

Q3 FY2025 Earnings Briefing Q&A

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■ Q&A

Q1 What are the growth rates by application for the WFE market in CY2025?

A1 DRAM is expected to grow by 10 to 20%. NAND is anticipated to nearly double, but its share of the total WFE market will be about 10%. For logic/foundry, leading-edge investment will remain flat, but we expect a 10 to 20% decline due to decreasing investments from Chinese customers.

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Q2 You still expect WFE market for NAND to double in CY2025, as you did three months ago. Why is investment needed now, and what is the outlook for CY2026?

A2 In CY2025, most of the investment is expected to be for technology migration aimed at reducing costs to improve profit margins, rather than for production capacity enhancement. We do not anticipate a decline in investment levels for CY2026; we expect investment to continue at similar levels, led by the most advanced generations.

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Q3 What is the growth rate of China's WFE market in CY2025?

A3 We expect a slowdown in investment from emerging customers, leading to a negative growth forecast.

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Q4 For Q4 FY2025, the financial estimates suggest a slight decrease in sales compared to the Q3 results. What could be the reason for this decline? Additionally, please talk about the opportunities for outperforming the WFE market growth beyond CY2025.

A4 There is a possibility of a slight upside due to the timing of deliveries; however, we have decided there is no need to change the financial estimates. We are well-positioned to benefit from AI investments, as we are seeing increased inquiries in leading-edge logic, DRAM for HBM² applications, and advanced packaging. We expect these areas to continue to drive performance from FY2026 onward.

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Q5 How will the decrease in the proportion of sales to China impact profit margins in FY2026?

A5 Percentage-wise, the proportion of sales to China is expected to decline from the high 40s in H1 of FY2025 to the high 30s in H2 of FY2025, and to the mid 30s for the full FY2026. By providing high value-added products, our gross profit is steadily improving. We believe that the decrease in the proportion of sales to China will have a minimal impact on our gross profit margin.

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Q6 What are the impacts of U.S. and Japan export restrictions to China?

A6 As we have commented before, we need to continue to closely monitor geopolitical impacts. We do not foresee significant effects on our FY2025 financial performance from the additional regulations imposed by the U.S. that took effect in December 2024.

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Q7 What is the outlook for the Field Solutions business in FY2026?

A7 Customer fab utilization rates are rising, and parts and services revenue has been increasing for four consecutive quarters. Additionally, the installed base is growing by 4,000 to 6,000 units per year. These factors contribute to increased parts and services revenue, and we are optimistic about FY2026.

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Q8 What are the cost reduction strategies regarding the new production building for Tokyo Electron Miyagi?

A8 While we are currently scrutinizing the quantitative effect of cost reduction, we expect that the production capacity will be 1.8 times greater by FY2029, with an aim for three times in the future. We are targeting an increase in labor productivity by four times, an increase in space efficiency by two times, and a one-third reduction in production lead time. The standardization and use of common parts will also reduce the start-up workload at customer fabs. We expect multiple benefits from increased automation, including reduced incident rates and lower follow-up costs.

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Q9 Is the concept of the new production building an improvement of existing concepts, or is it a completely new and destructive concept?

A9 It is not a mere improvement of traditional methods; we aim to achieve smart manufacturing through digital transformation (DX) utilizing AI and robotics. We will work with the entire supply chain, not just within TEL.

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Q10 Tell us about the status of POR^{*3} acquisition for cryogenic etching, the timeframe for its contribution to sales, differences versus competing products, and the market size.

A10 We have acquired a mass production POR from one customer, and evaluations with other customers are progressing as planned. CY2025 is expected to be the timeframe for investment in pilot lines for 400-layer NAND, with mass production investments anticipated in CY2026. Therefore, we expect revenue contribution to be more significant from FY2027 onwards. We believe our products can provide value to customers in terms of high etching rates, profile control, and reduced operating costs. The market size is estimated to be \$2B in CY2027, with little change from previous comments.

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Q11 What is the outlook for the market growth of dry cleaning compared to wet cleaning?

A11 In the cleaning market, the proportion of wet cleaning is higher than that of dry cleaning. We offer aerosol dry cleaning equipment, which currently has a small market share. We also have a supercritical drying technology used after wet cleaning to prevent pattern collapse. We possess advanced technologies and aim to increase sales and market share by combining them.

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Q12 Are you considering utilizing AI for overall optimization within the organization?

A12 The speed of AI evolution is astonishing, and we anticipate a variety of applications and efficiency improvements. We want to invest in AI in order to actively utilize it in areas such as governance, security, and compliance with various regulations. Additionally, we are incorporating the IT Unit into our Business Innovation & DX Promotion Project to focus on improving business productivity.

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Q13 What is needed to raise the operating profit margin to 40%?

A13 Our current Mid-term Management Plan aims for a 35% operating profit margin, but this is not our final goal. We are focusing on the continuous development of next-generation products with high added value and have seen our gross profit margin increase by approximately 7pts over the past few years. We aim to improve both marginal profit and gross profit margin through high value-added products and digital transformation (DX) that leverages AI and robotics in manufacturing. On top of that, we believe we can lower fixed cost ratios through business reform using IT such as RPA. As a result, these efforts could help increase the operating profit margin by 5pts.

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*1 WFE (Wafer Fab Equipment): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. WFE refers to the production equipment used in front-end production and in wafer-level packaging production.

*2 HBM (High Bandwidth Memory)

*3 POR (Process of Record): Certification of the adoption of equipment in customers' semiconductor production processes

FY2025 refers to the financial year ending in March 2025.

FY2026 refers to the financial year ending in March 2026.

FY2027 refers to the financial year ending in March 2027.

The content above is a summary of the Q&A session.