

Moderator: Opening remarks

Thank you for waiting. Now it's time for us to start Tokyo Electron's Financial Announcement for the third quarter of the fiscal year ending March 31, 2022. Thank you very much for joining us today despite your busy schedules. I am Yatsuda from the IR Department, acting as a moderator for today's session.

I would now like to introduce today's attendees. Mr. Tetsuo Tsuneishi, Corporate Director, and Chairman of the Board. Next, Mr. Toshiki Kawai, Representative Director, President, & CEO. (I'm Kawai, nice to meet you everybody.) Next, Mr. Yoshikazu Nunokawa, Corporate Director, Executive Vice President, & General Manager of the Global Business Platform Division, Finance Unit. (I'm Nunokawa, thank you very much for joining us.)

Prior to today's presentation, let me explain the flow of today's meeting. First, Mr. Nunokawa 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 briefing will be conducted using two Webex channels with simultaneous interpretation between Japanese and English. As we announced by email, if you would prefer to listen to the audio only, you can participate by phone but if you plan to ask questions, please use the Webex application on your PC or mobile device. In addition, since this briefing is intended for institutional investors and analysts, we will take questions from institutional investors and analysts only.

We will post the audio recording of this briefing in Japanese and English on our website within a few days, so please access our website if interested.

So let's move on to the presentation session. First, Mr. Nunokawa will explain the "Q3 FY2022 Consolidated Financial Summary". Mr. Nunokawa, please.

Q3 FY2022 Consolidated Financial Summary

Yoshikazu Nunokawa – Corporate Director, Executive Vice President & General Manager, Global Business Platform Division

Good afternoon. I am Nunokawa, and I'm responsible for the Finance unit. Now I would like to present the "Q3 FY2022 Consolidated Financial Summary".

Financial Summary: Slide 4

In the Q3, we generated net sales of 506.4 billion yen, a 5.4% rise from the previous quarter. The quarterly net sales exceeded 500 billion yen for the first time, reaching a record high.

SPE net sales was 488.8 billion yen, also hitting a record high for the quarterly basis. FPD net sales was 17.6 billion yen.

Gross profit margin was 46.0% as the utilization rate for plants increased further in accordance with the Q4 sales plan. Operating margin reached 30.8%, along with the rise of gross profit margin.

Financial Performance: Slide 5

This is a graphical representation of the financial summary that was explained earlier in the slide.

Segment Information: Slide 6

This slide shows the segment information.

For SPE, we generated sales of 488.8 billion yen. As we had steady sales in every SPE product family in the growing market, SPE sales increased from the prior quarter. The segment profit margin was also high at 34.9%.

For FPD, sales were 17.6 billion yen. And the segment profit margin was 11.3%.

The composition of net sales in the third quarter remained unchanged from the previous quarter. SPE sales accounted for 97% while FPD sales accounted for 3%.

SPE Division: Sales by Region: Slide 7

This slide shows SPE sales by region. Sales in China and North America mainly showed a growth. For China, sales in the third quarter reached a very high level as the emerging local China customers increased their investment. For North America, sales have been increasing, which are driven by the investment in logic devices.

SPE Division: New Equipment Sales by Application: Slide 8

This shows SPE new equipment sales by application.

In Q3, from the bottom of this chart, sales to logic manufacturers accounted for 50%. Non-volatile memory accounted for 19%, and DRAM accounted for 31%. Sales in every application increased from the previous quarter.

DRAM's sales expanded since the customers maintained active investment along with the recovering DRAM market which started last year. For NAND, there were some adjustments because of the intensive investment in the first half of the year. However, we continuously received active inquiries.

Field Solutions Sales: Slide 9

This slide shows Field Solutions sales.

In Q3, sales amounted to 116.1 billion yen, maintaining a high level. Sales declined from the previous quarter, but this is because sales of modifications, which showed considerable growth in the previous quarter, returned to a normal level. We can see steady progress continuing in parts and service sales.

Balance Sheet: Slide 10

Next, this slide shows the balance sheet.

The total assets were 1,724.3 billion yen. Cash and cash equivalents were 423.9 billion yen. And the accounts receivable and contract assets were 280.4 billion yen. Inventories were 440.1 billion yen, showing a significant increase from the previous quarter. This was driven by the implementation of our proactive procurement and production strategy designed to cope with the future sales plan.

Liabilities were 507.2 billion yen, mainly due to the increase of current liabilities including customer advances. Net assets were 1,217.1 billion yen. The equity ratio was 69.9%.

Inventory Turnover and Accounts Receivable Turnover: Slide 11

This shows inventory turnover and accounts receivable turnover.

The inventory turnover was 86 days, remaining unchanged from the previous quarter. The accounts receivable turnover was 55 days.

Cash Flow: Slide 12

My last slide shows the cash flow. Our operating cash flow was 94.6 billion yen.

The cash flow from operating activities was 114.6 billion yen. Cash flow from investing activities was minus 13.5 billion yen. The cash flow from financing activities was minus 100.7 billion yen. This was mainly due to the payment of dividends. The free cash flow was 101.0 billion yen.

This concludes my presentation about the consolidated financial summary.

Moderator: Introduction of the next presentation

Now, Mr. Kawai, the CEO, will present the "Business Environment and Financial Estimates". Mr. Kawai, please.

Business Environment and Financial Estimates

Toshiki Kawai – Representative Director, President & CEO

Once again, good afternoon, my name is Kawai. Now, I'd like to make a presentation on the business environment and financial estimates.

Business Environment (Outlook as of February 2022): Slide 14

Let me start with the business environment. For the WFE market, the trend in CY2022 is likely to follow that of CY2021. Driven by strong semiconductor demand along with the progress of the digital shift in society such as through data centers, investment in a broad range of generations from leading edge to mature nodes is expected to continue.

We see that the WFE market in 2021 grew significantly by almost 50%. We expect the WFE market in CY2022 to have additional growth potential of nearly 20%.

For the FPD production equipment TFT array process market, CY2021 was a transition period in which a shift from LCD to OLED was expected. Investment declined by around 20% on a year-on-year basis.

In CY2022, a slight increase is expected in investment on a year-on-year basis due to the investment driven by new applications such as automobiles and the adoption of new technology for mobile applications. The transition to OLED starts with small-sized panels and is expected to expand to larger size panels.

CY2022 WFE Market by Application: Slide 15

Next, I will talk about the WFE market outlook by application for CY2022.

For logic and foundry, WFE spending is expected to grow more than 20% on a year-on-year basis, as active investment will be further enhanced both for leading edge nodes and mature nodes along with the expansion of applications. For DRAM, the growing demand for 5G mobile and data centers as well as the capacity enhancement for DDR5, will drive a high level of investment, and WFE spending is expected to increase by around 15% on a year-on-year basis. For non-volatile memory, along with the expansion of SSD applications, WFE spending is expected to be strong, increasing by about 5% from the previous year.

Business Opportunities and Focus Areas (CY2022-): Slide 16

This slide shows the key technologies by device for the coming five years.

For logic, high-NA EUV lithography, gate-all-around nanosheet and backside PDN, in which a power delivery network is placed on the backside of silicon, are expected to emerge. For NAND, a multilayer stacking structure with more than 300 layers from the current 170 layers, and innovative technology in which memory cells and peripheral circuits are fabricated on different wafers are bonded together, are expected to be adopted in the future. For DRAM, the scaling of planar structure devices will advance while 3D DRAM is expected to emerge.

Our wide-ranging product portfolio covers all these key technologies, and we expect a huge business opportunity. We aim at expanding our share in these high value-added areas.

FY2022 Q3 Business Progress: Slide 17

This shows business progress in Q3 of the fiscal year ending in March 2022. As Mr. Nunokawa reported earlier, in Q3, net sales, gross profit and operating income renewed our records. Amid severe circumstances where we've been suffering from the shortage of various components and materials including semiconductors, our proactive procurement and production strategy designed to address future market growth contributed to sales growth.

In order to actively address all production related challenges in terms of safety, quality, environment and the supply chain, we established the Corporate Production Division in September 2021 which has strengthened our capabilities.

For our strategic products, we can see steady progress in PORs and tool selection. In addition, in the third quarter, we released Tactras™- UDEMAE™, an etch system for power devices including automotive semiconductor devices to enhance their productivity, as well as Impressio™ 2400 PICP™ Pro, which is equipped with PICP Pro, a new chamber for high resolution large size display.

It has become more likely to achieve the mid-term management plan ahead of its original target timeline. We continue focusing on long-term growth.

FY2022 Financial Estimates: Slide 18

Next, I will present the financial estimate for the fiscal year ending in March 2022.

FY2022 Financial Estimates: Slide 19

By reflecting the results up to the third quarter and taking account of the active demands that I presented today, we have revised the financial estimate upward once again.

Compared with the financial announcement in November 2021 on the full year basis, net sales have been revised to 1,950 billion yen, an increase of 50 billion yen. Gross profit will be 884 billion, an increase of 23 billion yen. Operating income will be 570 billion yen, which is an increase of 19 billion yen. And net income will be 416 billion yen, an increase of 16 billion yen. The full year operating profit margin is expected to be 29.2%.

All of our net sales, gross profit and operating income are expected to hit record highs.

FY2022 Q4 SPE Division New Equipment Sales Forecast: Slide 20

This slide shows the SPE new equipment sales forecast for the fourth quarter.

Thanks to the strong inquiries from leading edge logic/foundries, we project SPE new equipment sales of 390 billion yen, which has renewed our record for a quarterly basis.

SPE new equipment sales from January to December 2021 amounted to 1,385.8 billion yen, recording about 60% growth from the previous year. As expected, we were able to outperform the WFE market growth rate. In CY2022, we will make continuous efforts, aiming at outgrowing the WFE market.

FY2022 R&D Expenses, Capex Plan: Slide 21

This shows our plan for R&D expenses and Capex.

The plan remains unchanged though there might be some differences due to the timing of asset acquisition. For fiscal 2022 we plan to spend R&D expenses of 165 billion yen and capital investment of 64 billion yen, both of which are expected to hit record highs. And we project depreciation expenses of 43 billion yen.

We will accelerate proactive R&D and capital investment to cope with the growing market and diversify needs for leading edge technologies.

FY2022 Dividend Forecast: Slide 22

Next, this slide shows the dividend forecast. Based on financial estimates for this fiscal year and a pay-out ratio 50%, we have revised the forecast upward. We plan to pay full year dividends per share of 1,336 yen, which is expected to set a new record.

No title: Slide 23

We are honoured to receive the Grand Prize for Corporate Governance of the Year[®] 2021, which was sponsored by the Japan Association of Corporate Directors.

Stimulated by this prize, we are determined to leverage our expertise as a tool manufacturer and pursue semiconductor technology innovation in order to continuously meet expectations of the capital market.

By contributing to achieving the social shared value of balancing “digital and green”, which constitute the shared value in society, we will make dedicated efforts to expand mid- and long-term profit and continuously enhance corporate value.

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