

Moderator: Opening remarks

Now it's time for us to start the Tokyo Electron Financial Announcement for the First Quarter of the Fiscal Year Ending on March 31, 2023. Thank you very much for joining us today despite your very 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. Toshiaki Kawai, Representative Director, President and CEO. (I'm Tony Kawai, nice to meet you everybody.) Next, Mr. Hiroshi Kawamoto, Deputy General Manager, Global Business Platform Division, Vice President and General Manager, Finance Unit. (I'm Hiroshi Kawamoto. Nice to meet you, everybody.)

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 6:00 o'clock Japan Time, we will have a question-and-answer session, where 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.

Q1 FY2023 Consolidated Financial Summary

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

Good afternoon. I am Hiroshi Kawamoto from the Finance Unit. This is the first time for me to attend the financial announcement. I'm very glad to meet you. Now I would like to present the consolidated financial summary of the first quarter of the fiscal year ending in March 2023.

Financial Summary: Slide 4

In the first quarter, we generated net sales of 473.6 billion yen, a 16% decline from the previous quarter. By segment, SPE net sales were ¥464.0 billion and FPD net sales were ¥9.6 billion. Gross profit margin was 42.3% and operating margin was 24.8%. Net sales decreased on the quarter-on-quarter basis partly because recognition of some revenue was pulled forward to the previous fiscal year and partly because some shipments were pushed out and their revenue recognition was shifted to the second quarter. But we are making steady progress in line with the financial estimates for the fiscal year.

Profit margin also declined from the previous quarter due to several reasons including a decline in sales, our ongoing active R&D investment, and the special bonus paid to our employees to reward their efforts in achieving the previous Medium-term Management Plan ahead of the target year. In line with the financial estimates for this fiscal year, both net sales and profits are expected to increase toward the second half of this fiscal year.

Financial Performance: Slide 5

This is a graphical representation of the financial summary that I showed you in the previous slide.

Segment Information: Slide 6

This slide shows segment information. For SPE, we generated net sales of ¥464.0 billion and achieved a segment profit margin of 28.8%. Due to the impact of the sales decline as well as product mix and other factors, the profit margin also dropped. For FPD, net sales were ¥9.6 billion and the segment profit margin was minus 6.4%. Partly because of the disruption in logistics triggered by a factor such as the lockdown, some revenue recognition was pushed out which resulted in a decline of net sales and a negative segment profit margin in the first quarter. But we are making steady progress to achieve the financial estimates for this fiscal year. For the composition of net sales in the first 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, for this first quarter, SPE sales declined in all regions. In particular, sales to memory manufacturers in Korea and China decreased. In China, like in the previous quarter, local Chinese customers accounted for a sizable proportion.

SPE Division: New Equipment Sales by Application: Slide 8

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 manufacturers accounted for 64%, non-volatile memory accounted for 20%, and DRAM accounted for 16%. As sales to DRAM manufacturers declined from the previous quarter, the proportion of sales to logic manufacturers increased against sales to memory manufacturers.

Field Solutions Sales: Slide 9

This slide shows Field Solutions sales. In the first quarter, sales amounted to 109.5 billion yen, declining on the quarter-on-quarter basis due to the decrease of modifications. However, you can see some steady progress. The parts business progressed steadily due to the high utilization ratio of our customers' fabs.

Balance Sheet: Slide 10

This slide shows the balance sheet. For assets, total assets were ¥1 trillion, 846.9 billion. On the top, cash and cash equivalents decreased from the previous quarter to ¥314.6 billion. This is mainly due to the payment of dividends and taxes in this first quarter. Accounts receivable and contract assets were ¥426.1 billion. Inventories were ¥557.2 billion, showing a significant rise from the previous quarter because of the increase of inventory of work in process and finished goods whose revenues are expected to be recognized in the second quarter onward. Regarding liabilities and net assets, liabilities were ¥532.0 billion, net assets were ¥1 trillion, 314.8 billion. Net assets were negative on a net basis due to dividend payments to shareholders and other factors, although net income was recorded. The equity ratio was 70.4%, almost equivalent to the previous quarter.

Cash Flow: Slide 11

My last slide shows cash flow. The cash flow from operating activities was ¥69.9 billion. The cash flow from investing activities was minus ¥16.6 billion. The cash flow from financing activities was minus ¥119.1 billion. The free cash flow was ¥53.3 billion. This concludes my presentation about the consolidated financial summary.

Moderator: Introduction of the next presentation

Next, 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. Once again, I'm Tony Kawai. Thank you so much for joining us despite your very busy schedules. Now I'd like to make a presentation about the business environment and financial estimates.

CY2022 Business Environment (Outlook as of August 2022): Slide 13

Let me start with the business environment. In the financial announcement in May, I said that the WFE market was expected to grow by about 20%, but this time we have revised the growth rate to 5 to 15% on a year-on-year basis. We have come up with this revision by holistically considering various factors such as increasing interest rates that address inflation, the zero-COVID policy, the temporary decline in appetite for buying PCs and smartphones, supply constraints, disruptions in logistics and the wild fluctuations in exchange rates. This is the result of overall consideration of the situation. On the other hand, due to expectations in semiconductor technology innovation driven by the progress of the digital shift in society, and the realization of a decarbonization society, our company's outlook remains unchanged for mid- to long-term growth of our industry.

For the FPD production equipment market (TFT array process), there is no change. A slight increase is expected in the investment on a year-on-year basis.

CY2022 WFE Market by Application: Slide 14

Next, I'd like to talk about the WFE market outlook by application. As shown in the slide, we have revised our outlook. For logic and foundry, we have revised the expected WFE spending growth to 10 to 20% on a year-on-year basis, and for DRAM we currently expect WFE spending will decrease by about 5% from the previous year. For non-volatile memory there's no change in our outlook. WFE spending is expected to grow by about 10% on a year-on-year basis. This environment is changing day by day, but in each application, technology innovation never stops, but makes steady progress. Working together with our customers and partner companies, we are striving to develop leading-edge semiconductor technologies.

FY2023 Q1 Business Progress: Slide 15

This slide shows business progress in the first quarter of the fiscal year ending in March 2023. In June 2022 we established the new Medium-term Management Plan. As the new financial model, we have set up goals to achieve net sales of ¥3 trillion or more, operating margin of 35% or more, and a ROE of 30% or more by the fiscal year ending in March 2027.

Aiming to further enhance our corporate value, we have developed a new vision. The new vision is "A company filled with dreams and vitality that contributes to technological innovation in semiconductors". Since semiconductor devices have become increasingly important in society, as a leading company that delivers SPE, we are determined to meet the customers' technological needs and provide leading-edge products and services aiming to create world class profit, specifically operating income of ¥1 trillion or more, and operating margin of 35% or more. In parallel, toward the global shared value of achieving both "digital and green", and digitalization and decarbonization, we will contribute to addressing social challenges by pursuing semiconductor technology innovation.

We have set the mid- and long- term environmental goals toward the realization of carbon neutral, that is net zero GHG emissions, to be achieved by the year 2050. We will strive to achieve carbon neutral according to scopes 1 and 2 by 2040, and eventually realize carbon neutral in line with scope 3 by 2050.

In order to realize the Medium-term Management Plan goals, we are planning to invest ¥1 trillion or more in our R&D activities in the five years to come.

At present there are various uncertainties, but I understand the expectations of our company are growing and accordingly, we expected to play an increasingly important role. We will pursue both short-term and longer-term profit in parallel, and we will make every effort to continually enhance our corporate value.

FY2023 Financial Estimates: Slide 16, 17

Next, I will present the financial estimates for the fiscal year ending in March 2023. As I said earlier, by taking into account the impacts of the macro economy, we have revised our outlook for the WFE market. But our customers investment plans are only being adjusted in a minor way at present. Therefore, we have left financial estimates unchanged but will take a close look at the market environment from now on.

FY2023 SPE Division New Equipment Sales Forecast: Slide 18

This slide shows the SPE new equipment sales forecast in the fiscal year ending in March 2023. Again, the sales forecast remains unchanged both in the first and second-half of this fiscal year: ¥850 billion in the first half and ¥1 trillion in the second half of this fiscal year. On the right, you can see the quarterly breakdown of the sales forecast for the first half of this fiscal year. In the first quarter, the shipment timing of some products was shifted but there is no change in our financial estimates. In the second quarter, we expect record-high quarterly net sales.

FY2023 R&D Expenses, Capex Plan: Slide 19

This shows our plan for R&D expenses and CAPEX. The plan remains unchanged. To achieve our new Medium-term Management Plan, we will continue making active R&D investments and capital investments.

FY2023 Dividend Forecast: Slide 20

My last slide shows the dividend forecast which also remains unchanged. Based on the financial estimates for this fiscal year and a payout ratio of 50%, we plan to pay full year dividends per share of ¥1,678, which is expected to set a new record.

Thank you very much for your attention today.