Financial Results Briefing for 1H FY03/19
Summary of Q&A for Institutional Investors and Media

Date: November 27, 2018, 15:00–16:30
Venue: Daiwa Conference Hall, 18F GranTokyo North Tower

Company: Ferrotec Holdings Corporation

Q1: In 1H FY03/19, the Photovoltaic business reported an operating loss of just above JPY1.0bn. As market conditions will continue to deteriorate in 2H, is it appropriate to expect another operating loss on the same scale?

A1: The deterioration in our operating income in 1H FY03/19 was due to inventory write-downs. Our view for Q3 and beyond (2H) is that market prices are continuing to decline. Accordingly, we believe we need to further examine whether there is a need to book similar write-downs, which could lead to operating losses, in 2H.

Q2: Assuming the Photovoltaic business posts a similar operating loss in 2H, is it your view that the company could still achieve its full-year operating income forecast of JPY9.8bn?

A2: Barring any additional major changes in our operating environment, we presently do not see any need to revise our forecasts for operating income, ordinary income, and net income attributable to owners of parent.

Q3: (Question in response to the presentation of your policy to withdraw from the Photovoltaic business in FY03/20) What type of losses do you expect to accompany your exit from the Photovoltaic business?

A3: The key points for our exit from the Photovoltaic business will be (1) how to deal with idle production facilities, and (2) how to apply write-downs to continuing operations, where profitability is deteriorating. The book value of the production facilities in our Photovoltaic business is roughly CNY370–380mn (about JPY6.0–6.2bn). Of this amount, we assume we may have to write down roughly CNY150–200mn (about JPY2.4–3.2bn) at most. We plan to monitor future market trends and examine appropriate accounting methods to estimate the necessary write-downs.

Q4: We understand you will continue original equipment manufacturing (OEM) operations for silicon and cell products in the Photovoltaic business in the foreseeable future, but will a standalone OEM business not operate in the red (potential for operating losses)? In addition, could you explain why you are not withdrawing from the business immediately?

A4: Our OEM business generates earnings from processing charges for the materials supplied by customers, so we essentially do not expect the business to run at a loss. If the business does fall into the red, we will consider immediately halting operations. Furthermore, the continuation of our OEM business is essentially a short-term measure, and we aim to withdraw from the business in 2019.* The reason we are not exiting the business immediately is because we expect sales negotiations for existing production facilities to take time.

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* Note: Our withdrawal from the Photovoltaic business is premised on the assumption that we will examine the

repercussions of such a withdrawal and make decisions after holding discussions with related parties and institutions. Accordingly, the timing of the withdrawal may be subject to change based on progress with our examination and related discussions. We will promptly announce the details of the withdrawal after they have been finalized.

Q5: Taking into account the worsening market conditions, to what extent do you expect products used in semiconductor manufacturing equipment to weaken going forward? What impact do you think these conditions will have on quartz products and other consumables, given that sales of these items trend in line with semiconductor equipment manufacturers' production volumes?

A5: (1) We expect overall sales for products related to capital investment in semiconductor manufacturing equipment to decline about 20% in the foreseeable future. (2) However, for quartz products and other consumables related to production volumes at semiconductor device manufacturers, we expect further growth in FY03/20. Based on (1) and (2), we see sales of products used in semiconductor manufacturing equipment in FY03/20 remaining at the same level as in FY03/19.

Q6: Could you share your outlook on topics such as the future demand–supply balance or demand slowdown for 6-inch and 8-inch semiconductor silicon wafers?

A6: The demand–supply balance of 6-inch wafers has tightened because our competitors with manufacturing operations in China have been forced to relocate their production bases due to environmental regulations. Consequently, we do not believe customers will negotiate price discounts in the current environment.

For 8-inch wafers (a field where we have entered a technology and sales tie-up with GlobalWafers Corporation in Taiwan), we see a possibility of a modest price increase in the future. Furthermore, compared to markets outside of China, wafers are being sold at slightly higher prices in China, and we believe this creates a favorable environment for Ferrotec.

Q7: Since capital investment is expected to remain at high levels in the foreseeable future as companies invest in growth, could you talk about future consolidated cash flows, capital investment amounts, and depreciation?

A7: Although the sales of the Photovoltaic business will drop out of the picture following our exit from the business, we look for growth in other businesses and therefore expect to keep consolidated sales around the JPY100.0bn level. We see our operating margin concurrently improving to about 15%, resulting in operating income of JPY15.0bn and after-tax income of about JPY10.0bn. We anticipate depreciation of about JPY6.0bn in FY03/19 (versus initial forecast of JPY5.0bn) and about JPY8.0bn in FY03/20. Accordingly, we forecast operating cash flow of roughly JPY18.0bn. In addition, we currently project capital investment of about JPY30.0bn in FY03/19 (wafers: JPY20.0bn, other: JPY10.0bn; versus initial forecast of JPY40.0bn), JPY40.0bn in FY03/20 (wafers: JPY30.0bn, other: JPY10.0bn), and JPY15.0bn in FY03/21 (wafers: JPY15.0bn, other: unclear at present).

* This Q&A summary was compiled by the Investor Relations and PR Dept. of the Corporate Planning Office from the standpoint of fair disclosure in accordance with Ferrotec's disclosure policy.

* CNY to JPY exchange rate: CNY = JPY16.34, as of November 27, 2018

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