Presentation

[Title]

Daishinku's Photolithography sales ratio has exceeded 20% for the first time; In the next fiscal year, the automotive electronics market is expected to be strong, and both the consumer and industrial equipment markets will also trend toward recovery.

[Lead]

The following is a transcription of Daishinku Corp.'s financial results presentation for 2Q of the fiscal year ending March 31, 2024, which was released on November 29, 2023.

[Speaker]

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[Text]

Topics of Financial Results for 2Q of FY2024



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Hasegawa: Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today. I will move on to the explanation.

First, here are the financial results topics for 2Q of FY ending March 2024. Revenues and profits decreased YoY amid a sluggish market environment. In the automotive electronics field, revenues posted a double-digit YoY increase. The photolithography sales ratio exceeded 20% for the first time. The annual dividend remains unchanged at JPY28 per share.

KDE Performance Report for the Second Quarter of FY2024

Lower revenues and profits				
	FY2023	FY2024	YoY Change	
Unit : Million yen	2Q	2Q	Increase/Decrease	Rate of change
Net sales	20,292	19,332	(960) ↓	(4.7%)
Operating profit	2,810	901	(1,909) ↓	(67.9%)
Ordinary profit	4,751	1,977	(2,774) 👃	(58.4%)
Profit attributable to owners of parent	2,986	1,391	(1,595) ↓	(53.4%)
USD average rate (yen)	134.03	141.06	7.03 ↑	

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Here are the financial results for 2Q. Net sales were JPY19,332 million, operating profit was JPY901 million, ordinary profit was JPY1,977 million, and profit attributable to owners of parent was JPY1,391 million. Both sales and profits decreased YoY. The exchange rate was JPY141.06 to USD1.

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Here are sales by market. Sales in the telecommunications market decreased by 4%, those in the automotive electronics market increased by 10%, those in the consumer equipment market decreased by 18%, and those in the industrial equipment market decreased by 9%.

The telecommunications and consumer equipment markets have been on a recovery track after bottoming out in 4Q of the previous fiscal year. However, we believe that a full-fledged recovery will be possible from next year onward.

As for the automotive electronics market, there were some inventory adjustments in Europe, but the strong markets in the US, Asia, and other regions led to the double-digit sales growth.

Operating Profit Analysis (YoY Change)



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Here is the analysis of operating profit. Operating profit decreased by JPY2,470 million from JPY2,810 million in 2Q of the fiscal year ended March 2023 due to price fluctuation and changes in the volume and product mix. In addition, it increased by JPY460 million due to fluctuations in fixed costs and by JPY90 million due to changes in SG&A and other expenses. As a result, operating profit for 2Q of the fiscal year ending March 2024, decreased by JPY1,909 million YoY to JPY901 million.

Quarterly Performance Report for FY2024



Higher revenues and lower profit (Operating profit)

	FY2024	FY2024	QoQ Cha	ange
Unit : Million yen	AprJun.	JulSep.	Increase/Decrease	Rate of change
Net sales	9,318	10,014	696 ↑	7.5%
Operating profit	518	383	(135) ↓	(26.1%)
Ordinary profit	1,052	925	(127) \downarrow	(12.1%)
Profit attributable to owners of parent	439	952	513 ↑	116.9%

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Here are the quarterly financial results for 2Q. In July to September, sales were JPY10,014 million, operating profit was JPY383 million, ordinary profit was JPY925 million, and profit attributable to owners of parent was JPY952 million, with sales up QoQ and profits down QoQ.



Here are sales by market. Sales in the telecommunications field increased by 10% QoQ, those in the automotive electronics segment increased by 14%, those in the consumer equipment field increased by 8%, and those in the industrial equipment segment decreased by 11%.

As for the industrial equipment field, the timing of inventory adjustments was postponed to the current year due to a lot of order backlog at customers in the previous year as their lead time was very long.

The telecommunications and consumer equipment fields continued to recover after bottoming out in 4Q of the previous fiscal year, and the automotive electronics segment remained strong.



As for the Taiwan segment, which represents the performance of our consolidated subsidiary HARMONY ELECTRONICS CORP, sales and profits had been declining since 2H of the previous fiscal year due to the high ratios of the telecommunications and consumer equipment fields, which remained sluggish. However, both fields have begun to recover as the markets recovered.

Operating Profit Analysis (QoQ Change)



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This is an analysis of the QoQ change in operating profit. Compared to operating profit of JPY518 million for the April to June period, price fluctuation and changes in volume and product mix caused an increase of JPY190 million, fixed cost fluctuations caused a decrease of JPY100 million, and changes in SG&A and other expenses caused a decrease of JPY230 million. As a result, operating profit for the July to September period declined JPY134 million from the previous quarter to JPY383 million.

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Capital Expenditures / Depreciation / R&D Expenses

	Unit: Million yen		t: Million yen
YoY Change	FY2023	FY2024	Increase/
	ZQ	2Q	Decrease
Capital Expenditures	3,576	2,229	(1,347)
Depreciation	1,890	1,859	(31)
R&D Expenses	1,071	1,073	2
QoQ Change	FY2024	FY2024	Increase/
	AprJun.	JulSep.	Decrease
Capital Expenditures	767	1,462	695
Depreciation	910	949	39
R&D Expenses	503	570	67

Major capital expenditures Photolithographyrelated equipment Core systems, etc.

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In 2Q, capital expenditures totaled JPY2,229 million, depreciation totaled JPY1,859 million, and R&D expenditures totaled JPY1,073 million. Capital expenditures decreased by JPY1,347 million YoY. Major capital expenditures included spending on photolithography-related equipment and core systems.

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Full Year Forecast for FY2024

Upward revision

			FY2024	
Unit: Million yen	FY2023	1H results	2H forecast	Full year forecast
Net sales	38,430	19,332	18,668	38,000
Operating profit	4,210	901	599	1,500
Ordinary profit	5,106	1,977	(277)	1,700
Profit attributable to owners of parent	3,208	1,391	(291)	1,100
ROE	9.3%	-	-	3.0%
ROIC	4.1%	_	-	1.4%
USD average rate (JPY)	135.50	141.06	145.00	143.03

*Assuming average exchange rate of 150.00 yen for Nov.-Dec., 140.00 yen for Jan.-Mar., and 135.00 yen at the end of the fiscal year.

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This shows the full-year forecast for the current fiscal year. We made an upward revision to the forecast, estimating net sales at JPY38 billion, operating profit at JPY1.5 billion, ordinary profit at JPY1.7 billion, and profit attributable to owners of parent at JPY1.1 billion.

We assume an exchange rate of JPY145 to the US dollar in 2H and JPY143.03 for the full year. In consideration of the further appreciation of the Japanese yen, we assume a year-end exchange rate of JPY135 to USD1.



The following is the sales forecast by market for 2H against the 1H results. For the industrial equipment field, we expect a 15% decline due to ongoing inventory adjustments. We expect a slight decrease in the consumer equipment and telecommunications markets due to the impact of the Chinese New Year in Greater China, and a slight decrease in the automotive electronics market as well due to the Christmas vacations in the US and Europe.

Operating Profit Analysis (1H Results vs 2H Forecast)



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This is an analysis of operating profit for the 1H results versus 2H. Compared to operating profit of JPY901 million in 1H, the amount will increase by JPY220 million due to price fluctuation and changes in volume and product mix, decrease by JPY380 million due to fluctuations in fixed costs, and decrease by JPY150 million due to changes in SG&A and other expenses. As a result, we expect operating profit of JPY599 million for 2H.

2,205

2,300



95

6,000

FY2024

initial plan

5,000

FY2024

forecast

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R&D Expenses

This page shows the full-year plan for capital expenditures, depreciation, and R&D expenses. We estimate capital expenditures at JPY5 billion, depreciation at JPY4.1 billion, and R&D expenses at JPY2.3 billion.

In light of the market environment, we have decided to shift some expenses for production increase equipment, labor-saving equipment, and infrastructure-related equipment to the next fiscal year or later. Therefore, we have reduced the CAPEX amount by JPY1 billion from the initial plan at the beginning of the year.



This shows inventory trends. Inventories at the end of September were JPY17.3 billion. Although this was an increase from JPY17.1 billion at the end of the previous year, this JPY17.3 billion included JPY760 million in foreign exchange rate impact, so excluding this impact, inventories decreased by JPY600 million in real terms.

In 2H, we will further adjust our operations and reduce inventories to JPY16.2 billion at the end of the current fiscal year. Based on the same exchange rate as at the end of the previous fiscal year, the plan is to reduce the inventory amount by JPY1 billion in real terms.

Quarterly Trends of Photolithography Product Sales Ratio

KDS **Quarterly Trends of Photolithography Product Sales Ratio**

Photolithography product sales ratio: Achieved 20% level for the first time; expected to exceed 20% for the full fiscal year



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The ratio of photolithography product sales exceeded 20% for the first time ever in this 2Q. In particular, the ratio of high-frequency AT photolithography products, shown by the blue portion in the bar graph on the left side of the slide, has been increasing and is growing in 3Q as well. Currently, the company is in full production for 76.8 MHz products for smartphones.



Here is the market outlook for the next fiscal year. As for the telecommunications market, the recovery trend is continuing after bottoming out in 4Q of the previous fiscal year. We expect this to remain unchanged in the next fiscal year, and to see a full-fledged recovery in 2H of the next fiscal year and beyond.

As for the automotive electronics market, we expect the market to remain strong in the next fiscal year as inventory adjustments will be completed for European automotive electronics manufacturers.

The consumer equipment market is also on a slow recovery trend after bottoming out in 4Q of the previous fiscal year, and we expect this trend to continue in the next fiscal year.

As for the industrial equipment market, inventory adjustments are continuing in the current year, and we expect this adjustment phase to continue in the next year with respect to factory automation equipment and other products. However, since an increase is expected for smart meters and others, we believe that the industrial equipment market as a whole will hit bottom in 4Q of the current fiscal year and head toward a recovery trend.

Market Size of High-frequency Crystal Devices



Trends in the volume of high-frequency crystal devices (76.8 MHz or above)

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From here, I will discuss the future trends in high-frequency applications. As data traffic more and more increases and communication speeds increase, higher frequencies will be required for our crystal devices. As a result, the number of high-frequency crystal devices will increase in a variety of markets, including telecommunications, automotive electronics, and information networks.

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Trend Forecast of Communication Frequencies			
Current Future	2010s	2020s	2030s
Cellular	4 G	5 G	6 G
Applicable product Crystal resonators with dedicated Temperature sensor	38.4 MHz	76.8 мнz 153.6 мнz	153.6 мнz 307.2 мнz
Core Network	100G	400/800G	1.6/3.2T
Applicable product Differential oscillator	156.25 мнz	312.5/320 мнz 400/625 мнz	1.25 GHz
Wi-Fi	Wi-Fi 5	Wi-Fi 6/6E/7	Next generation Wi-Fi
Applicable product	38.4 MHz	76.8 MHz	153.6 мнz

Here is a trend forecast of the actual frequencies to be used. As for cellular phones, especially smartphones, the frequencies will increase from the current 76.8 MHz to 153.6 MHz and then to 307.2 MHz, doubling and quadrupling the current frequency. Regarding this trend, the same is true for the Core Network, Wi-Fi, etc.

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As the frequency of crystal devices becomes higher, the thickness of crystal blanks inside the crystal devices becomes thinner. At 76.8 MHz, the thickness of the internal crystal blanks is 22 microns. This is about the same thickness as that of a plastic bag from a convenience store. If we go even higher to 307.2 MHz, the thickness of the crystal blanks will be 5 microns, thinner than the diameter of a red blood cell.

Photolithography Technology for High Frequencies



When a crystal piece becomes very thin like this, the conventional machining method is limited in its precision. In the conventional processing method, crystal wafers are solidified into blocks, cut into pieces by wire, and the individual crystal pieces are arranged on a pallet, with each piece formed into an electrode with a mask. However, this inevitably results in misalignment when cutting with a wire and forming electrodes when the crystal pieces are very thin, leading to a large amount of variation.

Photolithography, on the other hand, transfers a pattern onto a crystal wafer using the same process as semiconductors, thereby forming electrodes on the wafer. This method allows for more precise processing.



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We have continued to invest aggressively in this photolithographic process. As with semiconductors, the larger the wafer size, the more products can be processed in a single pass, so we have increased the size of synthetic quartz crystals, on which crystal wafers are based.

We have already succeeded in pulling six-inch synthetic quartz crystals, and mass production of six-inch wafers is on the horizon. We have also increased the percentage of sales of higher-precision, higher-value-added products using photolithography processing. Using larger size crystal wafers and photolithography processing, we aim to achieve both stable supply to customers and environmental friendliness, focusing on the Arkh series, which can optimize production efficiency.



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Taking advantage of the extremely small size and thinness of the Arkh series, we are aiming to incorporate crystal devices into ICs.

The purpose behind the higher frequencies of crystal devices is to minimize the effect of noise generated when the frequency of a crystal device is raised to the frequency used in actual communication.

This noise is also carried to the wiring that connects the IC to the crystal. Therefore, the shorter this wiring is, the less likely it is to carry noise. If a crystal device is mounted inside an IC, it is less likely to carry noise.

In addition, mounting a crystal device inside an IC has the advantage of eliminating the need for circuit design by the customer who will actually use the IC and crystal device, and also eliminates the need for mounting space on the substrate.



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Here is the current progress of the Arkh series. As for frequencies, the series already supports 76.8 MHz, 153.6 MHz, 156.25 MHz, and 307.2 MHz. We have had our samples evaluated by major chipset manufacturers in the US and automotive semiconductor manufacturers and major smartphone manufacturers in Europe and the US, and some of our customers have visited our factory for inspection. Currently, we are in the process of continuing regular meetings with the customers in order to receive orders for mass production.



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We will continue to make steady progress in accordance with our long-term management strategy, the "OCEAN+2 Strategy." Based on our corporate philosophy of "We will answer society's call with trust" meeting society's expectations with trust, we aim to be a leading company that continues to be needed by our customers through our advanced technology and corporate strength. On our initiatives based on the "OCEAN+2 Strategy," we published our first [integrated report], so please take a look at the report.

This concludes our financial results. Thank you for your attention.

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