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Investor Relations
Corporate Strategy Division
Tokyo Electron Limited

Q2 FY2025 Earnings Briefing Q&A

■ Questions

Q1 According to the earnings briefing presentation material (slide 13), it implies there are no changes to the CY2025 WFE outlook from 3 months ago, but have there been any changes based on the application mix or other factors?

Q2 What is your outlook on China WFE in CY2025?

Q3 How have you incorporated the impact of government regulations on China into your WFE outlook for CY2025?

Q4 You revised your revenue forecast for FY2025 upward by 100 billion yen. What are the reasons by application, and which regions are driving this growth?

Q5 Why did the Q2 FY2025 gross profit margin decrease quarter over quarter?

Q6 What products are expected to drive new SPE equipment sales in FY2026? Can you also provide insights into the growth outlook for each product?

Q7 Generally, when the proportion of sales to China declines, profit margins tend to decrease. What factors will drive your gross profit margin to rise in H2 FY2025, and will your gross profit margin rise further in FY2026?

Q8 Regarding Field Solutions, sales in Q2 FY2025 reached a record high on a quarterly basis. What were the reasons for this significant increase in revenue? Additionally, please share the outlook for Q3 and Q4 FY2025, as well as FY2026, including the situation in China.

Q9 Regarding the POR with cryogenic etch, specifically what is the "significant progress" that has been made, and how much revenue should we expect in FY2026?

Q10 ASML has slightly revised downward its forecast for CY2025. How much will it affect your coater/developer sales?

Q11 In the earnings briefing back in February 2024, you mentioned that R&D expenses would increase by 1.5 times, along with substantial increases in capital expenditures and hiring. This time, you cited data from TechInsights and gave a more robust growth forecast. Do you think that an even higher level of investment will be necessary to achieve this?

Q12 Regarding share buybacks, you announced a plan to purchase up to 80 billion yen worth at the beginning of FY2025, and now an additional 70 billion yen, indicating a truly flexible implementation. What is the background for deciding on the second share buyback this fiscal year, and what are your thoughts on future plans?

■ Q&A

Q1 According to the earnings briefing presentation material (slide 13), it implies there are no changes to the CY2025 WFE*[1] outlook from 3 months ago, but have there been any changes based on the application mix or other factors?

A1 The expectation of double-digit growth remains unchanged. The investment in logic/foundry continues to be strong and is expected to be similar in scale to CY2024. On the other hand, memory investment is expected to grow, especially in DRAM for HBM*[2]application. While the NAND market is smaller compared to DRAM, our expectation is that it will still nearly double. The investment ratio of logic/foundry and memory is estimated to be 70:30 in CY2024, and 60:40 in CY2025.

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Q2 What is your outlook on China WFE in CY2025?

A2 We expect that the proportion of sales to China will be below 40% in H2 FY2025. The proportion of China in total WFE is expected to be around 30% in CY2025. This is due to an increase in leading-edge investment, along with emerging customers in China focusing on yield improvement and pausing on new investment. We expect a double-digit decline in actual value.

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Q3 How have you incorporated the impact of government regulations on China into your WFE outlook for CY2025?

A3 We have incorporated factors that can currently be anticipated. We will continue to closely monitor government regulations and geopolitical trends as we have in the past.

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Q4 You revised your revenue forecast for FY2025 upward by 100 billion yen. What are the reasons by application, and which regions are driving this growth?

A4 The upward revision is attributable to both advanced and mature applications, with each contributing a roughly equal amount. In advanced logic/foundry, while receiving additional inquiries, we also incorporated some customers reviewing their investment plans. Regionally, Taiwan is the key driver. Additionally, increased investments from customers in South Korea and China have contributed to the revision.

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Q5 Why did the Q2 FY2025 gross profit margin decrease quarter over quarter?

A5 This was mainly due to the decrease in the proportion of products with relatively high gross profit margins, and the one-off expense incurred for inventory disposal.

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Q6 What products are expected to drive new SPE equipment sales in FY2026? Can you also provide insights into the growth outlook for each product?

A6 We are pleased to report that all our products are growing. As indicated in TechInsights' data (earnings presentation slide 15), products within the WFE volume zone, coater/developer, etch, film deposition, and cleaning, are all experiencing growth. By application, DRAM for HBM and DDR5, as well as leading-edge logic/foundry for AI, are expanding. In etch, investments for GAA*[3] have already commenced, with major investments in the 2nm generation expected to ramp up in CY2026. Coater/developer continues to perform steadily with a high market share, and film deposition is also progressing well in terms of POR acquisition.
While still small compared to the WFE market, the Test/Assembly market is also experiencing significant growth, with sales of bonders and probers approximately doubling year over year.
In CY2025, these advanced investments will account for about 70% of our sales, and all development items mentioned in the presentation slides represent our growth potential.

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Q7 Generally, when the proportion of sales to China declines, profit margins tend to decrease. What factors will drive your gross profit margin to rise in H2 FY2025, and will your gross profit margin rise further in FY2026?

A7 In H2 FY2025, investment from leading-edge customers is expected to increase, and by FY2026, investments for 2nm node will become more substantial. Our products for leading-edge nodes have high added value, which results in our competitive advantages being recognized, leading to an increase in profit margins. Therefore, even if the proportion of sales to China decreases, the overall gross profit margin will rise.

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Q8 Regarding Field Solutions, sales in Q2 FY2025 reached a record high on a quarterly basis. What were the reasons for this significant increase in revenue? Additionally, please share the outlook for Q3 and Q4 FY2025, as well as FY2026, including the situation in China.

A8 The utilization rates of customer fabs have been improving, and this has led to steady progress in Field Solution sales. The installed base has also increased, resulting in higher parts and services revenues. While we assume that customer utilization rates will further improve in FY2026, we will refrain from commenting on specific growth rates as we have not yet guided our forecast for the next fiscal year. The emerging customers in China who have invested in large volume since CY2023, are currently focusing on yield improvement, resulting in relatively low utilization rates.

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Q9 Regarding the POR*4 with cryogenic etch, specifically what is the "significant progress" that has been made, and how much revenue should we expect in FY2026?

A9 We have received development PORs from multiple customers, and the leading customer has moved on to the final evaluation phase. While we refrain from commenting on the expected sales volume, we anticipate a meaningful contribution starting from CY2026, with the market size projected to be around $2B by CY2027.

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Q10 ASML has slightly revised downward its forecast for CY2025. How much will it affect your coater/developer sales?

A10 The growth of WFE in CY2025 will be driven by DRAM and NAND. In particular, DRAM is advancing by scaling, and both EUV and conventional immersion lithography are experiencing significant growth. We expect sales to increase in line with the market growth.

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Q11 In the earnings briefing back in February 2024, you mentioned that R&D expenses would increase by 1.5 times, along with substantial increases in capital expenditures and hiring. This time, you cited data from TechInsights and gave a more robust growth forecast. Do you think that an even higher level of investment will be necessary to achieve this?

A11 As semiconductor manufacturing technology evolves rapidly, it is crucial for TEL to maintain our world-leading technological capabilities. As the proportion of AI in WFE increases, we are seeing more business opportunities that will expand our SAM*5. We will refrain from making specific quantitative comments, but we are currently planning with the expectation that further investments will be necessary.

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Q12 Regarding share buybacks, you announced a plan to purchase up to 80 billion yen worth at the beginning of FY2025, and now an additional 70 billion yen, indicating a truly flexible implementation. What is the background for deciding on the second share buyback this fiscal year, and what are your thoughts on future plans?

A12 We made this decision after comprehensively considering market trends, our growth potential, and cash generation capabilities beyond FY2026. We will continue to execute appropriate balance sheet management with the aim of maintaining an ROE above 30%.

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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 GAA (Gate All Around): A transistor structure where the channel is surrounded by the gate
*4 POR (Process of Record): Certification of the adoption of equipment in customers' semiconductor production processes
*5 SAM: Served Available Market

FY2025 refers to the financial year ending in March 2025.
FY2026 refers to the financial year ending in March 2026.

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