

Moderator: Opening Remarks

Now it's time for us to start the Tokyo Electron Financial Announcement of the first 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 introduce today's attendees.

Mr. Toshiki Kawai, Representative Director, President and CEO.

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

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

Kawamoto: I am Kawamoto. Nice to meet you.

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 the 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, 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.

Q1 FY2024 Consolidated Financial Summary

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

Once again, I am Kawamoto. Now, I would like to present the consolidated financial summary of the first quarter of this fiscal year.

Financial Summary: Slide 4

First of all, I would like to present the quarterly financial summary. The blue portion represents the results of the first quarter. In the first quarter, we generated net sales of ¥391.7 billion, a 29.8% decline from the previous quarter due to the drop in customer WFE spending. Along with the decline of net sales, gross profit was ¥162.3 billion, a 35.5% decrease from the previous quarter, and operating income was ¥82.4 billion, a 46.0% drop from the previous quarter. Net income attributable to owners of parent was ¥64.3 billion, a 45.8% decline from the previous quarter. R&D expenses shown on the bottom was ¥43.6 billion, increasing from the previous quarter as we continue R&D investment for future growth. Capital expenditures were ¥39.3 billion, an increase of 49.2% from the previous quarter, as we are constructing a development building in Miyagi and purchased evaluation tools in order to prepare for future business expansion.

Financial Performance (Quarterly): Slide 5

This is a graphic representation of the financial summary shown on the previous page.

Composition of Net Sales by Region (FY2024 Q1): Slide 6

This slide shows net sales by region for the first quarter. This is the composition of company-wide net sales by region. We have switched to a single segment disclosure from this fiscal year. As you can see, proportion of sales to China rose to 39.3% due to active WFE spending on matured nodes in this region.

SPE New Equipment Sales by Application (Quarterly): Slide 7

This slide shows SPE new equipment sales by application. In the first quarter, on the right-hand side, from the bottom of this chart, sales to logic customers accounted for 70%, non-volatile memory accounted for 14%, and DRAM accounted for 16%. Compared with the previous quarter, the proportions of logic and non-volatile memory declined while the proportion of DRAM increased.

Field Solutions Sales (Quarterly): Slide 8

This slide shows Field Solution sales. In the first quarter, sales amounted to ¥100.2 billion. Sales declined from the previous quarter, which is attributed to the decrease of modifications due to the decline of customer WFE investment. On the other hand, parts and service sales remained strong since the utilization ratio of the customers' fabs was maintained.

Balance Sheet (Quarterly): Slide 9

This slide shows the balance sheet. Total assets were ¥2 trillion, 179.0 billion. Cash and cash equivalents were ¥401.0 billion, decreasing by ¥72.0 billion from the previous quarter due to dividend payments, tax payments and share repurchases. There was progress in the collection of notes and accounts receivable; trade and contract assets were ¥368.8 billion, a decrease of ¥96.0 billion. Inventories were ¥716.5 billion, increasing by ¥64.3 billion, due to procurements to get us ready for future shipments. Other current assets were ¥65.0 billion, decreasing by ¥85.7 billion due to refunds of consumption tax. For the liabilities and net sales assets shown on the right-hand side, liabilities were ¥639.9 billion, decreasing by ¥72.0 billion. This is primarily attributed to the decrease of tax payments and accrued employee bonuses. Net assets were ¥1 trillion 539.0 billion, decreasing by ¥60.4 billion from the end of the previous year, due to dividend payments and share repurchases. The equity ratio was 69.9%, just for your information.

Cash Flow (Quarterly): Slide 10

This slide shows the cash flow. The cash flow from operating activities was 125.7 billion yen. The cash flow from investing activities was minus ¥36.8 billion. The cash flow from financing activities was minus ¥164.1 billion, primarily due to dividend payments and share repurchases. As a result, free cash flow was ¥88.8 billion, as shown in the line chart.

Status of Share Repurchase: Slide 11

Finally, I will present updates on the share repurchase. As of July 31, 2023, the total number of shares purchased amounted to 3,069,200 shares. The total cost of share repurchase was about ¥60.9 billion. As you can see on the bottom, we will continue share repurchases up to ¥120 billion till December 31, 2023. So far, we have purchased about half of the maximum amount.

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

Moderator: Introduction of the next presentation

Now let's move on. Mr. Kawai will provide a presentation regarding the business environment and financial estimates. Mr. Kawai, please.

Business Environment and Financial Estimates

Toshiki Kawai - Representative Director, President & CEO

Good afternoon. Thank you very much for joining us today. Once again, I am Kawai. I will report on the business environment and financial estimates.

Business Environment (WFE Market Outlook as of August 2023): Slide 13

Let me start with the current business environment. The full year forecast of WFE market size in 2023 is about \$70 to 75 billion. In terms of market size, there have been no changes in terms of the previous financial announcement in May. However, there have been slight changes in its breakdown, specifically, in leading-edge logic/foundry, where there are some signs of delayed investment while Chinese customers are accelerating their investment in mature nodes.

Though recovery timing may be shifted slightly depending on macro-economic dynamics, the WFE market is expected to recover and grow to around \$200 billion in total for the years 2024 and 2025. One of the drivers of this recovery, as shown in the chart, is servers whose annual growth rate is 8%. In addition, there are business opportunities in leading-edge CPU, DRAM and NAND, as well as GPU for generative AI and HBM. We can also expect recovery of demand for PCs and smartphones after their adjustments following the COVID-19 pandemic. Continuous steady growth is expected in power semiconductors for EV, and diversified semiconductors supporting the digital economy, namely in the MAGIC market.

Q1 FY2024 Business Progress: Slide 14

This shows business progress in the first quarter of fiscal 2024. Regarding financial performance, as Mr. Kawamoto presented, both net sales and profit stayed on track. We also made steady progress in critical development projects and products toward the achievement of our Medium-term Management Plan. In particular, for HARC etching, which is one of our strategic processes, we succeeded in an innovative technology development targeting 3D NAND channel hole application. This is an important technology, contributing to our future net sales and profit, and our customers highly value this technology. Regarding bonders used in advanced packaging, we received orders for bonders to be installed in high-volume manufacturing lines of HBM for generative AI application. New bonder development and evaluation have also been in progress for 3D NAND and advanced logic.

FY2024 Financial Estimates: Slide 15, 16

Next, I will present the financial estimates for fiscal 2024. The financial estimates remain unchanged from the previous announcement in May. As reported earlier, in calendar 2023, the WFE market is expected to decrease by 25-30% from calendar 2022. Our financial performance will be affected by this WFE market trend, but we are planning record-high R&D investment of ¥200 billion in order to prepare for WFE market growth in 2024 and 2025 and our business recovery by stepping up our R&D activities.

FY2024 SPE New Equipment Sales Forecast: Slide 17

This slide shows the SPE new equipment sales forecast in this fiscal year. As shown here, we expect to generate ¥580 billion in the first half, and ¥690 billion in the second half of this fiscal year. The diagram on the right shows a quarterly breakdown on the sales forecast for the first half of this fiscal year. Though there have been some changes in timing of customer WFE investment, there will be no major changes in logic/memory composition.

FY2024 R&D Expenses and Capex Plan: Slide 18

This shows our plan for R&D expenses and capex. This plan again remains unchanged. 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 ¥200 billion and capex of ¥124 billion. Depreciation is expected to be ¥57 billion.

Last month, construction of a new development building in Yamanashi was completed as planned. This new building was built for the purpose of developing film deposition systems, gas chemical etching systems, patterning technologies and process integration. 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 19

This slide shows the dividend forecast. This also remains unchanged. Based on the financial estimates of this fiscal year and payout ratio of 50%, the full-year dividend per share is expected to be ¥320.

Total Return Amount: Slide 20

This shows total return amount over the past few years. As Mr. Kawamoto described earlier, as of July 31, we purchased 3,069,200 shares, worth about ¥60.9 billion. If we are able to accomplish share repurchase as planned, total return amount in this fiscal year, including dividend payments based on a payout ratio of 50%, is expected to be ¥270.3 billion. We will take continuous efforts to enhance shareholder value.

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