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Financial Results Briefing

Financial Results for the Year Ended March 31, 2025

May 28, 2025
DAISHINKU CORP. (Code: 6962)
President, Minoru Iizuka

[Title]

[Q&A Session: Included] DAISHINKU, pursuing the OCEAN+2 strategy, aims for record sales in FY2026

[Lead]

This is a transcription of the May 28, 2025 presentation of DAISHINKU's financial results for FY2025.

[Speaker]

Minoru Iizuka, President, DAISHINKU CORP.

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Corrections in FY2025

Corrections in FY2025

Unit: Million yen	FY2025 (before correction) Apr.-Jun.	Apr.-Sep.	Apr.-Dec.	FY2025 (after correction) Apr.-Jun.	Apr.-Sep.	Apr.-Dec.
Net sales	9,827	19,438	29,549	9,827	19,438	29,549
Operating profit	584	916	1,252	**416**	**443**	**740**
Ordinary profit	1,004	(78)	1,014	**836**	**(550)**	**501**
Profit attributable to owners of parent	662	(187)	358	**379**	**(498)**	**16**

Repeated specific processing (operational) errors in inventory management from the beginning of the fiscal year resulted in errors in the amounts of inventory and cost of goods sold from Q1 to Q3.

→ Error-handling rules have been established.
Consistency will be checked on a monthly basis to prevent recurrence.

Minoru Iizuka (hereafter, **Iizuka**): I am Minoru Iizuka, the President of this company. Thank you very much for attending our financial results briefing today despite your busy schedule. I will explain the financial results for FY2025 and our outlook for the future.

First, we deeply apologize for the correction of our financial results during the year. This was due to a human error that remained unnoticed for a long time.

We take this matter very seriously. We have completed the investigation into the root cause and taken strong steps to prevent any recurrence. We are truly sorry for the concern and inconvenience caused.

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Results in FY2025 (YoY Change)

Results in FY2025 (YoY Change)

Lower revenue and profit

Unit:Million yen	FY2024	FY2025	YoY Change Increase/Decrease	YoY Change Rate of change
Net sales	39,343	38,620	(723) ↓	(1.8%)
Operating profit	2,135	915	(1,220) ↓	(57.1%)
Ordinary profit	3,192	412	(2,780) ↓	(87.1%)
Profit attributable to owners of parent	1,876	285	(1,591) ↓	(84.8%)
USD average rate (yen)	144.59	152.62	8.03 ↑	

Here are the results for FY2025. Net sales were ¥38,620 million, operating profit was ¥915 million, ordinary profit was ¥412 million, and profit attributable to owners of parent was ¥285 million, representing a decrease in both sales and profits. I will explain the reasons for this on the following pages.

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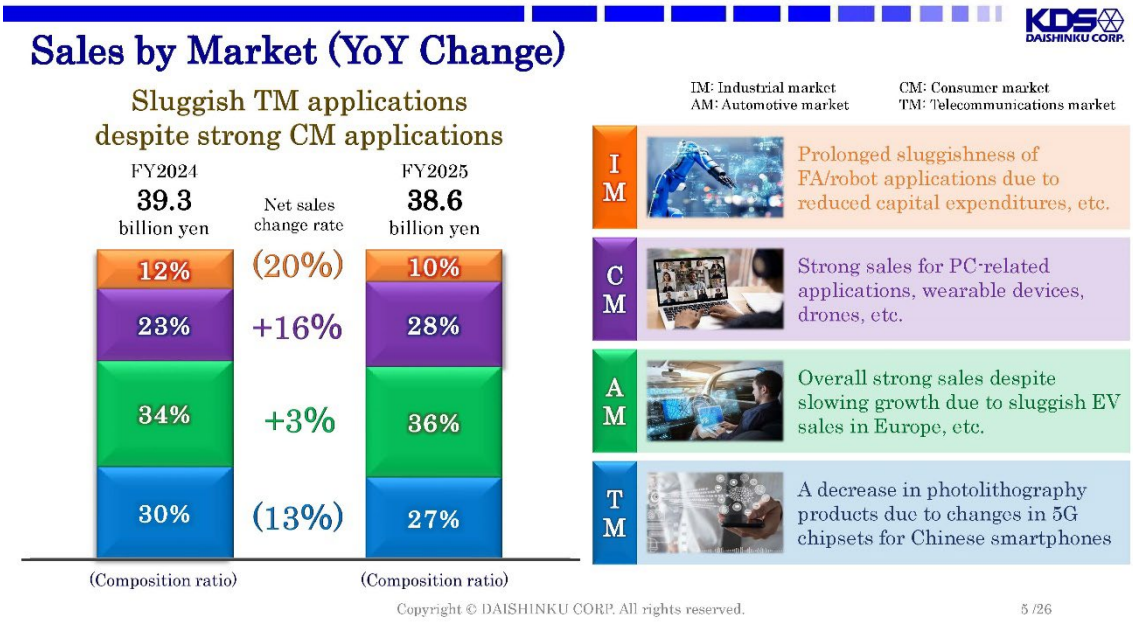
Sales by Market (YoY Change)



The table shows year-on-year sales results by market. Sales in the consumer market were strong, driven by robust demand for PC-related applications, wearable devices, drones, etc. Sales in the automotive market were also strong, though the growth was not significant.

Meanwhile, although we had heard from customers that the industrial market would recover in H2 of the previous fiscal year, we did not see a recovery, and net sales declined sharply.

Sales in the telecommunications market also declined by 13%. This decline was mainly due to changes in 5G chipsets for Chinese smartphones. Customers who had previously used US-made chipsets were using high-frequency crystal resonators with thermistors manufactured using photolithography technology, which is one of our core competencies. With the performance of Taiwanese chipsets improving significantly, however, many of our customers have decisively turned to them.

The crystal resonators with thermistors used in these chipsets are low-frequency products that can be manufactured by Chinese manufacturers, and their selling prices have fallen significantly. Our subsidiary, HARMONY ELECTRONICS CORP., was also capable of manufacturing these products, but we decided not to enter the market because the price was too low. This was a very important point.

In addition, we experienced problems with our photolithography technology at the end of the fiscal year, which prevented us from manufacturing products even if we wanted to. This was entirely our fault. We were unable to manufacture certain products due to production system issues, which led to a decline in sales.

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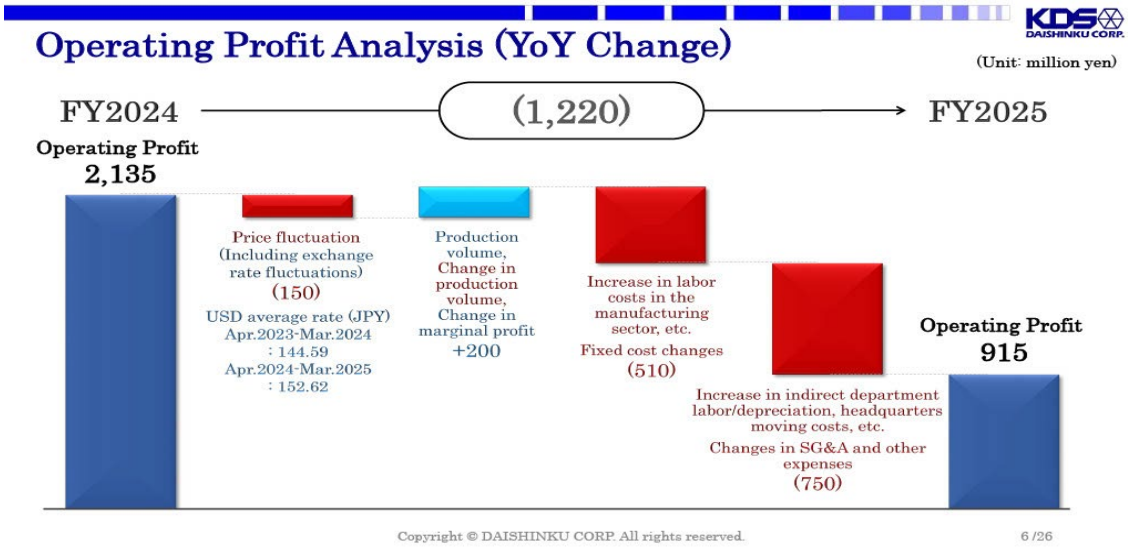
Operating Profit Analysis (YoY Change)



This is an analysis of YoY change in operating profit. Price fluctuations resulted in a decrease of ¥150 million due to the weak yen, but actually, excluding exchange rate fluctuations, the decrease was approximately ¥1,500 million.

While marginal profit increased by ¥200 million, operating profit landed at ¥915 million due to factors such as higher labor costs resulting from wage increases, depreciation costs incurred due to the construction of a new head office, and an increase in relocation-related costs.

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Results in Q4 of FY2025 (QoQ Change)

Results in Q4 of FY2025 (QoQ Change)

Lower revenue and profit

Unit: Million yen	FY2025 Apr.-Jun.	FY2025 Jul.-Sep.	FY2025 Oct.-Dec.	FY2025 Jan.-Mar.	QoQ change Incease/Decrease
Net sales	9,827	9,611	10,111	9,071	(1,040) ↓
Operating profit	416	27	296	174	(122) ↓
Ordinary profit	836	(1,387)	1,052	(89)	(1,141) ↓
Profit attributable to owners of parent	379	(878)	515	268	(247) ↓

These are the results for the fourth quarter of FY2025. Net sales were ¥9,071 million, operating profit was ¥174 million, ordinary profit was a loss of ¥89 million, and profit attributable to owners of parent was ¥268 million.

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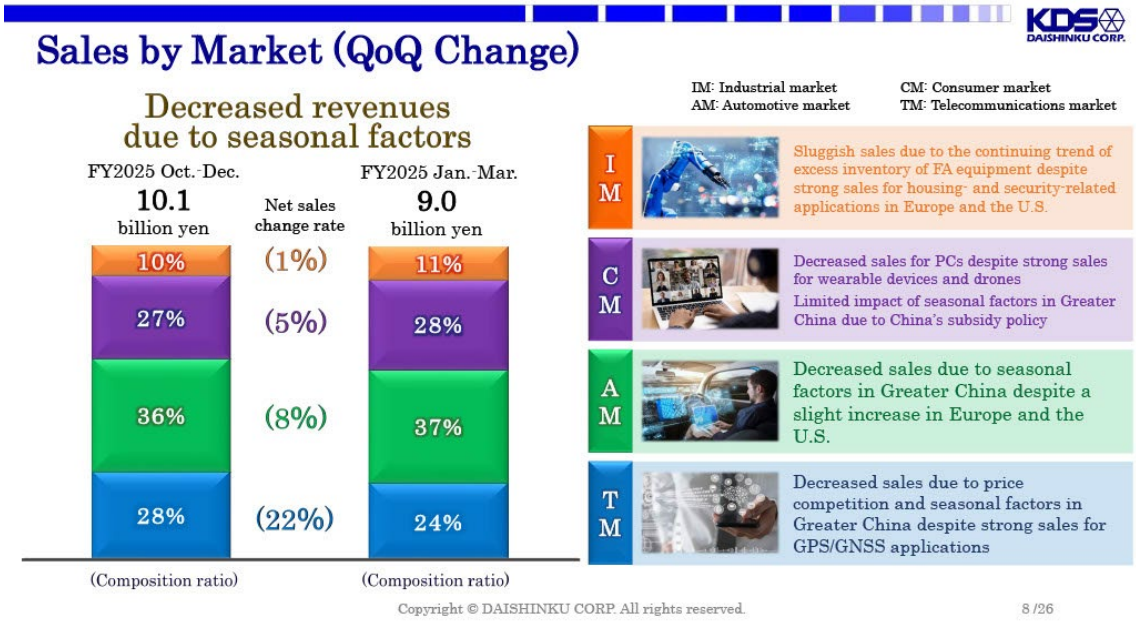
Sales by Market (QoQ Change)



This table shows QoQ change of sales by market. Owing to the significant impact of the Chinese New Year, sales in Q4 tend to be lower than in Q3.

Although the decline in sales in the consumer market was smaller than usual in Q4 due to the impact of subsidies for consumer products in China around January 2025, overall sales fell due to declines in both automotive and telecommunications markets.

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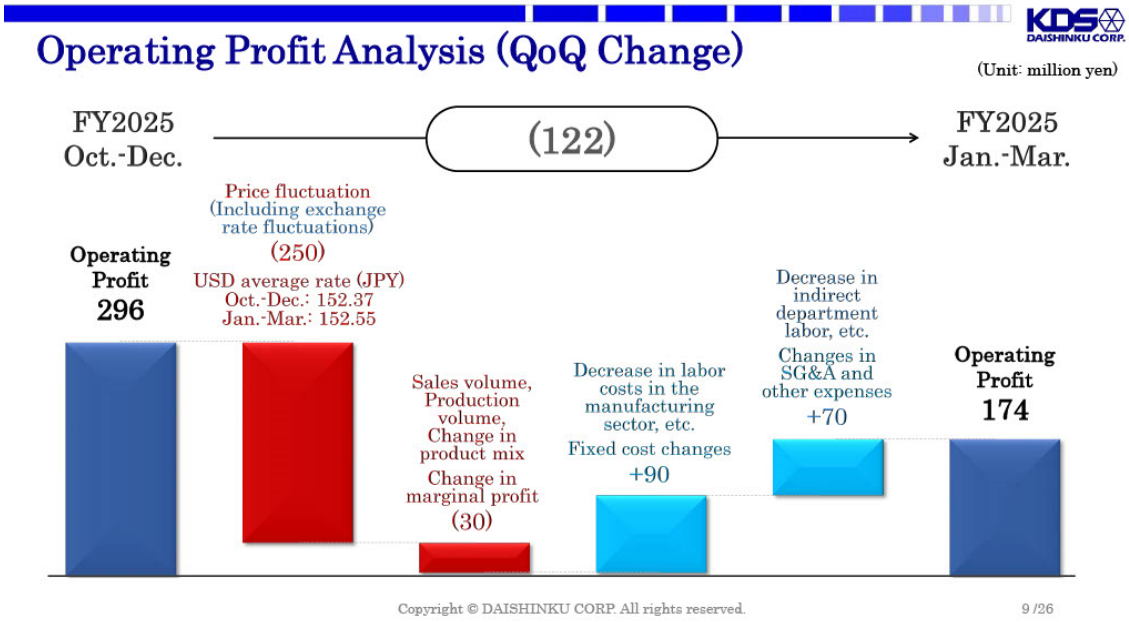
Operating Profit Analysis (QoQ Change)



This is an analysis of QoQ change in operating profit. Price fluctuations decreased by ¥250 million. As exchange rates remained almost unchanged between Q3 and Q4, price fluctuations, excluding exchange rate fluctuations, decreased by approximately ¥180 million.

Looking at the changes in product mix, the ratio of photolithography decreased from approximately 19% to approximately 16%. This was mainly due to the impact of the 76.8 MHz oscillator mentioned earlier.

Although a decrease in labor costs contributed to an increase in operating profit, as a result, profit decreased compared to Q3.

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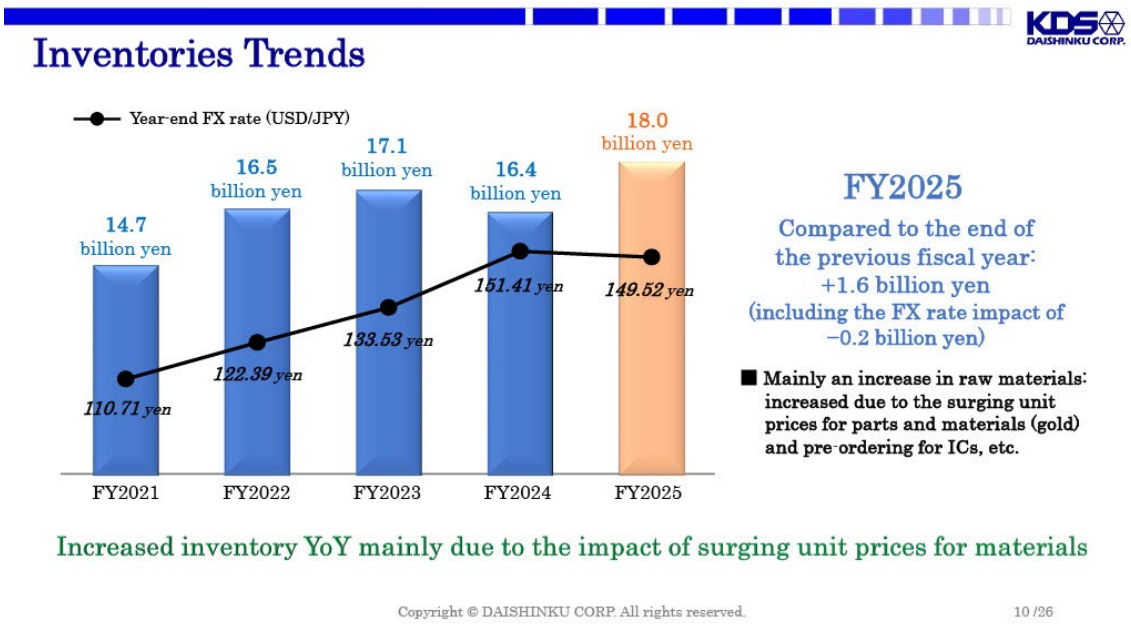
Inventories Trends



This chart shows the inventories trends. Inventories at the end of FY2025 amounted to ¥18.0 billion. This was mainly due to an increase in raw materials. In particular, the surging unit prices for parts and materials (gold) had a major impact. Merchandise and finished goods remained largely unchanged.

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Capital Expenditures/Depreciation/R&D Expenses

Capital Expenditures / Depreciation/R&D Expenses

(Unit: million yen)

YoY	FY2024	FY2025	Increase/ Decrease
Capital Expenditures	3,613	7,450	3,837
Depreciation	3,941	3,986	45
R&D expenses	2,170	2,168	(2)

QoQ	FY2025 Oct.-Dec.	FY2025 Jan.-Mar.	Increase/ Decrease
Capital Expenditures	430	1,021	591
Depreciation	1,088	920	(168)
R&D expenses	567	564	(3)

Increase in capital expenditures related to the headquarters and plant

▸ Construction completed in August 2024

This is about capital expenditures, depreciation, and R&D expenses. Capital expenditures for FY2025 amounted to ¥7,450 million, as a result of recording approximately ¥5,300 million for the completion of the new headquarters and plant in August 2024. Depreciation was ¥3,986 million, and R&D expenses were ¥2,168 million, which remained almost unchanged.

Capital expenditures for the previous quarter were ¥1,021 million, depreciation was ¥920 million, and R&D expenses were ¥564 million.

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Full Year Forecast for the FY2026

Full Year Forecast for the FY2026

Higher revenue and profit

(Unit: million yen)

	FY2025	FY2026	Increase/ Decrease	Rate of change
Net sales	38,620	41,000	2,380 ↑	6.2%
Operating profit	915	2,000	1,085 ↑	118.6%
Ordinary profit	412	1,000	588 ↑	142.4%
Profit attributable to owners of parent	285	500	215 ↑	75.1%
Inventories	18,018	21,300	3,282 ↑	18.2%
Capital expenditures (*)	7,450	9,000	1,550 ↑	20.8%
Depreciation	3,986	4,500	514 ↑	12.9%
R&D expenses	2,168	2,300	132 ↑	6.1%
ROE	0.8%	1.6%		
ROIC	0.7%	2.1%		
USD average rate (JPY)	152.62	140.00		

(*) Total amount of capital expenditure for the 2nd Medium-term Business Plan (2024 to 2026): 15 billion yen
→ Increased by utilizing the METI subsidy (Arkh-related)

Here is the full-year forecast for FY2026. For the current fiscal year, we are forecasting net sales of ¥41,000 million, operating profit of ¥2,000 million, ordinary profit of ¥1,000 million, and profit attributable to owners of parent of ¥500 million.

We plan to make capital expenditures of ¥9,000 million and depreciation of ¥4,500 million. The US dollar exchange rate for the current fiscal year is assumed to be ¥140 per USD.

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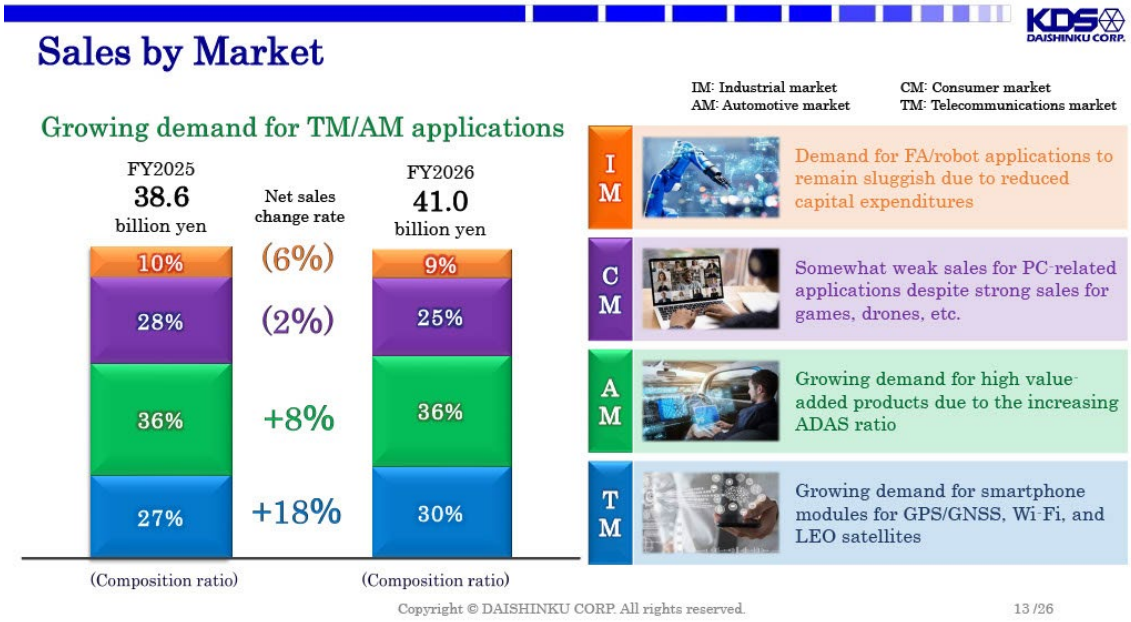
Sales by Market



Now, let's look at sales for the current fiscal year. We do not expect a recovery in the industrial market this fiscal year, and forecast a 6% decline YoY. The consumer market is expected to decline 2% YoY due to a slight slowdown in the PC-related business which performed well in the previous fiscal year.

In the automotive market, we have not factored in tariff issues, and we expect an 8% increase YoY. This is based on the trend toward an increase in the number of devices installed even if automobile sales decline, and the possibility of an increase in high-priced devices due to the growing ratio of ADAS.

In the telecommunications market, GPS modules will become mandatory for electric motorcycles in China in September. This will increase the volume of TCXO sales. In addition to increased demand for high-frequency oscillators for Wi-Fi, demand for crystal filters, in which we boast a high market share, will also surge from this fiscal year for LEO satellite antennas. As a result, sales in the telecommunications market are expected to increase by 18% YoY.

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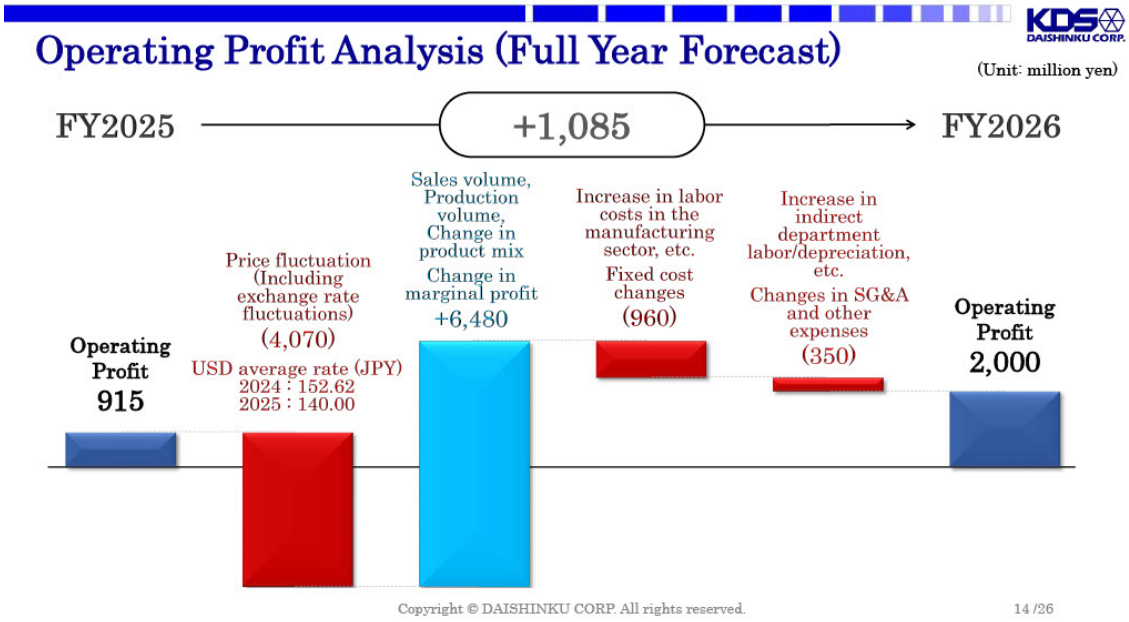
Operating Profit Analysis (Full Year Forecast)



This is the analysis of the full year forecast in operating profit. In terms of price fluctuation, we assume an exchange rate of ¥140 per USD for the current fiscal year, which will result in a decrease of approximately ¥2,800 million, and a decrease of approximately ¥1,200 million due to lower unit prices.

In addition, we are currently operating on the assumption that operating profit will be ¥2,000 million, reflecting an increase of ¥6,480 million due to changes in contribution margin, including production and sales volumes and changes in product mix, and a decrease resulting from labor costs, including wage increases.

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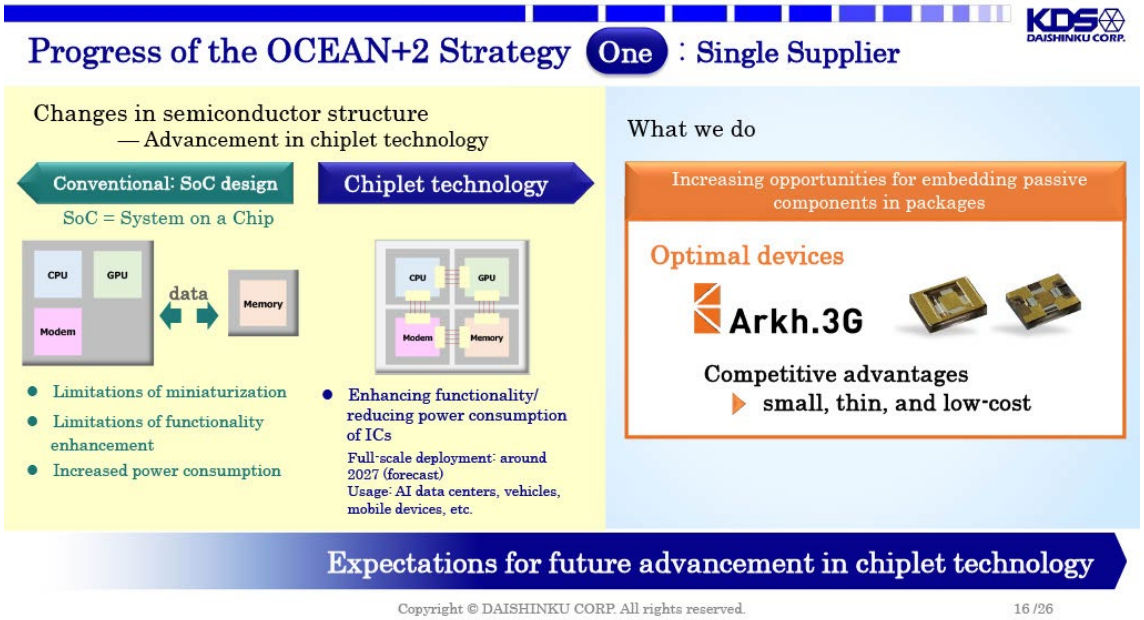
Progress of the OCEAN+2 Strategy One: Single Supplier



I am pleased to report on the progress of the “OCEAN+2 Strategy”, our long-term strategy. First, “O” stands for “One: Single Supplier.” Currently, chiplet technology is attracting a great deal of attention as a change in semiconductor structure.

As shown in the diagram on the left side of the slide, CPUs, GPUs, modems, and other components are formed within a single chip in conventional semiconductors. In contrast, with the chiplet technology, these components are manufactured at separate semiconductor factories and then joined and connected on a single substrate. For this reason, the chiplet technology could have a major impact on semiconductor price declines. I have also heard that it is a solution to issues such as the limitations of miniaturization and functionality enhancement, as well as increased power consumption.

Notably, we forecast full-scale deployment to occur around 2027. As with general semiconductor trends, we expect applications to include AI data centers, vehicles, and mobile devices.

Furthermore, when optimal devices such as CPUs, GPUs, and modems are later integrated, a crystal timing device is required at that point. Therefore, if a small, thin, and low-cost timing device exists, the probability of embedding it at that point will significantly increase.

We are currently gathering information from various companies regarding this matter, as well as from manufacturers involved in the final assembly of chiplets.

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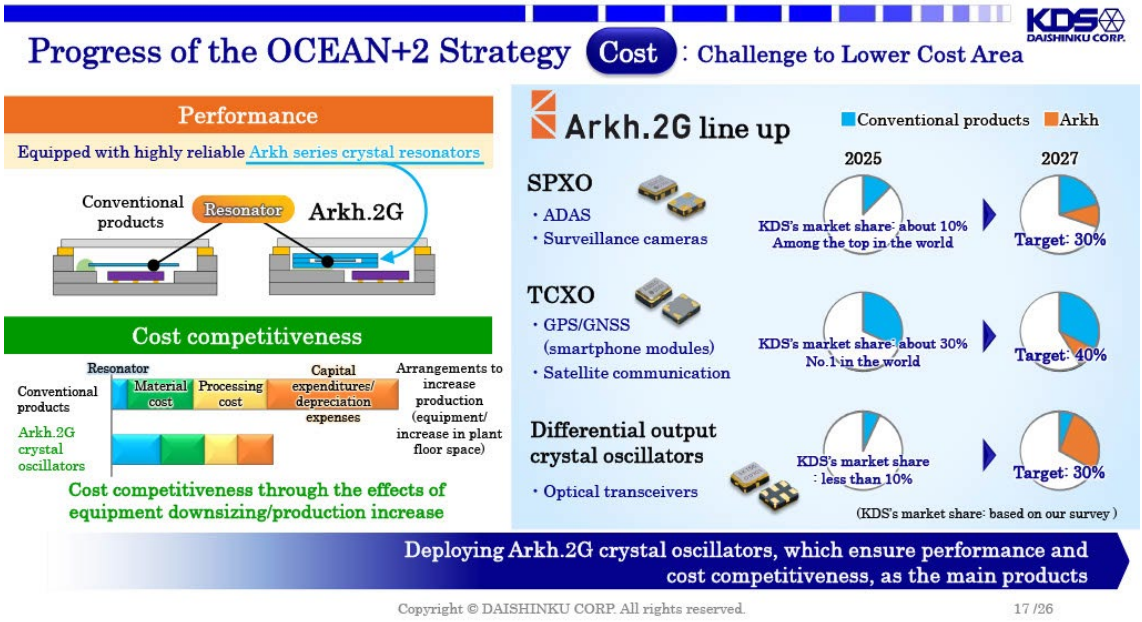
Progress of the OCEAN+2 Strategy Cost: Challenge to Lower Cost Area



"C" stands for "Cost: Challenge to Lower Cost Area." We are challenging the lower cost area by adopting methods that are generally considered to be high cost. Our product "Arkh.2G" mounts an Arkh resonator on a ceramic base. From the customer's perspective, it is a typical ceramic oscillator, but the internal cost structure is significantly different. As a result, we have ultimately created a product with extremely high-cost competitiveness. We are currently promoting this product.

The reason for the improved cost competitiveness is shown in the bar graph at the bottom left of the slide. The vibration part of the Arkh.2G uses three sheets of crystals, compared to one crystal in conventional products. At first glance, the Arkh.2G seems to be more expensive, but the final IC cost is different. This is because of the significant difference in yield between assembly from scratch and assembly using only high-quality crystals. As a result, material costs are lower.

In addition, processing costs are also reduced by greatly simplifying the assembly process. We have developed this product with the idea of increasing output by five to seven times without the need to build a plant, thereby reducing capital expenditures and depreciation expenses. These effects will enable us to secure a competitive advantage in terms of final cost.

Our main lineup consists of SPXO, TCXO, and differential output crystal oscillators. We are currently working on the first stage with the market share targets shown in the pie chart on the right side of the slide.

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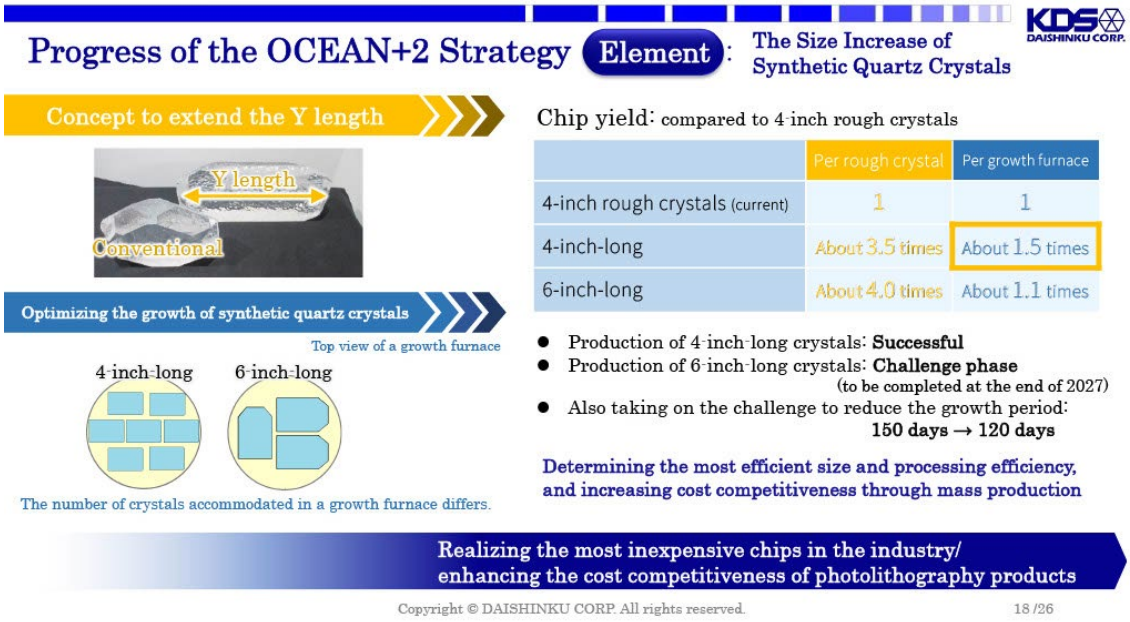
Progress of the OCEAN+2 Strategy Element: The Size Increase of Synthetic Quartz Crystals



“E” stands for “Element: The Size Increase of Synthetic Quartz Crystals.” We have previously discussed the development of larger artificial crystals in 4-inch, 6-inch, and 8-inch sizes. Currently, 8-inch seed crystals are growing as planned. As a trial initiative at the growth stage, we have successfully grown 4-inch long raw crystals.

Calculated per furnace, these 4-inch long crystals are very economical, but this applies only when looking at the raw crystals. When considering the final chip cost, 4-inch long and 6-inch long crystals are competing with each other. We are currently working on 6-inch long crystals, which are scheduled to be completed at the end of 2027.

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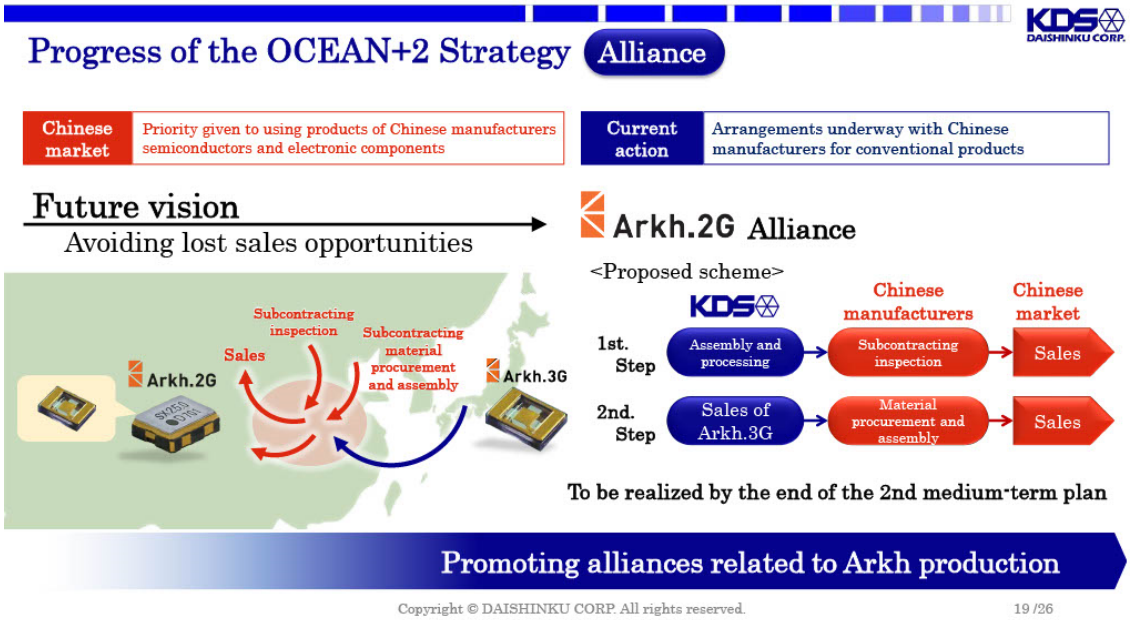
Progress of the OCEAN+2 Strategy Alliance



“A” stands for “Alliance.” We are currently working on several alliance projects, and representative examples are shown on the slide. We will utilize the Arkh.2G to secure a share of the oscillator market in China.

The scheme involves us performing assembly and processing, followed by inspection by a Chinese manufacturer, who will then sell the product under their own brand. This is the first step we are currently pursuing.

As the second step, we plan to sell “Arkh.3G” and switch all ICs and ceramic bases to Chinese-made components, with Chinese manufacturers handling assembly and sales. Discussions regarding this plan are currently progressing smoothly.

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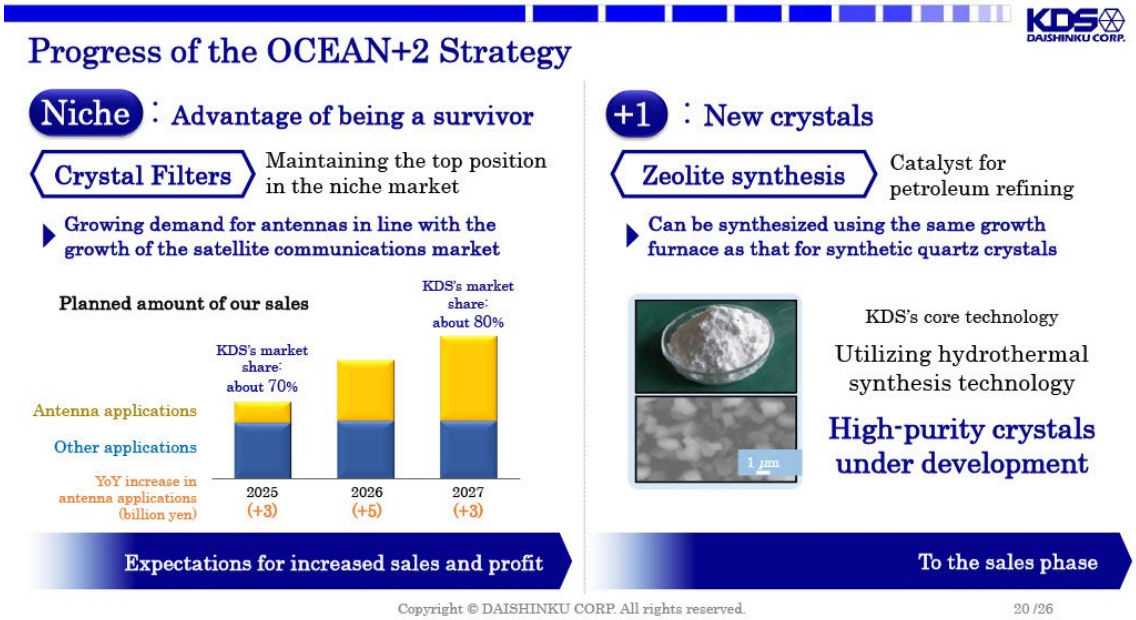
Progress of the OCEAN+2 Strategy



“N” stands for “Niche: Advantage of being a survivor.” Demand for antennas is growing in line with the growth of the satellite communications market.

We initially positioned crystal filters as a niche market, anticipating a decline in volume in the future. However, the situation has begun to change, and our current share has expanded to about 67%, or about 70% including orders. Based on usage in 2027, our share will be about 80%, but we will not lower the unit price because it is a niche market.

This crystal filter is a product that maintains a high operating profit margin, and production volume is expected to more than double in the future. Therefore, we are in a situation where we need to make some investments, though it is a niche market.

Furthermore, we are working on the zeolite synthesis as “+1: New crystals.” As mentioned earlier, zeolite has a wide price range, and low-priced zeolite is not viable as a business. Therefore, we have been aiming to synthesize high-performance, high-purity zeolite. Now that we have reached that point, we are finally moving into the sales phase.

However, the production volume is not yet large enough to significantly contribute to sales. Nevertheless, we plan to nurture this business with a long-term perspective.

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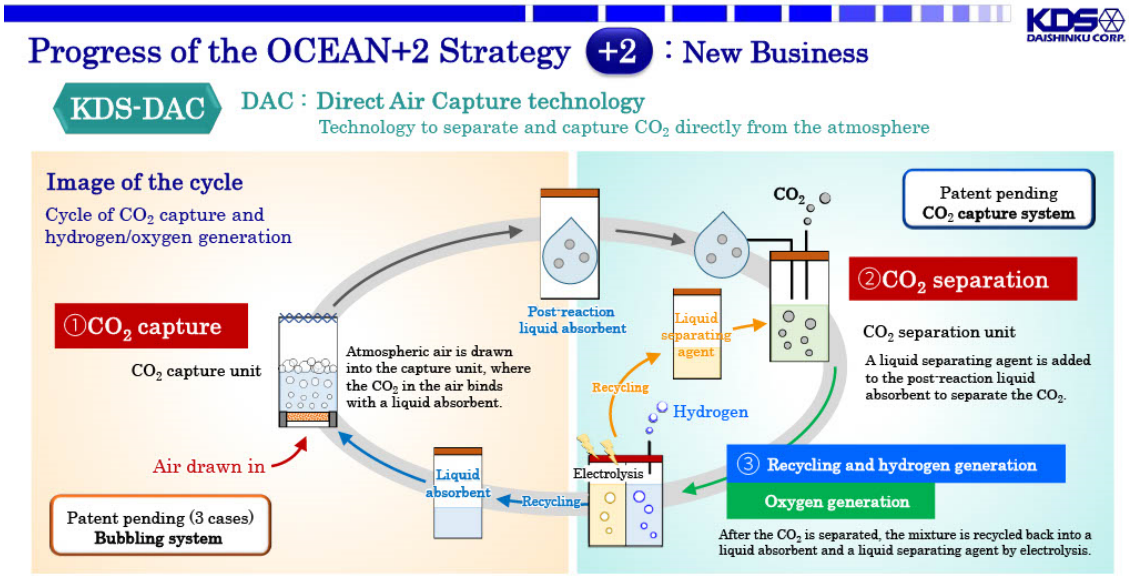
Progress of the OCEAN+2 Strategy +2: New Business



The final part of “OCEAN+2 Strategy,” called “+2: New Business,” is the “KDS-DAC” we launched in April. DAC (Direct Air Capture) technology absorbs CO_2 directly from the atmosphere and separates and captures it, but this technology alone cannot support a profitable business. Our idea was to contribute to the world of hydrogen by converting it into a chemical substance and creating a circulatory system. Currently, our experiments have been successful without any problems.

The process begins by allowing a chemical agent to absorb CO_2 from the atmosphere. A separating agent is then added to extract the CO_2. This stage requires no temperature control. The remaining waste liquid undergoes electrolysis, which consumes electricity but regenerates the original absorbent and separating agents. The gases produced in this process are hydrogen and oxygen, which hydrogen is sold. In essence, this is a closed-loop system for CO_2 capture that recycles the chemicals involved.

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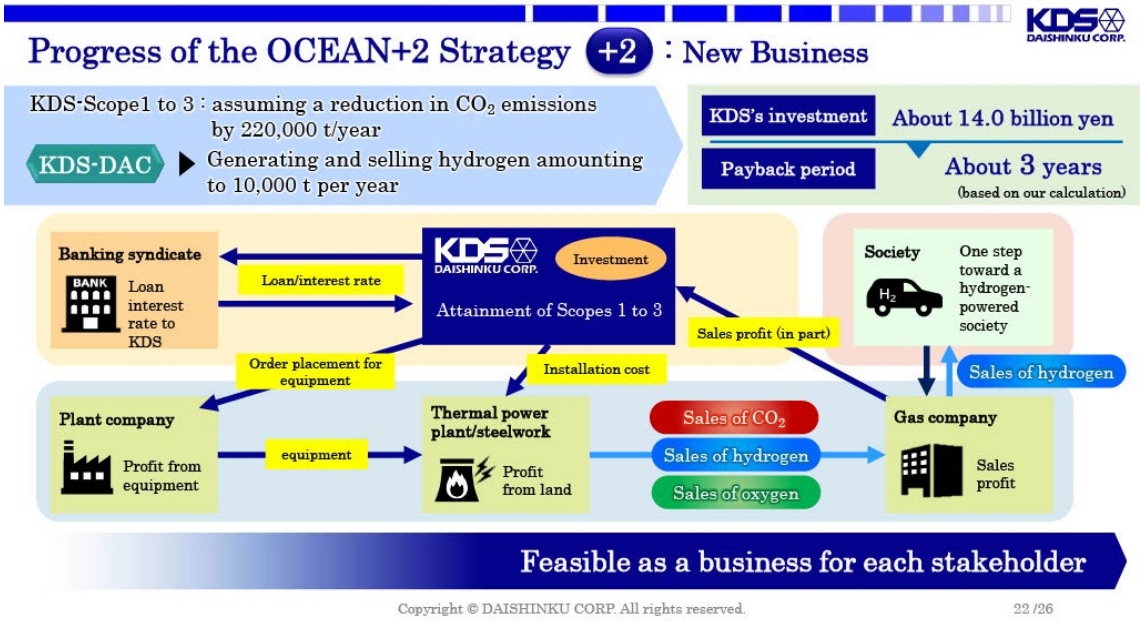
Progress of the OCEAN+2 Strategy +2: New Business



The slide shows a simplified baseline model. Assuming our total CO_2 emissions from Scope 1 to Scope 3 are approximately 220,000 tons, we estimate that an investment of ¥14.0 billion would be required to capture this volume. This system would produce 10,000 tons of hydrogen per year. By selling that hydrogen, we expect to recover the investment in about three years. This estimate also assumes we can sell the captured CO_2 and oxygen as well, in addition to hydrogen.

Of course, not everything will go exactly as planned. The biggest challenge is pricing—how much value people place on removing CO_2 from the environment and how much they are willing to pay for it. We are currently in active discussions with thermal power plants and steel manufacturers, and their responses have been positive. So, we remain hopeful about how things will move forward.

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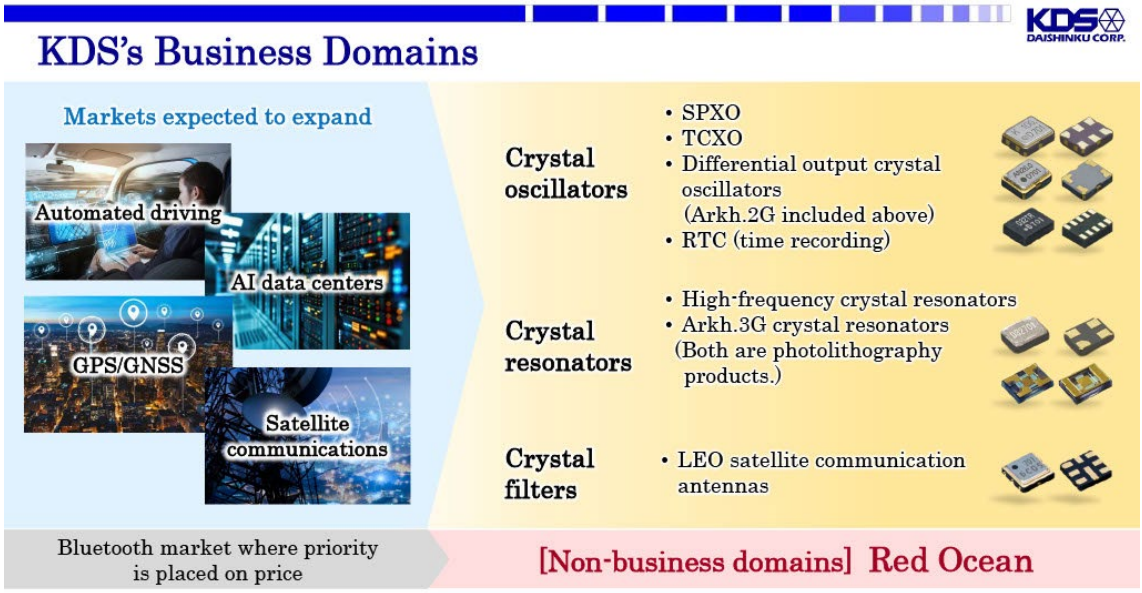
KDS's Business Domains



We have clarified the scope of KDS's business. From now on, we are putting our energy into crystal oscillators—especially "Arkh.2G"—including SPXOs, TCXOs, differential output crystal oscillators, and RTCs.

As for crystal resonators, we will not enter the Bluetooth crystal unit, which has become a red ocean, but will focus on other high-frequency crystal resonators by establishing a business area to concentrate on.

Although we anticipated that crystal filters would phase out, their market life has extended beyond our expectations. As long as the market continues, we plan to maximize our profits. That is the current scope of our business.

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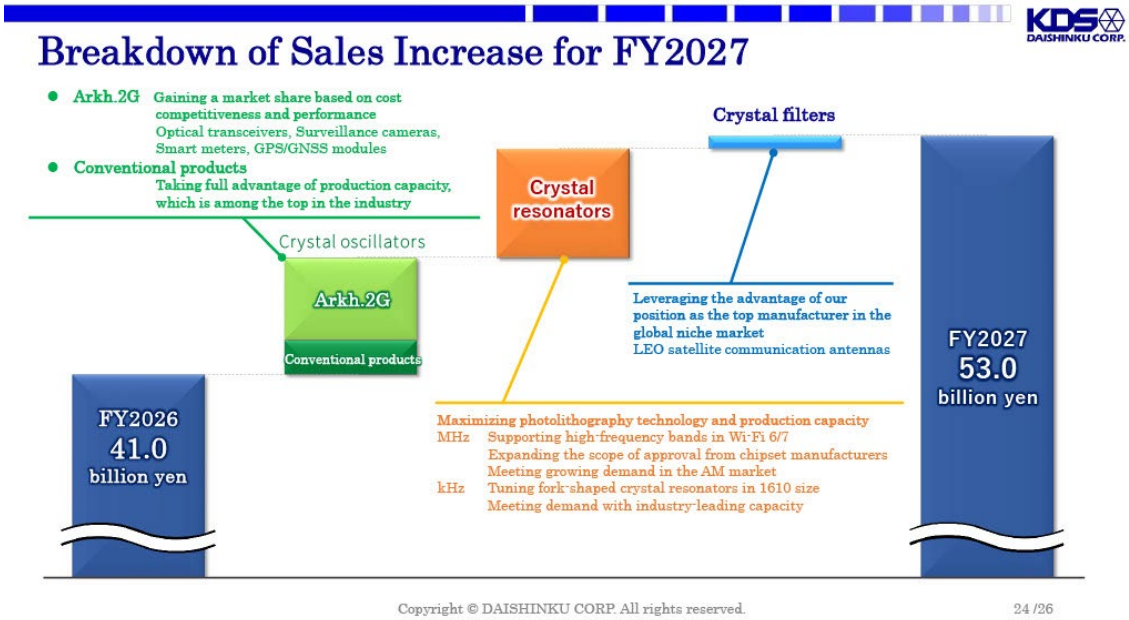
Breakdown of Sales Increase for FY2027



For FY2027, the final fiscal year of the second medium-term business plan, we are targeting ¥53.0 billion in net sales—up from ¥41.0 billion in the current fiscal year. The main reason we expect to increase sales by ¥12.0 billion is the highly positive market response to the “Arkh.2G” crystal oscillator, as explained earlier. We anticipate that customers will consider it fairly quickly.

Although new product evaluations typically require significant time, we expect the evaluation process to proceed relatively quickly, since the product's external design and performance are almost identical to those of other companies, with only internal differences.

We will grow our crystal resonator by focusing on high-frequency Wi-Fi 6 and Wi-Fi 7 products, as well as smaller kilohertz-range devices. To repeat, including increased sales of crystal filters, we expect total sales to reach ¥53.0 billion.

Currently, we can see about ¥9.0 billion secured. The key is how far we can capture the remaining ¥3.0 billion. We still have time, so we will actively pursue efforts to reach our ¥53.0 billion target.

At this point, we have approximately ¥20.0 billion in projects planned for the fiscal year after next. However, customer plans can shift or get canceled at the last minute, so we will not rely on those numbers. Instead, we will work to grow them even more. By next autumn, we expect more clarity, and our current outlook is to surpass ¥60.0 billion.

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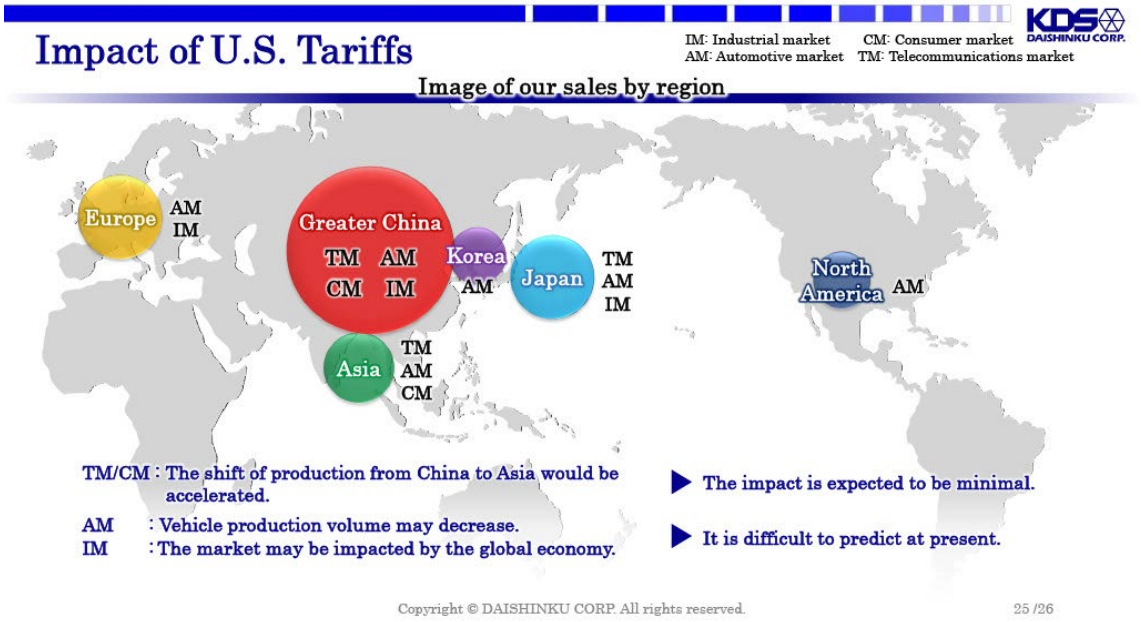
Impact of US Tariffs



This is about the impact of U.S. tariffs. The numbers we reported today do not include any impacts from tariffs. For telecommunications and consumer markets, production is generally expected to shift from China to other parts of Asia. However, we believe this shift will have little to no impact on us.

The real concern is the automotive and industrial markets. For automotive, a sharp decline in vehicle production would affect our performance. As for industrial, we are not expecting growth this fiscal year. While we do not anticipate further deterioration, we will remain cautious and monitor conditions closely as we move forward.

That concludes our financial results briefing for FY2025. Thank you for your attention.

Q&A: Reasons for difficulties with telecommunications market

Participant: This is about why you struggled with telecommunications market. You mentioned a change in chipset suppliers and problems with photolithography. From which quarter did these factors start to have a more significant impact? Also, can you explain specifically what the photolithography issues were and whether they have been resolved?

Iizuka: The primary cause of the decline in the telecommunications market is definitely the reduced use of 76.8 MHz. This impact became noticeable in H2.

In photolithography, the trouble with the exposure system lasted longer than expected. Since we could not fix it ourselves, we worked closely with the manufacturer to find solutions. This problem emerged as the primary cause of the decline in productivity.

Q&A: Changes in the mix of production and sales volumes

Participant: In the current plan, it looks like the increase from production volume, sales volume, and mix changes is quite large. Even after factoring in revenue growth and currency effects, the impact still seems big. Can you explain how the mix is contributing, including the role of crystal filters?

Iizuka: You asked whether the ¥6.48 billion increase in marginal profit for the current period seems too high—and you are right to raise that point. With our current product lineup, if we do not follow through with planned EOL (end-of-life) processes, it will seriously disrupt our future production plans.

Specifically, this includes various products like lead-type tuning fork crystal resonator and the surface-mounted “DMX” series. We need to carefully explain the EOL (end-of-life) process to each customer. Once they agree, we will start inventory production. This is the first factor contributing to the increase in marginal profit.

We need to boost our photolithography production capacity as we prepare for the third medium-term business plan. While the final decision has not been made yet, we have virtually decided to install new photolithography equipment to increase production capacity at the Tottori Production Division.

Accordingly, we need to transfer the equipment currently operating at the Tottori Production Division to Indonesia, Thailand, and other locations. Since this transfer cannot happen immediately, we need inventory production. This is the second factor behind the increase in marginal profit.

The third factor relates to our ¥53.0 billion sales target for the next fiscal year. To meet this target, we need to increase output of products that are already running close to full production, but our current capacity is insufficient. That is why we need to produce some of that volume within the current fiscal year. Combining all three factors, we project a positive impact of approximately ¥3.0 billion from inventory production. This leads to the projected ¥6.48 billion increase in marginal profit.

Q&A: Update on the progress of "Arkh.3G"

Participant: I'd like to ask about the progress of "Arkh.3G." Has there been any change to the plan you have explained before? It appears to be slightly behind schedule—should we still consider the current scenario valid going forward? Also, you mentioned that "Arkh.2G" would ramp up quickly. Could you provide more clarity on whether that expectation still holds?

Iizuka: We had been working on a pattern called "Arkh.3G," which is unusual in the industry. However, as you pointed out, time kept passing with no contribution to sales. So, two years ago, we decided, "This isn't working—we can't leave it like this any longer."

Since "Arkh.2G" includes the resonator type of "Arkh.3G," we will be installing the same production equipment planned for "Arkh.3G." As previously explained, "Arkh.2G" offers strong cost competitiveness, and this equipment investment allows us to maintain both cost advantage and performance, while reliably supporting future growth in oscillator demand. We have received very positive feedback from customers on these points.

"Arkh.2G" stands out for its extremely fast ramp-up. As a result, of the projected ¥53.0 billion in sales for the next fiscal year, approximately ¥4.0 billion is expected to come from "Arkh.2G." In contrast, "Arkh.3G" on its own will not contribute as much. However, we will move forward with depreciation related to the production equipment for "Arkh.3G."

This will help lower the cost of the "Arkh.3G" resonators on their own. If the full rollout lines up well with the launch of chiplet technology in 2027, we expect sales of both products to grow.

Q&A: Operating profit in the medium-term business plan

Participant: The ¥53.0 billion sales target for FY2027 is the same as the one set in the medium-term plan a year ago. Is it correct to assume that the operating profit target remains unchanged?

Iizuka: There are no changes to the previously announced medium-term plan targets for FY2027—net sales and operating profit are projected at ¥53.0 billion and ¥5.5 billion respectively.

To be honest, we set conservative targets for both net sales and operating profit, and at first, we thought we might exceed them. At this point, we anticipate that net sales will either meet the target or fall just slightly below it. However, we are fully committed to reaching the ¥5.5 billion operating profit.

Q&A: Preserving core technologies through a strategic alliance with a Chinese manufacturer

Participant: Regarding the alliance with the Chinese manufacturer for “Arkh.2G,” it seems you will be working with a local manufacturer. In that case, we are concerned about whether you can truly protect and retain your core technologies. How are you planning to manage that risk?

Additionally, how do you assess the growing presence of local manufacturers in the Chinese market, particularly in terms of intensifying competitive dynamics?

Iizuka: For “Arkh.2G,” we handle the assembly and processing in-house. The outsourced inspection work does not involve any core technologies. The partner already inspects oscillators, and since they are covering the investment in the inspection equipment, it actually benefits us.

As for concerns about the “second step,” don’t worry — we will be the ones manufacturing “Arkh.3G.”

We produce the resonator parts (Arkh.3G) ourselves, so there is no risk of know-how leaking out. As we explained earlier, we had to install the conventional resonator parts (crystal chip) very carefully. If the adhesive was even slightly too much, misaligned, or not pressed in enough, the performance would suffer.

In contrast, installing “Arkh.3G” is far simpler due to its inherent characteristics. The adhesive only needs to make contact—even our older bonding equipment can handle it without any issues. This process does not require any specialized technical expertise.

The only possible concern might be the flip-chip IC technology, but since that is something even Chinese manufacturers can already do, we do not see any real risk of leakage.

I will now respond to the question of how far Chinese manufacturers can catch up with us technically as we expand our SPXOs, TCXOs, and differential oscillator product lines.

First, regarding SPXOs for standard surveillance cameras, Chinese manufacturers hold a significant cost advantage, although it seems like they are pushing those prices unrealistically low. Competing on price is the main challenge here. Still, since we want to speed up depreciation of the “Arkh” series, we plan to secure as much volume as possible.

When it comes to TCXOs, a technological gap still exists between Japanese and Chinese ICs. One major manufacturer adopted a TCXO from a Chinese manufacturer, but this has reportedly

led to various technical issues. While Chinese competitors may eventually close the gap, Japanese manufacturers still have the technical edge.

For differential output, the next step after the 150 MHz band is 300 MHz. However, achieving a fundamental frequency at 150 MHz is really tough. Chinese manufacturers use a method called “third overtone”—they triple the crystal thickness to get the same frequency.

This method is used in China, but it leads to higher prices. Compared to that, we believe our “Arkh.2G” is more competitive at this point.

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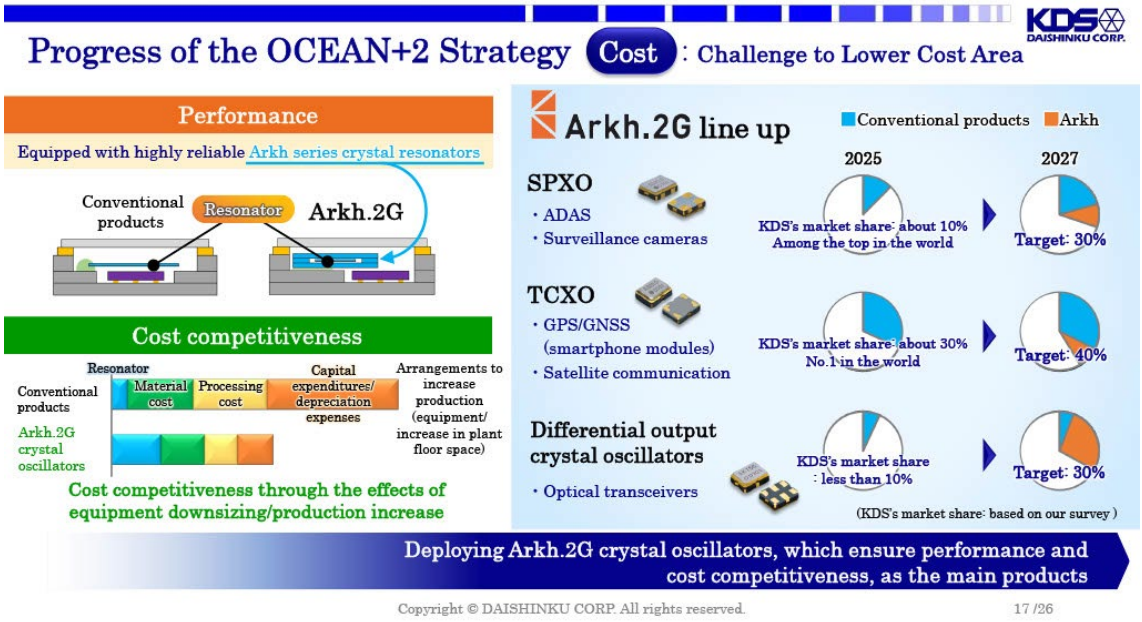
Q&A: Target market for "Arkh.2G"



Participant: The materials show your current market share and your target for "Arkh.2G" in FY2027. Notably, the expected growth in your share of differential-output crystal oscillators is striking. This appears to be driven by higher sales for optical transceiver applications.

Will this market take off suddenly at some point during the medium-term business plan, or will demand grow steadily year by year? Also, how likely is that scenario?

Iizuka: The materials say our current market share is under 10%, but in reality, it is more like 2% to 3%. Most of the products in the market right now come from Chinese optical transceiver manufacturers.

We have already finished presenting "Arkh.2G"'s cost advantages, performance strengths, and supply capability, and the feedback has been very positive. While U.S. timing device manufacturers hold some market share, their prices are high. Considering current U.S.–China tariffs, this presents a meaningful opportunity for us.

Our main competitors are Japanese and Taiwanese manufacturers. We believe we are leading the market in cost advantage. Regarding the timing of growth, we are aiming for exponential rather than linear growth, and we believe that is achievable.

As optical transceivers move to faster speeds and shift to 300 MHz frequencies, most Chinese manufacturers cannot keep up—and even some Japanese manufacturers struggle to handle it. This trend is expected to further strengthen our competitive position in the market.

Q&A: Future dividend policy

Participant: With the completion of major capital investment plans in both the previous and current fiscal years, how are you thinking about dividends going forward?

Based on your current plan, free cash flow is expected to remain significantly negative for the current fiscal year, before turning strongly positive in FY2027. Will you keep paying dividends this year, just like last year? And if possible, could you also share your policy for dividends beyond that?

Iizuka: As we explained when we announced the medium-term business plan, we are now adopting DOE (dividend on equity) for dividend policy. That is because if we used dividend payout ratio during a growth phase, the numbers would get unrealistically high.

A DOE of 2.8% translates to a payout ratio of roughly 170%. We adopted the DOE approach because reducing the payout ratio to 30% or 40% would feel unfair to our shareholders.

Our dividend policy guarantees the DOE of 2.8% for both the previous and current fiscal years. Next year, our final year, we aim to raise this to 3.0% and will make every effort to reach that goal. Hitting the ¥53.0 billion sales target is the key, and we are fully committed to making it happen.

Our future dividends will largely depend on whether we can keep growing—and based on current expectations, I believe our growth will continue. As the business stabilizes, we expect the growth curve to rise steadily over time. While we cannot make any promises yet, we plan to maintain the DOE for now, and gradually raise it to 3%, then 3.5%, and eventually 4%.

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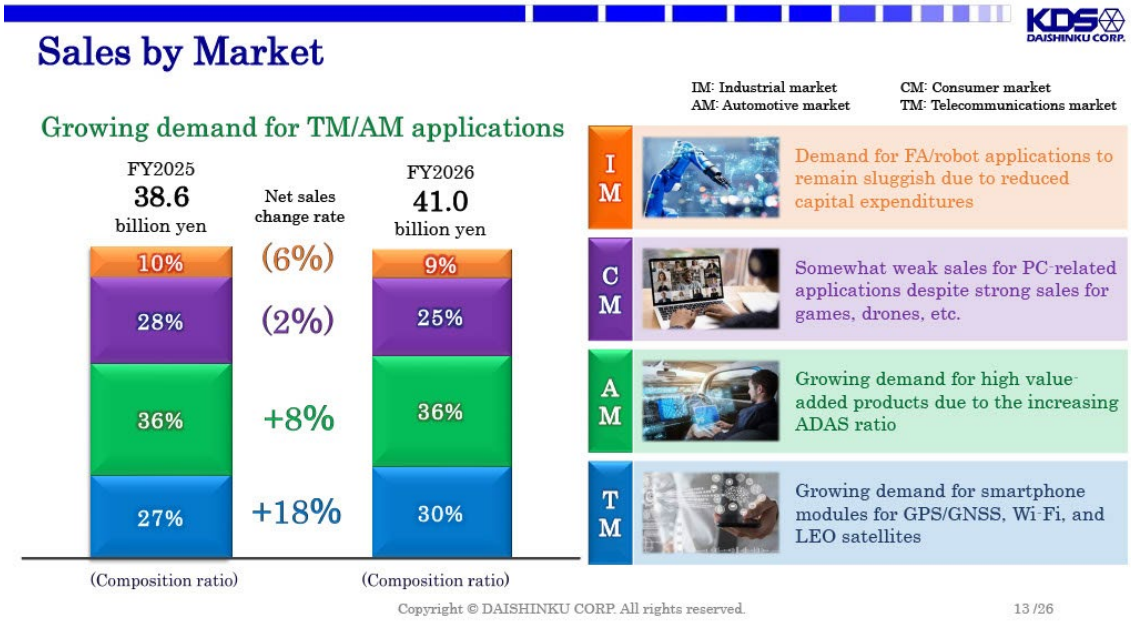
Q&A: Current sales and order trends



Participant: Could you provide your view on recent sales and order situation, to the extent possible? Tariffs and other factors may shift the timing of demand, but how do you see the trends from January to May? Please explain along two key dimensions: application areas and product types.

Iizuka: The current sales status is shown on the slide by application. Industrial sales remain sluggish, while consumer sales are progressing in line with forecasts.

We expected automotive sales to drop more, but they are holding up surprisingly well. It is difficult to understand the correlation with the number of units when the number per unit increases, but we perceive strong customer inquiries.

In the consumer market, drone-related sales are robust, and we are securing more orders than planned.

Telecommunications sales are just starting to develop, but we are sure that LEO satellite sales will meet our plans. However, increasing TCXOs sales is a bit challenging. We expect to get a clearer picture soon. If we find it hard to meet the targets, we have already started working on how to make up for it in H2.

Reaching ¥41.0 billion in net sales is not easy right now, but we are working hard without giving up. Should sales reach ¥40.0 billion instead, we expect to carry the shortfall into the next fiscal year. We consider a decline to ¥39.0 billion unlikely.