

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

Q1: Are sales to the North American smartphone manufacturer likely to be booked as scheduled?

A1: North American smartphone makers have stricter acceptance criteria than other manufacturers. In addition, due to the large number of shipped equipment, the timing of the sales booking of some products might be pushed into the next fiscal year, but for the most part, they will be recorded as sales in the second half of this year.

Q2: Orders for the smartphones application looked slow in 3Q. Any possibility that some market shares have been lost to competitors?

A2: In the smartphone market, we observe some excess capacity due to large capital investment made in deposition equipment in 2017 and 2018. Customers are retrofitting some of their highly versatile equipment from previous purchases.

The most critical question for us is whether we can win orders for our new product models for new functions. At present, sales of smartphones are slowing down due to global economic trends, but the overall appetite of North American smartphone manufacturer and others for developing high-end smartphones is very strong.

Q3: It looks like orders for surveillance camera application are still slow?

A3: Demand from surveillance camera sector has not recovered. However, we see many rooms for further development in overall surveillance cameras. Progresses in IoT will raise the technology requirement of surveillance cameras.

Q4: What does the capacity utilization rate of the Shanghai and Taiwan plants look like?

A4: The capacity utilization rate in Q3 went down, but it rebounded and at present it has been rising partly due to customers' demands for shorter delivery time.

Q5: Gross margin ratio in the 3Q looks rather low.

A5: The 3Q number is slightly lower than the gross margin target of 40% for 2020. There are always quarterly fluctuations depending on the sales composition. Compared to Q2, the COGS to Sales ratio for sputtering equipment has actually improved, but decrease of the sales proportion of sputtering equipment somewhat offset that positive effect.

Q6: How large is the risk of missing the sales target?

A6: The plan can be achieved if the acceptance tests are completed as we expect. However, we also need to be mindful that acceptance test for new product models sometimes takes longer.

Q7: What is the order outlook for the next fiscal year?

A7: Our product development activities in 2020 progressed according to our initial plan. We expect that this will result in new orders from next year and onwards, especially for the new equipment models we already announced.

Q8: ALD systems are used in what areas of smartphones?

A8: Can be used for wide-angle lenses and decorations of smartphone camera, mini LED backlights, and AR/VR, etc.

Q9: What is the outlook for achieving the profit forecast?

A9: There are two key points. First is to achieve the sales target. Currently, the company is focusing on it, although the hurdles are not necessarily low.

Second is to successfully control SG&A expenses under ¥5.4 billion as planned. We carefully checked our group SG&A expenditure plans when we revised the forecast in September.