

OPTORUN Co., Ltd.

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

Q1: Could you explain a bit more on the situation that made business discussion with customers in China difficult in the first quarter?

A1: After the Chinese New Year holiday when the COVID-19 started to take its toll in China, it became difficult to meet with some customers. It was only during the past month that we came to be able to really discuss business in China. This may affect the number of orders we will receive in the second quarter.

Q2: You said that in around April, you came to be able to have business talks in China. When will they be reflected in actual orders?

A2: We think it is from late May.

Q3: Tell us about the rough breakdown of the orders received in the first quarter.

A3: Two thirds of the orders received were smartphones-related — especially orders from North American smartphone manufacture.

Q4: How many orders do you expect to receive from North American smartphone manufacture, in and after the second quarter?

A4: There are many development projects for North American smartphone manufacture.. Some projects are currently underway. At the present stage, we cannot provide order forecast information.

Q5: What types of development projects do you have for Chinese smartphone manufacture?

A5: They include functionality enhancement of camera modules and decorations on glass casings.

Q6: While seeing underlying potential demand, how about customers' current move?

A6: Some customers are cautious for making invest decisions.

Q7: Is our understanding correct that uncertainties regarding incoming orders are about customer trends in and after May and the fact that the adoption of the next-generation equipment for North American smartphone manufacture has yet to be

decided?

A7: Yes.

Q8: How are you seeing the delay in overall 5G investment in China, including data centers?

A8: There is a strong interest in evaporation coaters for the application of optical telecommunications, but we think that smartphones' adoption of 5G has only just begun.

Q9: In contrast to the high order backlog as at the end of March 2020, the first quarter sales were down from a year ago. What is the main reason for this decline?

A9: Since our annual sales plan foresees sales ramp to come in the second half of the fiscal year, we expected from the very beginning that the first-quarter sales figures would not be high. A decrease in revenue over the previous year is largely due to decreased sales to North American smartphone manufacture.

Q10: Order backlog stands at JPY 38.2 billion as at the end of March 2020. How much of this amount will be posted as sales of this fiscal year?

A10: Under normal circumstances, these backlogs are supposed to be posted as sales for this fiscal year, but some of them may be pushed to the next fiscal year due to customers' own circumstances.

Q11: Tell us about the second-quarter sales plan.

A11: Our annual sales plan foresees sales peak to come in the latter half of the fiscal year. In that regard, significant sales increase from the first quarter is not planned.

Q12: It looks like the first quarter saw a favorable CGS ratio. Will it be possible to maintain that level?

A12: We believe that basically it is possible to maintain it partly because of our continuous cost reduction efforts—although it also depends on product mix.

Q13: It looks like the selling, general and administrative expenses (SGA) of the first quarter were relatively low. Were there any specific expense items that went short of budget?

A13: One of the major reasons for the low SGA was that there was the accrual of retirement benefits for officers in the first quarter of the previous year that does

not exist anymore due to a change in compensation framework. The fact that the research and development activity was rather slow during the first quarter also contributed to the decrease. From the second quarter of this year, the SGA will be about 15% of sales as planned because research and development is expected to accelerate and sales growth will push up sales commissions.