environment.

Q2: What is the impact of U.S.-China relations, such as the issues around Huawei?

A2: Huawei-related sales are estimated to be around one-third of our sales in the Chinese smartphone market. Given that Huawei generates sales mainly in China with its relatively limited exposures in the US, we believe the impact will not be significant at least for the time being.

Q3: What are the major uses and potential of ALD equipment?

A3: ALD system is capable of conducting uniform, ultrathin, and low-temperature deposition on complex surfaces such as lens curved surfaces and 3D structures. It is expected to be used to form thin films on tightly curved lenses, such as wide-angle lenses for smartphones, as well as decorative films on cover glass for complex surfaces and protective films for mini-LEDs and micro-LEDs.

Our ALD equipment is the world's first equipment to combine our group company Afly Solution Oy (Finland)'s ALD technology with our plasma technology and optimize it for optical thin films in pursuing the possibility of new deposition technology. Once orders come into full swing, we expect it to become one of our core products.

Q4: Previous demand and current order status of the evaporation equipment for optical communication network?

A4: The evaporation equipment for optical communication networks was originally developed 21 years ago when Oporun was established and became the foundation of our business. Once the optical communications boom was over, the demand for new equipment disappeared. Recently, there has been a movement to expand the number of base stations, such as for 5G-compatible network infrastructure, and we have improved the performance by carrying out a comprehensive

design and performance review of original equipment to meet these newly developed needs. Approximately 13% of orders received in the first half of this year are for fiber-optic communications, and the company is in discussion with multiple customers for more future orders.

Q5: Has there been a cancellation of orders in Q2?

A5: There have been almost no cancellations of official orders that affected our order backlogs.

However, due in part to the impact of the spread of COVID-19, there were cases in which official orders were not placed at the negotiation stage.

Q6: How much of the order backlog as of the end of Q2 will be recorded as 2020 sales?

A6: We think that the order backlogs as of the end of Q2 will be recorded as sales in certain magnitude.

Risk factors include strict acceptance inspection conditions for some customers and how the current COVID-19 situation unfolds from now on. These factors could lead some of our customers to wish for a slower shipment, which would negatively impact the likelihood of some of the current backlogs to be recorded as 2020 sales.

Q7: Why don't you revise your performance forecasts?

A7: The period from order receipt to sales recording usually takes at least four to five months.

On one hand, orders rushed in August and September could add on to this year's sales and push up overall performance. On the other hand, the spread of COVID-19 may cause some customers to wish to push back the timing of shipping. Since it will take some time to determine the future outlook of the business, we will maintain our current financial outlook.

In the event that it becomes necessary to revise the performance forecast in light of the future business environment and business performance, the Company will promptly disclose such revisions.