

Moderator: Opening Remarks

Now it's time for us to start the Tokyo Electron Financial Announcement of the second quarter of the fiscal year ending on March 31, 2024. Thank you very much for joining us today despite your very busy schedule. I am Koichi Yatsuda from the IR Department, acting as a moderator for today's session. I would like to now introduce today's attendees.

Toshiki Kawai, Representative Director, President and CEO.

Kawai: I'm Toshiki Kawai. Nice to meet you, everybody.

Next, Hiroshi Kawamoto, Senior Vice President and General Manager in charge of the Finance Division.

Kawamoto: I am Hiroshi Kawamoto.

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 have a question-and-answer session where we take questions from the audience. This meeting uses two channels of WebEx for simultaneous interpretation between Japanese and English. As we explained in our email, you are kindly requested to use apps on PCs or mobile terminals if you plan to ask questions. But if you are not going to ask questions, then you can use telephones. 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. It would be appreciated if you could also visit our website.

Now, Mr. Kawamoto will present the consolidated financial summary. Mr. Kawamoto, please.

Q2 FY2024 Consolidated Financial Summary

Hiroshi Kawamoto - Senior Vice President and General Manager, Finance Unit

So good afternoon, I am Hiroshi Kawamoto. I would like to present the consolidated financial summary of the second quarter of the financial year ending in March 2024.

Financial Summary (Quarterly): Slide 4

First of all, I would like to present the quarterly financial summary. I'd like to draw your attention to the figures in the blue box. In the second quarter we generated net sales of ¥427.8 billion, a 9.2% increase from the previous quarter, due mainly to the increasing sales to China. Gross profit was ¥189.7 billion, a 16.9% increase from the previous quarter, and gross profit margin was 44.3%, an increase of 2.9 percentage points, because of the increased sales and product mix. Operating income was ¥96.1 billion, a 16.6% increase from the previous quarter. Operating margin was 22.5%, an increase of 1.5 percentage points, despite the increase of R&D expenses. Net income attributable to owners of parent was ¥73.1 billion, a 13.8% increase from the previous quarter. On a year-over-year basis shown on the right, due to investment adjustments by major customers, both net sales and profits showed a significant decline. R&D expenses were ¥51.0 billion, increasing from the previous quarter and also on a year-over-year basis, as we continue R&D investment for future growth. Capital expenditures were ¥17.6 billion and depreciation and amortization was ¥12.5 billion.

Financial Performance (Quarterly): Slide 5

This is a graphic representation, for your information, of the financial summary shown on the previous page in a chronological basis.

Financial Summary (H1): Slide 6

This slide shows the financial summary of the half-year basis. The far right column shows the first half financial estimates announced on August 10. The second column from the right shows a comparison with the second half of FY2023. In the first half of this fiscal year, we achieved our plan that we announced on August 10 for every item. Compared with the second half of FY2023, both sales and profit declined due to the investment adjustment by major customers. In the blue box, the capex shown at the second from the bottom shows a significant increase. This is due to construction of a development building in Miyagi.

Composition of Net Sales by Region (FY2024 Q1-Q2): Slide 7

This shows net sales by region. As we switched to a single-segment disclosure from this fiscal year, we have presented the composition of company-wide net sales by region. As for the net sales composition in the second quarter, following the first quarter, the proportion of sales to China rose to 42.8% due to active WFE investment in mature nodes in this region.

SPE New Equipment Sales by Application (Quarterly): Slide 8

This slide shows SPE new equipment sales by application. In the second quarter, from the bottom of this chart, logic/foundry accounted for 67%, non-volatile memory accounted for 5%, and DRAM accounted for 28%. Sales to DRAM customers and logic/foundry showed a rise from the previous quarter, also due to active WFE investment by Chinese customers.

Field Solutions Sales (Quarterly): Slide 9

This slide shows Field Solution sales. In the second quarter, sales amounted to ¥104.4 billion, increasing by ¥4.1 billion from the previous quarter, mainly driven by the increase in modifications.

Balance Sheet (Quarterly): Slide 10

Next, this slide shows the balance sheet. Total assets were ¥2.1917 trillion. Cash and cash equivalents were ¥362.6 billion, decreasing by ¥38.3 billion from the previous quarter, partially because of the share repurchase that I will present later. Notes and accounts receivable- trade and contract assets, were ¥367.7 billion. Inventories were ¥748.5 billion, increasing by ¥31.9 billion, due to strategic procurements in preparation for future shipments. For the liabilities and net sales assets shown on the right-hand side, liabilities were ¥661.4 billion, increasing by ¥21.4 billion, in part due to customer advances. Net assets were ¥1.5302 trillion, decreasing by ¥8.7 billion from the end of the previous year. This is due to our continued share repurchases. As a result, we delivered net income of ¥73.1 billion in the second quarter. The equity ratio was 69.2%.

Cash Flow (Quarterly): Slide 11

Next, this slide shows the cash flow. In the second quarter, the cash flow from operating activities was ¥74.8 billion. The cash flow from investing activities was minus ¥23.4 billion. The cash flow from financing activities was minus ¥90.8 billion, primarily due to the share repurchases of ¥90.2 billion. As a result, the free cash flow was plus ¥51.4 billion.

Status of Share Repurchase: Slide 12

Finally, I will present updates on the share repurchase that we presented in the previous financial announcement. On September 30, 2023, we completed the share repurchases based on the resolution of the Board of Directors' meeting held on May 11, 2023. The total number of shares purchased from June to the end of September 2023 amounted to 5,899,200 shares. The total cost of share repurchase was ¥119.9 billion.

This concludes my section on the consolidated financial summary of the second quarter of the fiscal year ending in March 2024.

Moderator: Introduction of the next presentation

Thank you very much. Now let's move on to the business environment and financial estimates presentation given by Kawai-san. Mr. Kawai, please.

Business Environment and Financial Estimates

Toshiki Kawai - Representative Director, President & CEO

Once again, I am Toshiki Kawai. Thank you very much for joining us despite your very busy schedule. Let me make a presentation regarding the business environment and financial estimates.

Business Environment (WFE Market Outlook as of November 2023): Slide 14

Let me start with the business environment. The full year forecast of WFE market size in 2023 was revised upward to 85 to 90 billion dollars from our August forecast of 70 to 75 billion dollars. While the investment in leading-edge logic/foundry is delayed, Chinese customers are further accelerating their investments in mature nodes. Progress in the delivery of some equipment such as exposure tools, which was deferred due to a supply shortage from the previous fiscal year, is also expected to have a positive effect in boosting the momentum of the market. Driven by those two trends, CY2023 WFE market is expected to go beyond the previous forecast.

The fully-fledged market recovery is slightly delayed from our previous forecast, but in CY2024 and 2025, the WFE market is expected to grow to around \$200 billion in total in those two years. One of the drivers is AI servers, whose annual growth rate is 31%. The leading-edge CPU, DRAM and NAND, as well as GPU for generative AI and HBM in which memory devices are stacked in a package, will provide us with many business opportunities. In addition, AI will be mounted not only on servers but also PCs and smartphones. Also, there will be demand to replace those products purchased during the COVID-19 crisis, and businesses are actively investing in IT. These factors are expected to boost semiconductor demand. These factors act as a tailwind and the WFE market is expected to hit record high size in 2025.

Q2 FY2024 Business Progress: Slide 15

This shows business progress in the second quarter of the fiscal year ending in March 2024. Regarding the financial performance, as Mr. Kawamoto presented earlier, net sales, profit, and all other indices achieved the target and plan. The cryogenic etching that we presented in the previous financial announcement and other innovative technology developments for the leading-edge processes, and their evaluation by the customers, are all on track. In the advanced packaging field, which is growing significantly, we are receiving a lot of inquiries mainly for our bonders. To be prepared for sustainable growth, we will maintain active investment.

In July, the construction of our new development building in Yamanashi was completed, which aims to develop film-deposition equipment, gas chemical etching equipment, patterning technologies and process integration.

We have also made great achievements in non-financial areas. In June, all of our domestic sites achieved 100% renewable energy-based operation. In September, our Yamanashi site obtained the top rank of platinum status in an audit conducted by the RBA, which is the international organization promoting sustainability in the supply chain. In October, our targets for GHG emissions reduction were recognized as "science-based targets (SBT)" by the international initiative of SBTi.

As for the up to ¥120 billion share repurchase program that we announced in May, we completed the share acquisitions by the end of September.

FY2024 Financial Estimates: Slide 16, 17

Next, I will present the financial estimates for FY 2024. Reflecting the financial results in the first half of FY2024, we have revised the estimates for net sales upward by ¥30 billion. We also plan to spend record-high R&D expenses of ¥205.0 billion, an increase of ¥5 billion. Accordingly, the full-year financial estimates are expected to be ¥1.730 trillion for net sales, ¥401 billion for operating income, and ¥307 billion for net income attributable to owners of parent.

FY2024 SPE New Equipment Sales Forecast: Slide 18

This slide shows the SPE new equipment sales forecast for this fiscal year. As shown here, we generated sales of ¥602.6 billion in the first half of this fiscal year. For the second half, sales forecast remains unchanged at ¥690 billion. Hitting the bottom in the first half of this fiscal year, the SPE new equipment sales are expected to start recovering soon.

FY2024 R&D Expenses and Capex Plan: Slide 19

Next, this shows our plan for R&D expenses and capex. For FY2024, both R&D expenses and capex are expected to hit record highs. As I said earlier, we are planning R&D expenses of ¥205 billion. The plan for capex and depreciation remains unchanged, expecting to be ¥124 billion and ¥57 billion respectively. To address the expanding market and fulfill increasingly diversified leading-edge technology needs, we will continue active R&D and capital investments.

FY2024 Dividend Forecast: Slide 20

This slide shows the dividend forecast. Reflecting the financial results in the first half of this fiscal year, the interim dividend is raised by ¥20, and the full-year dividend per share is expected to be ¥340.

Total Return Amount: Slide 21

This shows total return amount over the past few years. The total return amount in this fiscal year, totaling the dividend per share and share repurchase that I presented earlier, is expected to be ¥277.7 billion, hitting a record high.

TEL and 60th Anniversary Logo: Slide 22

Tokyo Electron will celebrate its 60th anniversary tomorrow on November 11, 2023. I would like to express my heartfelt gratitude to all stakeholders for the warm support over so many years. We are determined to strive harder to further enhance shareholders' value.

This concludes my presentation. Thank you very much for your time.