

Moderator: Opening remarks

Now it's time for us to start the Tokyo Electron Financial Announcement for the Third Quarter of the Fiscal Year Ending on March 31, 2023. Thank you very much for joining us today despite your busy schedule. I am Koichi Yatsuda of the IR Department, acting as the moderator for today's session.

I would like to introduce today's attendees. Mr. Toshiki Kawai, Representative Director, President & CEO. (I'm Tony Kawai, nice to meet you everybody.) Next, Mr. Hiroshi Kawamoto, Vice President & General Manager, Finance Unit. (I'm Hiroshi Kawamoto. Thank you very much for joining us.)

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 p.m. Japan Time, we will take questions from the audience. This meeting will use two channels on Webex for simultaneous interpretation between Japanese and English. As we explained in our email, you are kindly requested to use apps, 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, so it would be appreciated if you could also visit our website.

Now, Mr. Kawamoto, Vice President and General Manager, will present the consolidated financial summary.

Q3 FY2023 Consolidated Financial Summary

Hiroshi Kawamoto – Deputy General Manager, Global Business Platform Division, Vice President and General Manager, Finance Unit

So now, I would like to present the consolidated financial summary of the third quarter.

Financial Summary: Slide 4

In the third quarter, we generated net sales of ¥467.8 billion, a 34.0% decline from the previous quarter. By segment, SPE net sales were ¥458.8 billion, FPD net sales were ¥8.9 billion, gross profit was ¥203.9 billion, and operating income was ¥114.7 billion. Sales were rather high in the second quarter. Therefore, compared with the previous quarter, sales had declined. Relatively speaking, the manufacturing costs to sales ratio increased, gross profit margin was 43.6%, a decline by 2.7% points from the previous quarter. Operating profit margin was 24.5%, declining by 8.3% points due to the increase of manufacturing costs/sales ratio and SG&A/sales ratio.

Financial Performance: Slide 5

This is a graphical representation of the financial summary of the previous slide.

Segment Information: Slide 6

This slide shows segment information. For SPE, we generated net sales of ¥458.8 billion and delivered a segment profit margin of 29.5%. Just like the overall company results, since manufacturing costs/sales ratio and SG&A/sales ratio increased along with the decline of net sales, segment profit margin showed a decline from the previous quarter. For FPD, net sales were ¥8.9 billion. The segment profit margin was minus 3.7%. As for the composition of net sales in the third quarter, SPE sales accounted for 98%, while FPD sales accounted for 2%.

SPE Division: Sales by Region: Slide 7

This slide shows SPE sales by region. As you can see, SPE sales declined from the previous quarter, mainly in China, North America and Japan.

SPE Division: New Equipment Sales by Application: Slide 8

This slide shows SPE new equipment sales by application. On the right, in the third quarter, from the bottom of this chart, sales from logic manufacturers accounted for 69%, non-volatile memory accounted for 16%, and DRAM accounted for 15%. The proportion of sales to non-volatile memory manufacturers declined while that of logic and others showed an increase.

Field Solutions Sales: Slide 9

This slide shows Field Solutions sales. In the third quarter, sales amounted to ¥117.5 billion. Sales had declined from the previous quarter, which is attributed to the decreased sales of used equipment and modifications and also the drop in parts sales due to the lower utilization of our customers' fabs. On the other hand, sales of services in Field Solutions remained strong.

Balance Sheet: Slide 10

Next, this slide shows the balance sheet. Total assets were ¥2 trillion, 92.7 billion. Cash and cash equivalents were ¥387.4 billion. Accounts receivable and contract assets were ¥454.4 billion. Inventories were ¥632.0 billion, showing an increase from the previous quarter due to strategic procurement and manufacturing leveling. Liabilities were ¥658.3 billion. Net assets were ¥1 trillion, 434.3 billion. The equity ratio was 68.0%.

Cash Flow: Slide 11

Now you can see the cash flow. The cash flow from operating activities was ¥53.2 billion. The cash flow from investing activities was minus ¥13.8 billion due to the investment in fixed assets. And cash flow from financing activities was minus ¥134.6 billion, primarily due to dividend payments. Free cash flow was ¥39.3 billion. This is all about the consolidated financial summary of the third quarter.

Notice of Stock Split: Slide 12

Finally, this slide shows the announcement of the stock split that we announced today. I'd like to briefly touch upon this issue. On Friday, March 31, 2023, Tokyo Electron will split the shares of common stock with a proportion of one share into three shares. The purpose of the stock split is to create an environment that encourages more investment by lowering the minimum investment amount per unit of investment in order to expand our investor base. While giving comprehensive consideration to various factors, including the trends of the stock market, our share price, share distribution and shareholders composition, we intend to pursue an appropriate unit of investment so as to further enhance our corporate value.

As for the dividend, we will pay the year-end dividend, based on the number of shares issued before the stock split, since the effective date of this stock split is April 1, 2023.

Thank you very much. This concludes my presentation.

Moderator: Introduction of the next presentation

Now, Mr. Kawai, our CEO, will present the business environment and financial estimates. Mr. Kawai, please.

Business Environment and Financial Estimates

Toshiki Kawai – Representative Director, President & CEO

Good afternoon, I'm Tony Kawai, once again. Now I'd like to talk about the business environment and financial estimates.

CY2022 Business Environment (Outlook as of February 2023): Slide 14

First of all, let me start with the business environment.

Driven by progress in the digital shift in society, the WFE market has grown from \$65 billion in 2020, to \$92 billion in 2021 and about \$100 billion in 2022. Though the WFE market is currently under adjustment, due to the impacts of the macro-economy and geopolitical issues such as inflation, the interest rate, COVID-19, soaring utility costs and sluggish final demand, we expect that the WFE market will start recovering from the second half of this year and reach about \$80 billion in 2023.

Beyond 2024, the WFE market is expected to enter a stage of further growth, driven by the emergence of new CPUs and data centers which are likely to be equipped with advanced DRAM "DDR5" and 3D-NAND with 300 layers featuring more memory capacity. It is also expected that the data centers built in around 2017 and 2018 will be replaced by adopting innovative semiconductor devices with higher energy efficiency. The metaverse is expected to be in full service from 2025 and beyond, the spread of electric vehicles, and the recovery of smartphone demand, are all expected to strongly drive expansion of the WFE market.

FY2023 Q3 Business Progress: Slide 15

Next, this slide shows business progress in the third quarter of the fiscal year ending in March 2023. As for SPE, in CY2022, our SPE business generated net sales of ¥2 trillion, 161.1 billion on a calendar year basis, hitting a record high. Our new equipment sales recorded an annual growth of 22%, outperforming the WFE market, which grew by 8%. I believe such positive results were achieved by the maximum efforts we made to address customer demand, supported by our resilient and strong supply chain, despite lingering procurement uncertainty and disruption of logistics. Penetration of our strategic products and acquisition of PORs in the customers development lines, which leads to our future growth, have been on course, which is well aligned with the Mid-term Management Plan.

In SEMICON Japan held last December, we released a new single wafer cleaning system called the "CELLESTA™ MS2". This new equipment is able to simultaneously clean both surfaces of a wafer without reversing it, which realizes higher productivity and lower running costs. Conventionally, during the cleaning process, pure water or gas is used to protect the wafer surface which is not being cleaned. The "CELLESTA™ MS2" has eliminated such need of water or gas, which also contribute to a lower environmental footprint. We are determined to strive for the development of technologies to address our customers' needs.

And we have decided to rebuild our organizational structure in an attempt to promote technology development for application-specific semiconductor devices which have grown considerably in recent years and expected to grow further in the future, aiming to expand business opportunities even further.

MAGIC: Slide 16

Applications leveraging such application-specific semiconductor devices include the Metaverse, Autonomous mobility, Green energy, IoT and information and Communications. Our company calls these applications the "MAGIC" market in short, and we'll place more focus on these areas. Key elements in the MAGIC market include semiconductors such as power devices, CMOS image sensors and RF, devices embedded into semiconductors such as waveguide, micro-LED and silicon photonics, and also displays. For the evolution of these key elements, a broad range of technological innovation is essential.

Reorganization to Further Expand Business Opportunities: Slide 17

Leveraging the leading-edge technologies we have developed so far, as well as our experience based on a wealth of installed base, we will enhance our responsive capability. In the domains of “MAGIC”, displays play an extremely important role as an interface. In order to enhance our technological innovation capabilities and seamless customer responsiveness by leveraging our knowhow for optical devices that we have cultivated through FPD manufacturing, commencing April 1, 2023, we will merge the Field Solutions Business Unit and FPD Business Unit to newly establish a “Diverse Systems and Solutions” Business Unit or DSS BU for further business expansion.

By efficiently investing resources in the “MAGIC” market where significant growth is expected, we will maximize business opportunities.

FPD Business: Slide 18

As for the FPD business, capital investment in FPD fabrication equipment for the TFT array process is expected to decline by 30 to 40% in CY2023, as a round of a large amount of investments in LCD and OLED was completed. As for the future FPD business, we'll focus on high value-added areas such as etching.

For the inkjet printing system, we have suspended the development project by taking account of its growth potential. For the inkjet printing system, our technologies are advantageous particularly in large-sized OLED, and we have been evaluating the technologies together with leading FPD customers over the past few years. Along with difficulties caused by the spread of COVID-19, however, the need for IT mobile displays, rather than the need for large-sized TVs, has grown recently, and accordingly our customers have revised their product strategy. Consequently, our customers are shifting their focus of capital investment to micro-LED, micro-OLED and IT OLED. This micro-LED is one of the devices in the “MAGIC” domain that I explained before.

Based on these backgrounds, we have decided to reallocate our resources to those areas with faster growth potential so that we can maximize profits. As I said earlier, the Field Solutions Business Unit and FPD Business Unit will be merged in FY2024, and accordingly, we will not disclose financial performance specific to the FPD segment because those two businesses will operate together.

FY2023 Financial Estimates: Slide 20

Next, I will present the financial estimates for the fiscal year ending in March 2023. In November 2022, we revised the FY2023 financial estimate. This time, we scrutinized the results of the third quarter and estimates of the fourth quarter again, and we're going to revise the financial estimate upward by ¥70 billion. On a full year basis, we expect net sales of ¥2 trillion, 170.0 billion, gross profit of ¥946.0 billion, operating income of ¥580.0 billion, and net income attributable to owners of parent of ¥433.0 billion.

FY2023 SPE Division New Equipment Sales Forecast: Slide 21

This slide shows the SPE new equipment sales forecast in the fourth quarter. Compared with the third quarter, there is little change in application mix, and slight growth is expected in sales. As I said earlier, SPE new equipment sales in CY2022, from January through December, were ¥1 trillion, 689.6 billion, growing by about 22% on a year-on-year basis. On a fiscal year basis, we also expect about 11% growth. In CY2023, we will work hard, aiming to outperform the market again.

FY2023 R&D Expenses, Capex Plan: Slide 22

This shows our plan for R&D expenses and CAPEX. The plan remains unchanged. As we previously announced, for the next five years, we plan to invest more than ¥1 trillion in R&D and spend more than ¥400 billion on capital investment, mainly in evaluation tools. To achieve the Mid-term Management Plan, we will continue proactive R&D investment and capital investment.

FY2023 Dividend Forecast: Slide 23

My last slide shows the dividend forecast. For interim dividend, we paid ¥857, which is a record high

Transcript

interim dividend. Along with the revision of our financial estimates, the year-end dividend is expected to be ¥531.

As I said in the previous meeting, while celebrating our 60th anniversary this year, we are planning a commemorative dividend of ¥200 per share at the end of this fiscal year, with our sincere gratitude to the shareholders who have warmly supported our growth.

This concludes my presentation. Thank you very much for your attention today.