

RS Technologies Co., Ltd.

3445

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Summary

FY12/23 results expected to be slightly above plan; newly entered market for large storage battery electrolytes

RS Technologies Co., Ltd. <3445> (hereafter, “the Company”) has the largest global market share of the silicon wafer reclaim business, at approximately 33% (the Company’s estimate) of the market for a major material for semiconductors. Also, in 2018 in China, GRINM Semiconductor Materials Co., Ltd. (hereafter, GRITEK), which conducts a manufacturing and sales business for prime wafers, was made a subsidiary, and then in 2019, DG Technologies Co., Ltd., which conducts a semiconductor-related consumable materials business, was made a subsidiary; in such ways the Company is continuing to grow while expanding its business areas through M&A. In November 2022, GRITEK (in which the Company’s investment ratio is slightly more than 40%, including indirect ownership) was listed on the Shanghai Stock Exchange STAR Market, and its policy is to maintain GRITEK as a consolidated subsidiary in the future as well.

1. 3Q FY12/23 cumulative results on pace to exceed plan

In 3Q FY12/23 cumulative consolidated results (January to September 2023), net sales increased 4.9% year-on-year (YoY) to ¥39,470mn while ordinary profit fell 2.1% to ¥12,017mn. Although the prime silicon wafer manufacturing and sales business (hereafter, the prime wafer business) recorded lower sales and profits due to changes in the semiconductor market environment, the wafer reclaim business remained strong with double-digit sales and profit growth, partly due to increased production capacity. The semiconductor-related equipment and materials, etc. business also saw growth in laser diode sales due to new customer development overseas. Progress against the full-year plan was 77.7% for net sales and 84.0% for ordinary profit, slightly exceeding the Company’s forecasts.

2. FY12/23 net sales and operating profit expected to set new record highs

For FY12/23 consolidated results, the Company has left its initial plan unchanged, forecasting a 1.8% YoY increase in net sales, to ¥50,800mn and a 0.6% increase in operating profit to ¥13,100mn. Although the semiconductor market continues in an adjustment phase, demand for reclaimed wafers remains strong in 4Q with full operations continuing. Prime wafers are also expected to remain strong due to an expansion of the Company’s share of sales in the Chinese market, and FISCO expects both net sales and ordinary profit to slightly exceed plan.

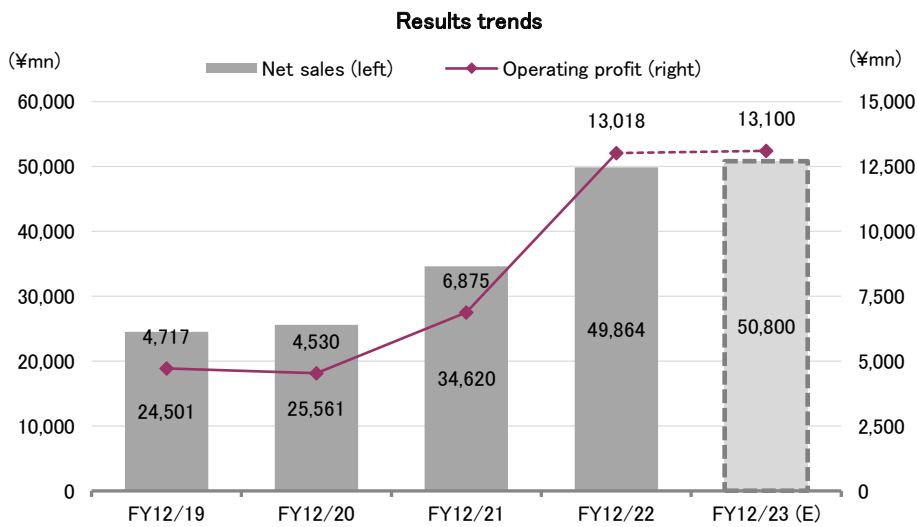
3. Newly entered the market for vanadium redox flow battery electrolytic solutions

In October 2023, the Company established LE System Co., Ltd. to enter the vanadium redox flow battery (VRFB) electrolyte market. VRFBs are gaining attention as a promising energy storage method in the market for large stationary storage batteries, which is expected to grow rapidly going forward. The new company will take over the business of LE System Co., Ltd., which since the 1970s has worked to develop the technology as a national project. Construction of a plant with an annual capacity of 5,000 m³ (approximately ¥3bn in terms of sales) was completed in September 2021, and it began taking orders in 2023. The Company is also considering future entry into the Chinese market, the largest market for electrolytes, and appears to have already begun shipping samples to storage battery manufacturers in China. While VRFBs excel in terms of safety, the high cost of manufacturing vanadium electrolytes has been an issue, but LE System has established a manufacturing technology that makes low cost production possible. According to one market research firm’s forecast, the size of the market for electrolytes for VRFBs is expected to grow rapidly, from 90,000 m³ in 2022 to 1.2mn m³ in 2028, and LE System aims to become a top manufacturer going forward.

Summary

Key Points

- Strong customer demand led to steady performance in 3Q FY12/23
- Despite prolonged adjustments in the semiconductor market, FY12/23 results are expected to slightly exceed the Company's plan
- US-China trade friction has had almost no impact, and growth is expected to continue in both the wafer reclaim and prime wafer businesses
- New entry into the business of electrolytes for VRFBs, which is expected to grow rapidly toward the realization of a decarbonized society with the potential to develop into a multi-billion yen business



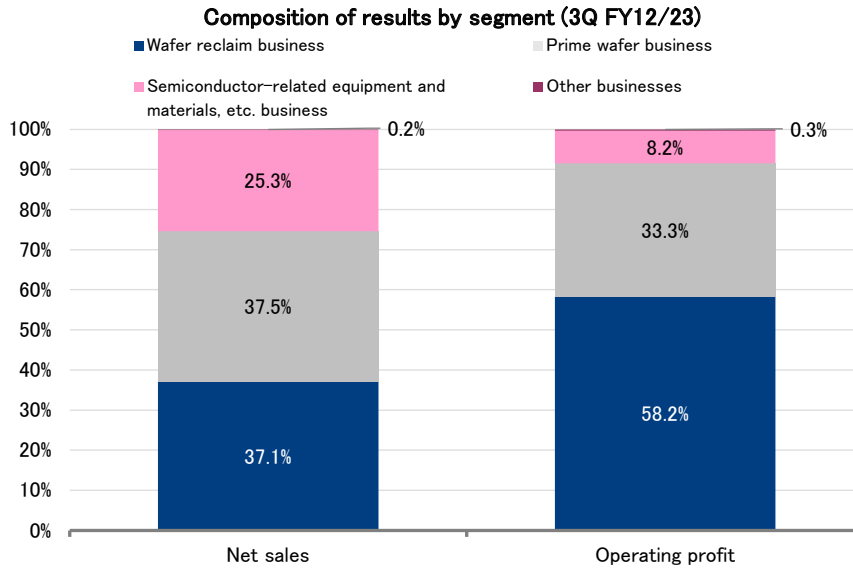
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Business Summary

The wafer reclaim business has the leading share of the 12-inch wafer market, at approximately 33%, and in prime wafers the Company is expanding to the Chinese market

The Company classifies its business operations into three business segments, specifically the wafer reclaim business, prime wafer business, and semiconductor-related equipment and materials, etc. business, and other businesses, and discloses information on each segment. Looking at the composition of results by business segment in 3Q FY12/23, the wafer reclaim business provided 37.1% of net sales and 58.2% of operating profit, and the prime wafer business provided 37.5% of net sales and 33.3% of operating profit. These two businesses are the Company's core earnings drivers.

Business Summary



Source: Prepared by FISCO from the Company's quarterly report

1. Wafer reclaim business

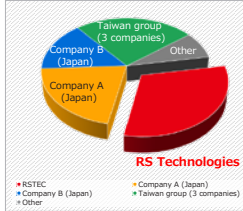
The wafer reclaim business is conducted by the Company and its Taiwanese subsidiary, but from 2Q FY12/22, the equity-method affiliate SGRS also established a mass production line for 12-inch reclaimed wafers. Only the Company is conducting this business with three bases in Japan, Taiwan, and China. The monthly production capacity for the mainstay 12-inch wafers at the end of September 2023 was 500,000 wafers in total, comprised of 300,000 wafers in Japan (also has a capacity for 150,000 8-inch wafers) and 200,000 wafers in Taiwan, in addition to capacity for 50,000 wafers in China. In terms of the composition of sales, the 12-inch wafer provides the majority, at around 85%. According to the Company's estimate, it has the leading global market share on a volume basis, of approximately 33%. In addition to the sophisticated reclaim processing technologies, it thoroughly reduces costs through a direct-sales system and provides services with high levels of customer satisfaction by communicating closely with customers, and these strengths are considered to lead to its high share. It has two competitors in Japan, HAMADA HEAVY INDUSTRIES Ltd. and MIMASU SEMICONDUCTOR INDUSTRY CO., LTD. <8155>, while its overseas competitors are three Taiwanese-owned companies. These six companies form an oligopolistic market that hold roughly 90% of the total market share, and therefore it can be said that price competition is unlikely to occur as a feature of this industry's structure.

Business Summary

Monthly output volume and share of the 12-inch reclaimed wafer market in the wafer reclaim business

Increasing Share of the Reclaimed Market

The Company's share of the 12-inch reclaimed wafer market



A new factory in Taiwan and expansion of the Sanbongi factory increased production capacity, increasing our market share to approximately 33%.

We will further enhance production capacity at both factories by using empty factories at Sanbongi, and utilizing business partnerships, M&A, and other means.

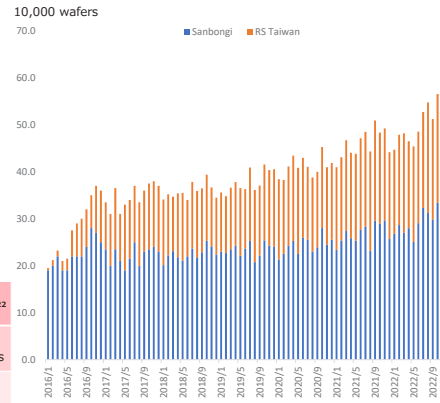
Note: RST survey

| Year | FY12/2015 2H | FY12/2016 | FY12/2017 | FY12/2018 | FY12/2019 | FY12/2020 | FY12/2021 | FY12/2022 |
|-------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| RST Group Production Capacity | 240k wafers | 280k wafers | 300k wafers | 340k wafers | 400k wafers | 420k wafers | 460k wafers | 500k wafers |
| RST Group Market Share | 24% | 29% | 30% | 31% | 33% | 33% | 33% | 33% |

Note: RST survey

Shipments from the Sanbongi factory and Taiwan Subsidiary

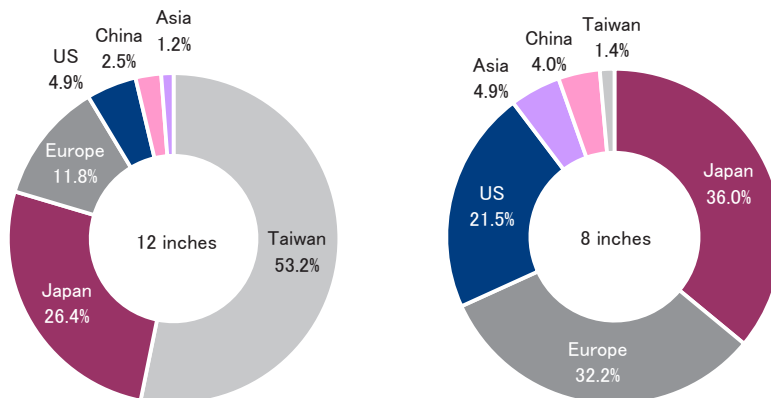
Shipments of 12-inch Wafers from the Sanbongi factory and Taiwan Subsidiary



Source: Prepared by FISCO from the Company's results briefing materials

Furthermore, the breakdown of the number of wafers shipped by region (3Q FY12/23) is as follows. For 12-inch reclaimed wafers, Taiwan provides 53.2% and Japan 26.4%, so these two countries provide around 80% of the total. Meanwhile, Japan, Europe and the US account for the majority of 8-inch reclaimed wafers, with 36.0%, 32.2% and 21.5%, respectively. The Company's main customers include major semiconductor manufacturers, such as TSMC <TSM> in Taiwan, Sony Semiconductor Manufacturing Corporation and Kioxia Corporation in Japan, Intel <INTC> and Micron Technology <MU> in the US, and STMicroelectronics International N.V. <STM> and Infineon Technologies in Europe.

Breakdown of shipment volume in the wafer reclaim business by region (3Q FY12/23)



Source: Prepared by FISCO from the Company's results briefing materials

Business Summary

2. Prime wafer business

Prime wafer business is covered by the Chinese subsidiary GRITEK, and around 50% of net sales consist of prime wafers, while silicon ingots and semiconductor-related consumable materials make up the remaining 50%. Prime wafer monthly production capacity at the end of September 2023 totaled 50,000 5-inch wafers, 200,000 6-inch wafers, and 130,000 8-inch wafers. Chinese semiconductor manufacturers are the main customers for prime wafers, and slightly more than 70% of sales are for analog and power semiconductors. The Company estimates that its share of the 8-inch market in China is around 10%, but it plans to grow share in the future by increasing the production capacity. The Company sells consumable materials and silicon ingots in overseas markets as well, and ships some consumable materials to DG Technologies.

3. Semiconductor-related equipment and materials, etc. business

The semiconductor-related equipment and materials, etc. business includes sales of semiconductor manufacturing equipment and semiconductor materials as well as parts that are purchased and sold by the Company and sales by subsidiaries Union Electronics Solutions and DG Technologies. It mainly purchases the semiconductor manufacturing equipment from Japanese semiconductor manufacturers and others (including some used products), and primarily sells them to semiconductor manufacturers in the United States, Europe, Japan, Taiwan, China, South Korea, and other markets around the world.

Union Electronics Solutions is a semiconductor trading firm that mainly handles power semiconductors from Hitachi Power Semiconductor Device, Ltd. and MCUs from Renesas Electronics Corporation <6723>. It opened a Shanghai office in 2020 and sales activities began in earnest in 2023 as the COVID-19 pandemic was suppressed. DG Technologies manufactures and sells semiconductor-related consumable materials (quartz rings and silicon electrodes, etc.) for dry etching equipment, which is a type of semiconductor equipment. Customers include major domestic and overseas semiconductor device manufacturers and domestic and overseas semiconductor manufacturers. Its production sites are the Kamisu plant (Ibaraki Prefecture) and it also opened the Kurihara plant (Miyagi Prefecture) in May 2021 and it has started production for some processes, while in June 2022 it completed the construction of the new plant that is able to carry out integrated production. While production space as approximately doubled, the Kamisu plant represents 60-70% of current production volume, and the Company plans to raise production volume at the Kurihara plant while investing in automation equipment and human resources.

4. Other businesses

The sales of other businesses are comprised of revenue from electricity sales from the solar power generation business started in 2013 (power generation capacity of approximately 1.59 MW) and technical consulting services and other services provided by the Company in the semiconductor wafer manufacturing process. However, its effect on results overall is negligible.

Business trends

Strong customer demand led to steady cumulative results in 3Q FY12/23 versus the full-year plan

1. 3Q FY12/23 cumulative results

In 3Q FY12/23 cumulative consolidated results, net sales increased 4.9% YoY to ¥39,470mn, operating profit fell 2.1% to ¥9,576mn, ordinary profit decreased 2.1% to ¥12,017mn and profit attributable to owners of parent increased 3.0% to ¥5,965mn. The progress rate versus the full-year plan was 77.7% for net sales, 73.1% for operating profit, 84.0% for ordinary profit and 80.6% for profit attributable to owners of parent, indicating steady progress across the board.

3Q FY12/23 results (consolidated)

| | 3Q FY12/22 | | 3Q FY12/23 | | YoY | Full-year plan progress rate |
|---|------------|------------|------------|------------|-------|------------------------------|
| | Results | % of sales | Results | % of sales | | |
| Net sales | 37,633 | - | 39,470 | - | 4.9% | 77.7% |
| Cost of sales | 24,006 | 63.8% | 25,844 | 65.5% | 7.7% | - |
| SG&A expenses | 3,848 | 10.2% | 4,048 | 10.3% | 5.2% | - |
| Operating profit | 9,778 | 25.9% | 9,576 | 24.3% | -2.1% | 73.1% |
| Ordinary profit | 12,269 | 32.6% | 12,017 | 30.4% | -2.1% | 84.0% |
| Extraordinary profit | -323 | - | - | - | - | - |
| Profit attributable to owners of parent | 5,789 | 15.4% | 5,965 | 15.1% | 3.0% | 80.6% |

Source: Prepared by FISCO from the Company's financial results and results briefing materials

In terms of profit, the cost of sales ratio rose 1.7 percentage points (pp) YoY due to higher depreciation (up ¥263mn), as well as rising fuel costs and changes in the sales mix, resulting in gross profit remaining flat. In addition, profit declined due to a ¥200mn increase in SG&A expenses resulting from an increase in R&D expenses (up ¥119mn YoY to ¥1,291mn) and other factors. By business segment, both sales and profit fell in the prime wafer business due to changes in the semiconductor market environment, but the wafer reclaim business saw both sales and profit increase by double digits thanks to brisk customer demand. Additionally, as laser diode sales grew on the development of new customers overseas, overall earnings in the semiconductor-related equipment and materials, etc. business remained on par with the same period in the previous fiscal year.

Results for three main businesses

| | | 3Q FY12/23 | | |
|--|------------------|------------|---------|--------|
| | | Results | Results | YoY |
| Wafer reclaim business | Net sales | 12,993 | 15,045 | 15.8% |
| | Operating profit | 5,232 | 5,973 | 14.2% |
| | Profit margin | 40.3% | 39.7% | -0.6pt |
| Prime wafer business | Net sales | 17,752 | 15,221 | -14.3% |
| | Operating profit | 4,804 | 3,421 | -28.8% |
| | Profit margin | 27.1% | 22.5% | -7.2pt |
| Semiconductor-related equipment and materials, etc. business | Net sales | 8,423 | 10,253 | 21.7% |
| | Operating profit | 643 | 837 | 30.2% |
| | Profit margin | 7.6% | 8.2% | 0.6pt |

Source: Prepared by FISCO from the Company's results briefing materials

Business trends

Non-operating profit and expenses worsened by ¥50mn from the same period of the previous fiscal year. While financial income and expenses and subsidy income* rose by ¥820mn and ¥678mn, respectively, foreign exchange gains fell by ¥1,422mn and equity in losses of affiliates increased by ¥121mn. The absence of extraordinary losses (provision for directors' retirement benefits of ¥349mn) recorded in the same period of the previous fiscal year, and the year-on-year decrease in profit attributable to non-controlling interests from ¥4,054mn to ¥3,086mn due to a decrease in profit at GRITEK, helped ensure an increase in profit attributable to owners of parent.

| * Subsidies obtained from Dezhou City covered a portion of infrastructure expenses related to the Dezhou plant. |

Wafer reclaim business continues to operate a full capacity even as semiconductor market enters an adjustment phase

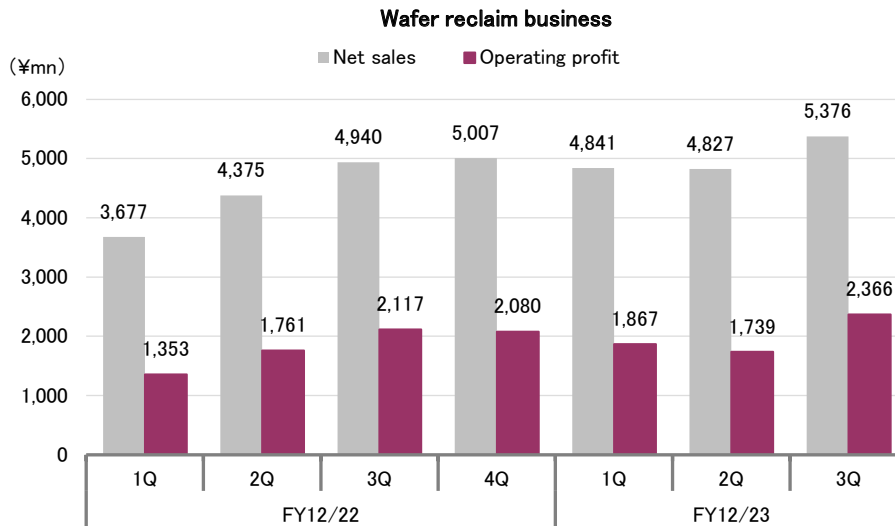
2. Developments by business segment

(1) Wafer reclaim business

In the wafer reclaim business, net sales increased 15.8% YoY to ¥15,045mn (includes internal sales and transfer value, same below) and operating profit rose 14.2% to ¥5,973mn. Although the operating profit margin declined 0.6pp YoY to 39.7% due to increased depreciation and fuel costs, the segment's performance seems solid amid the overall adjustment in the semiconductor market. Looking at the sales ratio of 12-inch wafers, the mainstay product, by destination (on a volume basis), sales to Taiwan exceeded 50% for the first time, rising from 40.4% in the previous fiscal year to 53.2%, while sales to Europe rose from 6.1% to 11.8%. Meanwhile, sales to Japan, where memory manufacturers have their customers, declined from 32.6% to 26.4% and those to the US dropped from 13.3% to 4.9%, while sales to China declined from 7.0% to 2.5%, partly due to the transfer of some products to SGRS. In terms of prices, no change was seen in existing trends, though a trend of slight price increases seems to have continued.

Looking at quarterly movements, 3Q saw an increase in net sales of 11.4% from the same period in the previous fiscal year, to ¥5,376mn, and a 36.0% increase in operating profit to ¥2,366mn, a new record high. Both Japanese and Taiwan plants have gradually increased production capacity of 12-inch reclaimed wafers to meet robust demand, and this has been effective. One reason for this growth in demand for reclaimed wafers amidst a slump in the overall semiconductor market is the fact that demand for reclaimed wafers is not necessarily linked to semiconductor shipments. Around 20% of the wafers that semiconductor manufacturers use in production lines are monitor wafers for inspection (about 80% are made from reclaimed wafers). When semiconductor demand is in an adjustment phase, there is a tendency to reduce the input of prime wafers and increase the input of monitor wafers to improve quality, etc., leading to firm demand.

Business trends



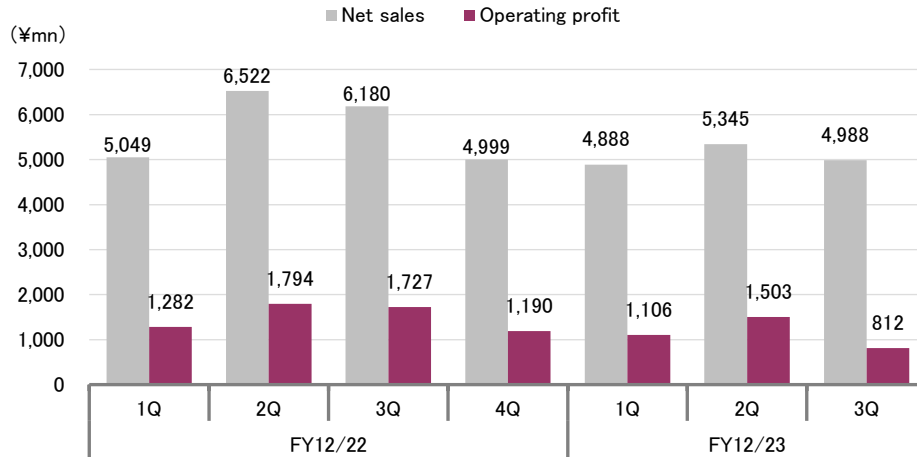
Source: Prepared by FISCO from the Company's securities report and quarterly reports

(2) Prime wafer business

In the prime wafer business, both sales and profit declined as net sales decreased 14.3% YoY to ¥15,221mn and operating profit fell 28.8% to ¥3,421mn. Operating profit margin declined from 27.1% to 22.5%. While both 6-inch and 8-inch prime wafers both performed strongly, this was due to a decrease in demand for silicon ingots and consumable materials, which surged in the previous fiscal year, as a result of changes in the semiconductor market environment. Seen on a quarterly basis, net sales peaked at ¥6,522mn in 2Q FY12/22 and fell to ¥4,988mn in 3Q FY12/23, less than 80% of the peak level. But prime wafers are growing steadily on a volume basis, up 10% quarter-to-quarter, and the Company is now operating at full capacity. While net sales declined 6.7% versus the previous quarter, and operating profit slumped 46.0%, this was due to the decline in silicon ingots and consumable materials, which had recovered temporarily in 2Q. That said, the Company recognizes that sales levels in silicon ingots and consumable materials have bottomed out.

Business trends

Prime wafer business

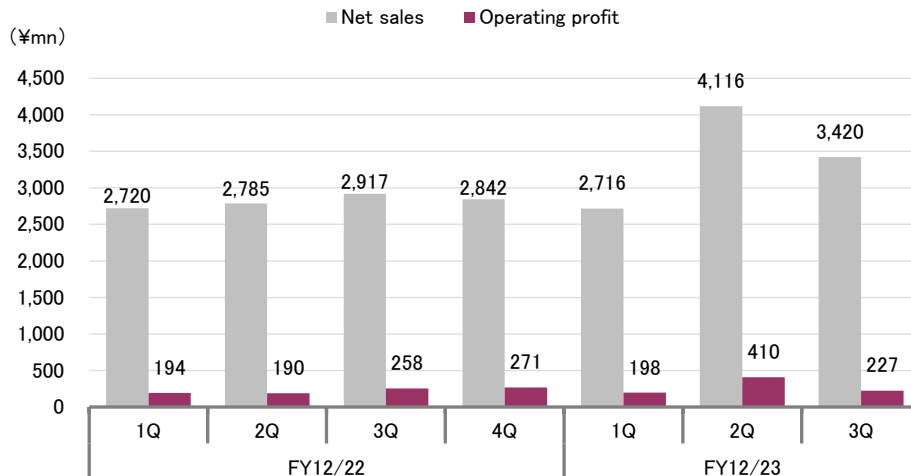


Source: Prepared by FISCO from the Company's securities report and quarterly reports

(3) Semiconductor-related equipment and materials, etc. business

The semiconductor-related equipment and materials, etc. business recorded ¥10,253mn in net sales (up 21.7% YoY) and ¥837mn in operating profit (up 30.2%), both record highs. Reinforced sales operations resulted in growth in semiconductor-related equipment procurement sales with the development of new customers overseas for laser diodes. Strong procurement sales of power semiconductors at subsidiary Union Electronics Solutions also contributed to the increase in sales and profit.

Semiconductor-related equipment and materials, etc. business



Source: Prepared by FISCO from the Company's securities report and quarterly reports

Profit growth further strengthens financial base

3. Financial condition and management indicators

Looking at the Company's financial condition at the end of 3Q FY12/23, total assets had increased by ¥12,645mn from the end of the previous period to ¥140,200mn. The main factors behind these changes were respective increases in current assets including cash and deposits of ¥4,932mn, notes and accounts receivable of ¥1,435mn, and inventories of ¥1,821mn. In non-current assets, property, plant and equipment increased ¥2,262mn due to investment to strengthen capacity, while investments and other assets rose ¥1,753mn as a result of a capital increase in SGRS. In that capital increase, GRITEK and the Company together acquired ¥1,770mn worth of shares, considered to represent a slight increase in their stake in SGRS.

Total liabilities fell by ¥1,763mn from the end of the previous period to ¥24,317mn. While other current liabilities increased, interest-bearing debt decreased by ¥2,118mn, and there were respective declines in notes and accounts payable-trade of ¥1,273mn and in accounts payable-other of ¥865mn. Retained earnings rose ¥5,505mn, including due to the recording of profit attributable to owners of parent, while the foreign currency translation adjustment increased ¥3,021mn and non-controlling interests rose ¥6,080mn.

Looking at the management indicators, the equity ratio, which reflects soundness, rose 2.7pp from 36.8% at the end of the previous period to 39.4%, while the interest-bearing debt ratio fell 6.5pp, from 17.5% to 11.0%. Net cash (cash and deposits – interest-bearing debt) also increased further by ¥7,051mn to ¥66,782mn, and these and other factors can be seen as having further strengthened the financial base. Approximately ¥37.5bn in funds was raised with the listing of GRITEK in 2022, and going forward the plan is to use the funds raised to invest in increasing production of 8-inch prime wafers in addition to executing investment for mass production of 12-inch prime wafers for SGRS, to allocate it to acquiring shares for M&A, and for making SGRS a subsidiary in the future.

Consolidated balance sheet

| | End of FY12/20 | End of FY12/21 | End of FY12/22 | End of 3Q FY12/23 | Amount of change |
|--|-------------------|-------------------|-------------------|----------------------|---------------------|
| | (¥mn) | | | | |
| Current assets | 32,626 | 45,851 | 90,470 | 99,093 | 8,623 |
| (Cash and deposits) | 19,082 | 27,766 | 67,939 | 72,872 | 4,932 |
| (Inventories) | 4,765 | 6,907 | 9,700 | 11,522 | 1,821 |
| Non-current assets | 26,123 | 33,146 | 37,084 | 41,107 | 4,022 |
| Total assets | 58,750 | 78,997 | 127,554 | 140,200 | 12,645 |
| Current liabilities | 12,630 | 14,218 | 17,622 | 16,685 | -937 |
| Non-current liabilities | 5,754 | 9,827 | 8,458 | 7,632 | -826 |
| Total liabilities | 18,384 | 24,045 | 26,081 | 24,317 | -1,763 |
| (Interest-bearing debt) | 3,136 | 8,116 | 8,208 | 6,089 | -2,118 |
| Shareholders' equity | 24,148 | 26,627 | 44,961 | 50,318 | 5,357 |
| Accumulated other comprehensive income | -382 | 1,971 | 1,937 | 4,958 | 3,021 |
| Non-controlling interests | 16,443 | 26,140 | 54,356 | 60,437 | 6,080 |
| Net assets | 40,365 | 54,951 | 101,473 | 115,883 | 14,409 |
| [Stability] | | | | | |
| Equity ratio | 40.5% | 36.2% | 36.8% | 39.4% | 2.7pt |
| Interest-bearing debt ratio | 13.2% | 28.4% | 17.5% | 11.0% | -6.5pt |
| Net cash | 15,946 | 19,649 | 59,730 | 66,782 | 7,051 |

Source: Prepared by FISCO from the Company's financial results

Forecasts

Despite prolonged adjustments in the semiconductor market, FY12/23 results are expected to slightly exceed the Company's plan

1. FY12/23 forecasts

For FY12/23 consolidated results, the Company has left its initial plan unchanged, forecasting ¥50,800mn in net sales (up 1.8% YoY), ¥13,100mn in operating profit (up 0.6%), ¥14,300mn in ordinary profit (down 7.7%), and ¥7,400mn in profit attributable to owners of parent (down 4.3%). 4Q results seem to be tracking at levels about on par with 3Q, and though operating profit will miss plan slightly due to a drop in the prime wafer business, it is highly likely that net sales, ordinary profit and profit attributable to owners of parent will exceed plan. Ordinary profit may end on par with the previous period unless the yen appreciates sharply at the end of the period. The initial plan was based on the assumption of an exchange rate of ¥130/USD, that the foreign exchange gain of ¥1,189mn recorded in the previous period would disappear, and that subsidy income would decline. However, the Company recorded a foreign exchange gain of ¥193mn in cumulative 3Q, when it also recorded subsidy income of ¥1,401mn versus ¥867mn in the previous period. As a result, the operating balance is expected to improve significantly compared to the initial plan.

FY12/23 consolidated results forecasts

| | FY12/22 | | Full fiscal year forecast | FY12/23 | | |
|---|---------|------------|---------------------------|------------|-------|------------------|
| | Results | % of sales | | % of sales | YoY | 3Q progress rate |
| Net sales | 49,864 | - | 50,800 | - | 1.8% | 77.7% |
| Operating profit | 13,018 | 26.1% | 13,100 | 25.8% | 0.6% | 73.1% |
| Ordinary profit | 15,500 | 31.1% | 14,300 | 28.1% | -7.7% | 84.0% |
| Profit attributable to owners of parent | 7,739 | 15.5% | 7,400 | 14.6% | -4.3% | 80.6% |
| Earnings per share (EPS) (¥) | 299.29 | | 286.18 | | | |

Note: The anticipated exchange rates are ¥130/USD, ¥19.9/RMB, and ¥4.4/NTD
 Source: Prepared by FISCO from the Company's financial results and press releases

(1) Wafer reclaim business

In the wafer reclaim business, to respond to strong demand the Company is continuing to invest in 2H FY12/23 in processes that have become bottlenecks, and is working to increase production capacity. The Company expects to increase production capacity for 12-inch reclaimed wafers by 8% in Japan and Taiwan combined, up 40,000 wafers from the end of the previous period to 540,000 wafers. In 4Q, both volume and sales prices appear to have remained strong, and full-year net sales and profit are expected to increase in the 10% range. As noted earlier, despite the ongoing adjustment phase in the semiconductor market, demand for reclaimed wafers remains strong, and since the overall market does not necessarily move in tandem with the demand for reclaimed wafers, and since the reclaimed wafer market is an oligopoly with three Japanese and three Taiwanese firms holding approximately 90% of the market, a collapse in selling prices is unlikely to occur. In these circumstances, the Company has maintained a competitive advantage in terms of quality and cost, and its global base of large customers can be considered a strong factor in its ability to resist recession.

Forecasts

(2) Prime wafer business

In the prime wafer business, demand from Chinese semiconductor manufacturers showed no signs of a slowdown in 4Q, and sales of 6-inch and 8-inch prime wafers remained strong, while sales of silicon ingots and consumable materials are expected to see continued weakness. FISCO thus believes that double-digit declines in net sales and profit are highly likely for the full year as well. That said, prime wafers are expected to grow further in FY12/24 thanks to the effects of capacity increases, and demand for silicon ingots and consumable materials is expected to recover sometime around the fall at the latest, bringing an anticipated increase in sales and profit.

(3) Semiconductor-related equipment and materials, etc. business

In the semiconductor-related equipment and materials, etc. business, sales of laser diodes grew significantly in the semiconductor-related equipment segment thanks to the development of new customers overseas, and that trend is expected to continue in 4Q, resulting in an anticipated increase in sales and profit for the full year as well. Note that in the focus area of consumable materials for semiconductor manufacturing equipment, the Kamisu plant continues to implement production improvements, and in response to rising raw material costs, the Company is not only negotiating higher prices, but is also focusing on efforts to expand sales of higher unit price products.

US-China trade friction has had almost no impact, and growth is expected to continue in both the wafer reclaim and prime wafer businesses

2. Progress made in the medium-term management plan

The Company has set targets for medium-term results in FY12/25 of net sales of ¥57,600mn and operating profit of ¥14,700mn. The three-year CAGR appears slightly low, at 4.9% for net sales and 4.1% for operating profit, but this is because the FY12/23 results forecasts seem conservative, and if looking at the span of two years from FY12/24 onward, net sales will grow by 6.5% and operating profit by 5.9%.

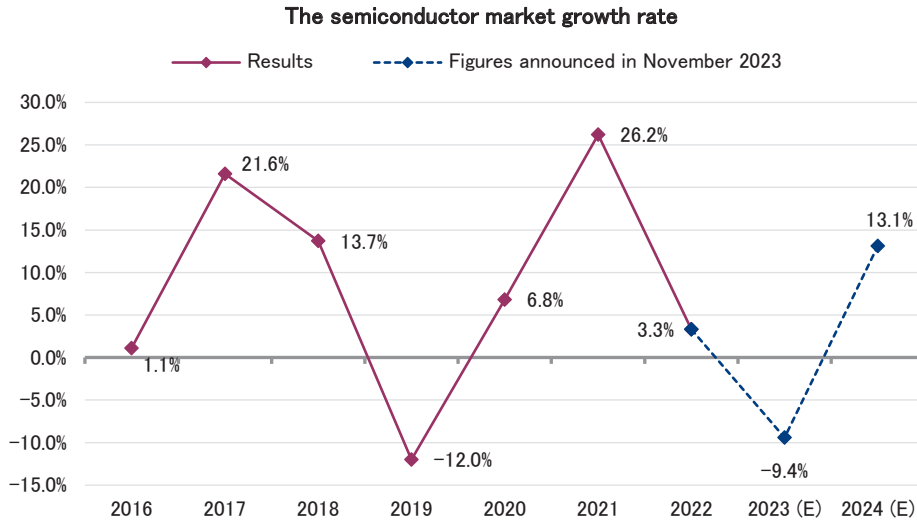
Medium-term management plan

| | (¥mn) | | | | |
|---|--------------------|-----------------|-------------------|-------------------|---------------------------|
| | FY12/22 Results | FY12/23 Plan | FY12/24 Target | FY12/25 Target | CAGR (FY12/22-FY12/25) |
| Net sales | 49,864 | 50,800 | 54,900 | 57,600 | 4.9% |
| Operating profit | 13,018 | 13,100 | 14,000 | 14,700 | 4.1% |
| Operating profit margin | 26.1% | 25.8% | 25.5% | 25.5% | - |
| Ordinary profit | 15,500 | 14,300 | 15,400 | 16,100 | 1.3% |
| Ordinary profit margin | 31.0% | 28.1% | 28.1% | 28.0% | - |
| Profit attributable to owners of parent | 7,739 | 7,400 | 7,600 | 8,000 | 1.1% |
| Earnings per share (EPS) (¥) | 299.29 | 286.18 | 293.91 | 309.38 | |

Note: The anticipated exchange rates are ¥130/USD, ¥19/RMB, and ¥4.4/NTD
 Source: Prepared by FISCO from the Company's results briefing materials

In the market forecasts announced in November 2023 by World Semiconductor Trade Statistics (WSTS), the 2023 semiconductor shipment amount growth rate (based on US\$) was expected to decline 9.4% YoY, the first such negative growth rate in four years. That said, 2024 is expected to see a 13.1% increase, setting a new record high on a monetary basis. In addition to continued stable growth in power semiconductors, demand for other semiconductors such as for memory and microprocessing units is expected to recover as a result of growth in high-performance GPUs related to generative AI, which launched in the second half of 2023, and a recovery in PC and smartphone production. With market conditions expected to turn around in 2024, FISCO believes it is highly likely the Company's results will continue to grow.

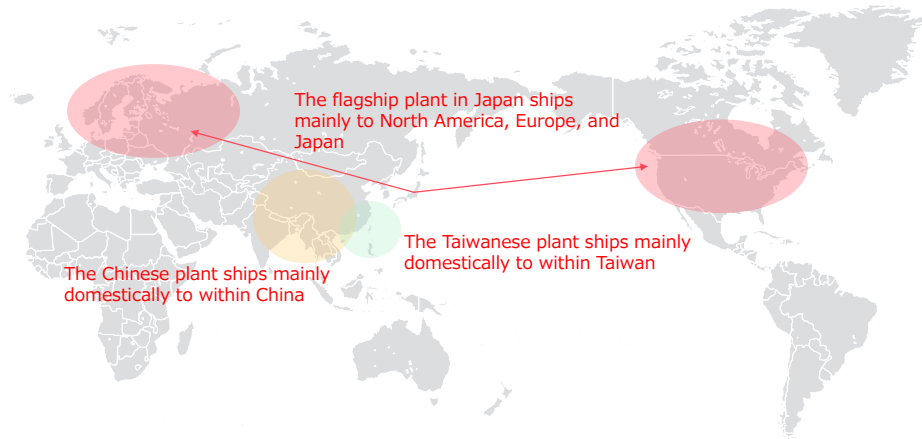
Forecasts



Source: Prepared by FISCO from World Semiconductor Trade Statistics (WSTS) materials: "WSTS Semiconductor Market Forecast Fall 2023" (figures published in November 2023)

Regarding China's semiconductor production, in October 2022 the US Department of Commerce introduced export restrictions on equipment necessary to manufacture the most advanced semiconductor products, and going into 2023, Japan and the Netherlands also agreed to follow the lead of the US, making it difficult for China to establish new advanced semiconductor plants. On the other hand, there are no production equipment export restrictions for legacy semiconductors (such as analog and power semiconductors) with a circuit width of 28nm or higher, so the construction of new plants is possible and they are forecast to continue to grow.

Regional strategies for the reclaimed wafers business and the prime wafer business



Source: Prepared by FISCO from the Company's results briefing materials

Forecasts

Note that at FISCO, we think that these export restrictions imposed on China will have hardly any impact on the Company's results. This is because in the wafer reclaim business, the Japanese plant responds to demand mainly from Japan, North America and Europe, the Taiwanese plant to demand from Taiwan, and the Chinese plant to demand from within China. The Company has thus built a system that is unaffected by US-China trade friction. The prime wafer business currently manufactures 5-inch, 6-inch, and 8-inch prime wafers and it still has room for considerable growth, even just by expanding its share of demand from local manufacturers in China.

Going forward, the Company plans for equity-method affiliate SGRS to develop the 12-inch prime and reclaimed wafer business in the Chinese market, and as the targets for prime wafers are legacy semiconductors not subject to the export restrictions, they will likely not be affected by them. Despite concerns about China risk, many electronics products, including PCs, smartphones and TVs, are manufactured in China. Chinese companies, which hold the largest share of the market, are thus likely to raise their procurement ratio of Chinese-made semiconductors as a matter of national policy. In addition, because GRITEK and SGRS are domestically owned companies, FISCO believes their risk in terms of their businesses is low. Further, in the event that in the future it becomes possible to mass produce 12-inch prime wafers compatible with the most advanced products, the companies will be able to target major overseas semiconductor manufacturers as customers. The Company intends to incorporate SGRS as a consolidated subsidiary once it becomes profitable, and it is expected to be a major driver of the Company's performance over the medium to long term.

(1) Wafer reclaim business

In the wafer reclaim business, the plants in Japan and Taiwan are increasing their production capacities to respond to the strong demand for 12-inch reclaimed wafers. In addition, SGRS's Dezhou plant has started mass production and its strategy is to capture demand in China.

The schedule for increasing the production capacity is that in Japan, at the end of FY12/22 monthly production of 300,000 wafers will be incrementally increased to 340,000 wafers by the end of FY12/25, and in Taiwan from 200,000 wafers to 280,000 wafers. Also, in China, the plan is to increase capacity from 50,000 wafers at the end of FY12/22 to 100,000 wafers by the end of FY12/25. Looking at the planned capital investment for the three years from FY12/23 to FY12/25, the Company is planning investment of ¥2.5bn in Japan and ¥3.6bn in Taiwan, which will mainly be used to increase production equipment for low throughput processes. There is room to increase the production lines of both the Japanese and Taiwanese plants, and at the present time the outlook is that they can increase their production capacities simply by investing in additional equipment. On the other hand, the Company has not yet set an investment plan for China for 2024 and onwards. This is because it will be necessary to ascertain how demand for 12-inch wafers will trend due to the US-China trade friction, and it will make a decision from among various options, including outsourcing.

Forecasts

The monthly production capacity of 12-inch reclaimed wafers for the Group as a whole will increase by around 1.3 times, from 550,000 wafers at the end of FY12/22 to 720,000 wafers at the end of FY12/25 (if excluding the Dezhou plant, by approximately 1.24 times to 620,000 wafers), and when converted to an annual rate excluding the Dezhou plant, it will increase by 7.4%. Going forward, if it continues to operate at full capacity and prices trend stably, net sales can be expected to grow at around the same rate. Since FY12/17, the operating profit margin has trended stably in the 35 to 40% range, so it is forecast to trend in the same range in the future as well. It also seems likely that market share will be maintained at the current level of 33% through the Company utilizing its strengths. Note that in recent developments, PSMC (Taiwan), the world's sixth largest semiconductor contract manufacturer, announced the construction of a new plant in Miyagi Prefecture in a joint venture with SBI Holdings. With a total investment of ¥800bn, the Company expects to launch mass production with 10,000 wafers per month in 2027, expanding to 40,000 wafers per month in 2029. The location is close to the Company's plant, and the move is noteworthy as it is expected to increase sales not only for the wafer reclaim business, but of consumable materials for semiconductor manufacturing equipment as well.

Plan to strengthen production capacity for 12-inch reclaimed wafers

| Plant | Monthly production capacity at period-end | | | | |
|----------------|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Sanbongi plant | 280,000 wafers | 300,000 wafers | 310,000 wafers | 320,000 wafers | 340,000 wafers |
| Tainan plant | 180,000 wafers | 200,000 wafers | 230,000 wafers | 260,000 wafers | 280,000 wafers |
| Dezhou plant* | - | 50,000 wafers | 50,000 wafers | 50,000 wafers | 100,000 wafers |
| Total | 460,000 wafers | 550,000 wafers | 590,000 wafers | 630,000 wafers | 720,000 wafers |

* The Dezhou plant is the portion of the equity-method affiliate SGRS

Source: Prepared by FISCO from the Company's results briefing materials

Capital investment plans

| Plant | (¥bn) | | | | |
|----------------|------------|------------|------------|------------|------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Sanbongi plant | 0.9 | 0.9 | 0.1 | 0.2 | 1.3 |
| Tainan plant | 0.8 | 0.9 | 1.1 | 1.0 | 1.5 |
| Dezhou plant* | 3.0 | 0.5 | 0.1 | TBD | TBD |
| Total | 4.7 | 2.3 | 2.2 | 1.2 | 2.8 |

* The Dezhou plant is a plant of equity-method affiliate SGRS (investment ratio: 19.99%), and the Company was responsible for about 20% of the capital investment

Source: Prepared by FISCO from the Company's results briefing materials

(2) Prime wafer business

In the prime wafer business, the monthly production capacities of prime wafers at the Dezhou plant of Shandong GRITEK* at the end of FY12/22 were 130,000 8-inch wafers, 150,000 6-inch wafers, and 50,000 5-inch wafers. But going forward, it plans to gradually increase monthly production capacity of 8-inch wafers up to 180,000 within 2024, with capital investments of ¥2.0bn in FY2023 and ¥0.4bn in FY2024. While its share of the 8-inch market in China is currently somewhat less than 10%, further sales growth is expected in FY12/24 and beyond as a result of expansion of that market share. Going forward, the Company is looking to expand into markets outside of China by taking advantage of its cost competitiveness, and FISCO believes it is more than likely the Company will expand its monthly production capacity for 8-inch prime wafers in 2025 and beyond.

* Investment of 80% by GRITEK and 20% by the Dezhou government (as of end of June 2023).

Forecasts

Conversely, SGRS, which handles 12-inch prime wafers, through a test line scaled to 10,000 wafers per month at its Beijing R&D building, has succeeded in clearing quality standards at a level that will allow the wafers to be sold as products. Currently, the Company is in the process of bringing in facilities and equipment to its new Dezhou plant, completed in October 2023. It initially intends to build a manufacturing line to produce 50,000 wafers per month, with test operations scheduled to begin in 2024, and to establish technology for a shift to mass production. It plans capital investments of ¥24.0bn in FY2023 and ¥2.0 billion in FY2024, and of these amounts, GRITEK will be responsible for funds corresponding to its investment ratio (19.99%).

Regarding sales strategy, the plan is to ensure quality standards for prime wafers with a circuit width of 28-40 nm, the volume zone for Chinese semiconductor manufacturers, then expand sales. In its policies to expand production capacity, the Company will not only make new investments, but also decrease prices by acquiring manufacturing equipment at low costs, such as through M&A, and first aim to acquire a top share in the Chinese market. As the next step, it plans to meet quality standards for 14-20 nm prime wafers, the volume zone for global markets, with a strategy to conduct sales targeting major semiconductor manufacturers by utilizing price competitiveness achieved through production in China. The Company has received requests from major customers in the wafer reclaim business to purchase prime wafers due to their price advantage, as long as quality standards are ensured and a stable supply system is established, and FISCO believes an expansion of market share is more than likely once that system is in place. The Company has set out a future target of capturing a 30% share of the market for 12-inch prime wafers.

The current situation is that in the Chinese market, 12-inch prime wafers are being sold by overseas manufacturers. Despite large amounts of capital investment by local Chinese companies, they have failed to meet quality standards and have not reached the stage of mass production. It seems they are struggling to achieve silicon ingots with homogenous purity and quality (oxygen concentration, resistance value, etc.) and high yields just as much as before. The Company has invited engineers from major silicon wafer manufacturers to share their expertise with local staff, and it sees quality to be on a level at least as high as in other Chinese local companies. For the polishing and cleaning processes, which are the processes after manufacturing, there are no problems as it can utilize its wafer reclamation technologies. Because of this, we at FISCO believe there is a high likelihood it will establish mass production technologies in 2024. Also, an enormous investment of approximately ¥100.0bn will be required to build the targeted monthly production capacity of 300,000 wafers, so it is considering conducting M&A, including competitors in China, as one option. If the Company can acquire equipment from companies that are currently struggling to establish technologies for mass production, it can suppress investment costs and speed up the time required for monetization. The Company thinks that this situation will become possible in a few years' time. It seems that the investment funds will be jointly undertaken by GRINM, the joint-venture partner, and the Dezhou City Government-affiliated fund.

Forecasts

**Investment plan for prime wafers in China
Shandong GRITEK (consolidated subsidiary)**

Shandong GRITEK (consolidated subsidiary)

| 8 inches | 2022 | 2023 | 2024 |
|--|------|------|------|
| Monthly production capacity (10,000/month) | 13 | - | 18 |
| Capital investment value (¥bn) | * | 20 | 4 |

* Investment already carried out up to FY2021

SGRS (equity-method affiliate)

| 12 inches | 2022 | 2023 | 2024 | 202X |
|--|------|------|------|------|
| Monthly production capacity (10,000/month) | 1*1 | - | 5 | 30 |
| Capital investment value (¥bn) | *2 | 240 | 20 | TBD |

*1 Test line for R&D to realize mass production

*2 Investment already carried out up to FY2021

Source: Prepared by FISCO from the Company's results briefing materials

(3) Pursuit of growth in semiconductor-related consumable materials as a third major income source

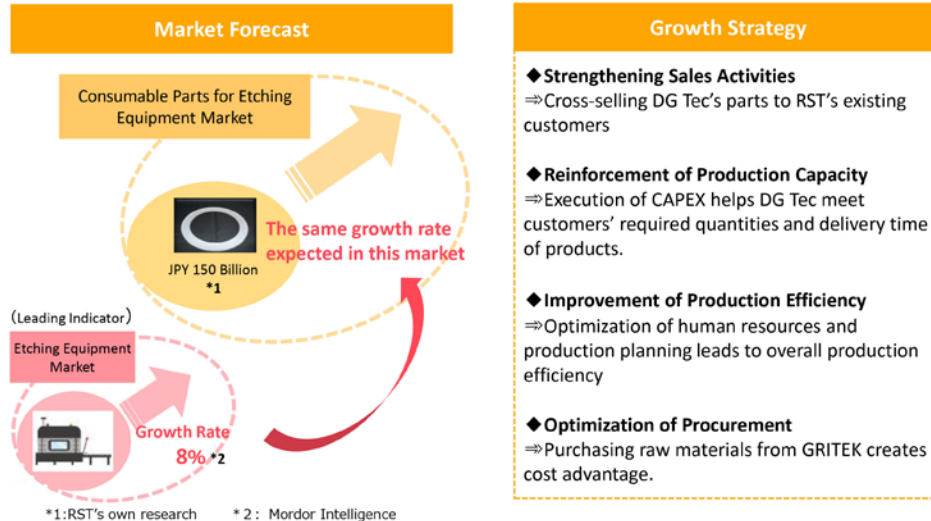
To attain its goal of developing a third major income source outside the existing wafer reclaim and prime wafer businesses, the Company's policy is to focus on semiconductor-related consumable materials handled by subsidiary DG Technologies. Specifically, it aims to increase sales of consumable materials, including quartz rings used to hold silicon wafers in dry etching equipment and silicon electrodes.

The Company estimates that the market for semiconductor-related consumable materials is worth about ¥150.0bn annually and has set its sales goal to a 10% share (about ¥15.0bn) for the time being. It is thought that due to the operations of the new Kurihara plant, net sales increased from the ¥3.0bn range in FY12/21 to the ¥4.0bn range in FY12/22. The operating profit margin remains at a level of low single digits, including because of the impact of the increase in purchasing costs. But in the future, the target is to increase it up to the 30% range, which is the same level as in the wafer reclaim business, from the effects of mass production from the operations of the new plant and the improved productivity at the Kamisu plant.

Despite the presence of multiple competitors in Japan, Taiwan, South Korea, the US, and other countries, the Company's quality and technological capabilities are thought to be at levels which are at least equal to these competitors. Low production efficiency has been an issue in the past due to small-lot manufacturing of a wide range of product types, but the Company is aiming to improve production efficiency, including by installing automation equipment, optimizing personnel assignments, and enhancing production management. At the same time, it aims to reduce costs by inexpensively procuring the silicon it uses as a material from Group company GRITEK as well as through its sales network. On the sales front, it is conducting cross sales for customers in the wafer reclaim business and at the same time, its strategy is to increase its sales share by aiming to acquire genuine product certification from major dry etching equipment manufacturers. The long-term targets are a global market share of around 30% and net sales of ¥45.0bn. The business scale of Techno Quartz Inc. <5217>, a competitor for quartz glass, is net sales of ¥20.0bn and an operating profit margin at the 20% level in FY3/23, and at FISCO, we think that DG Technologies is also capable of raising its operating profit margin to around the 20% level by expanding sales.

Forecasts

Growth strategy of DG Technologies

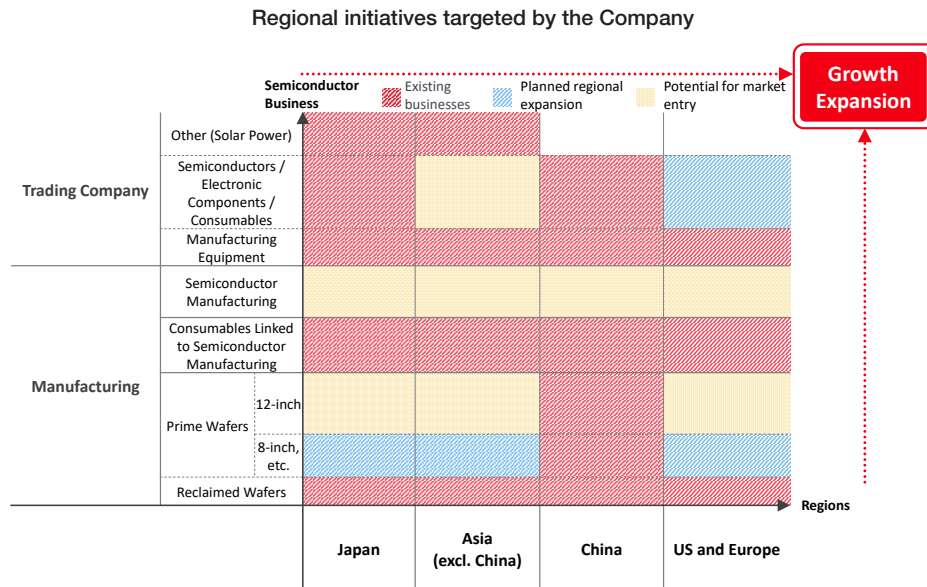


Source: Prepared by FISCO from the Company's results briefing materials

(4) The long-term growth strategy

As its long-term growth strategy, the Company is aiming for growth greater than that of the semiconductor industry by expanding the sales regions and the business areas of its existing businesses. To expand the sales regions, it intends to conduct sales of 8-inch prime wafers produced in China to regions other than China. Also, if SGRS makes steady progress in its 12-inch prime wafers and reclaimed wafers business, the Company will make it a consolidated subsidiary around 2030, and this is expected to contribute to a further expansion of business scale. Other than the above, as a trading company function, it sells semiconductors, electronic parts, and consumable materials in Japan, China, and other parts of Asia, and it plans to sell these products in the European and US markets as well. On the other hand, it will expand the business areas by conducting M&A. The targets are companies with which synergies with existing businesses can be expected in areas peripheral to semiconductor wafers, while semiconductor businesses are also targets. In October 2023, the Company also established a new subsidiary, LE System, to enter the VRFB electrolyte manufacturing business, and developments there will be the focus of attention going forward.

Forecasts



Source: Prepared by FISCO from the Company's results briefing materials

New entry into the business of electrolytes for VRFBs, which is expected to grow rapidly toward the realization of a decarbonized society with the potential to develop into a multi-billion yen business

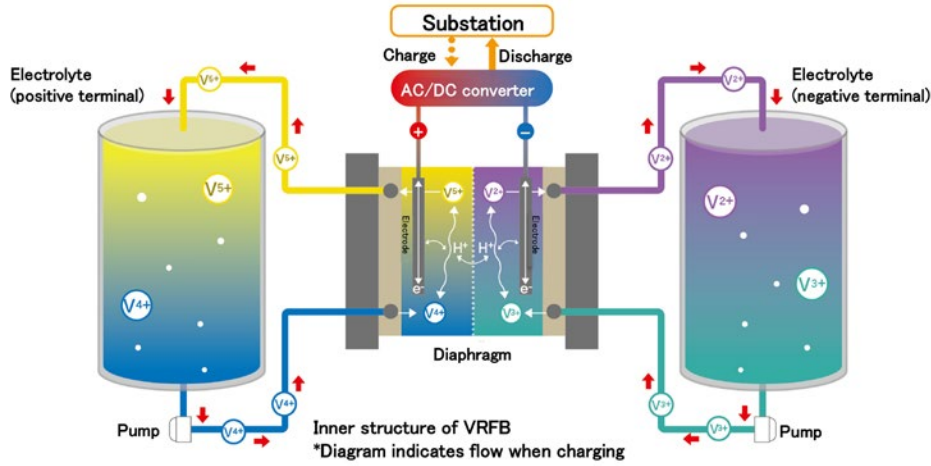
3. Newly entered the market for vanadium redox flow battery electrolytic solutions

(1) About VRFBs

In October 2023, the Company established LE System, a new wholly owned subsidiary to handle the development, manufacture and sales of electrolytes for VRFBs (taking over the business of the former LE System Co., Ltd.) VRFBs are a type of storage battery that has undergone research and development since the 1970s as part of a national project aimed at saving energy. Compared to lithium-ion batteries, which are currently in wide use, they are not suited to miniaturization, but their features include that they are nonflammable, safe, have no long-term performance degradation, and can be charged and discharged without limitation. In addition, storage capacity can easily be increased simply by increasing the amount of electrolyte, and the flexibility of design makes them suitable for large, stationary storage applications, specifically for storing electricity generated by solar power, wind power, and so on. The basic principle of the VRFB is that an electrolyte containing an active substance is circulated between positive and negative electrodes, separated by a separator, using a pump, and the active substance is charged and discharged by passing electrons through the electrodes. Their lack of performance degradation means that in the case of long-term operation, they deliver a cost advantage. In comparisons with lithium-ion batteries (LiB), the Company has calculated that 10-year operating costs are about the same, and that those costs can drop by more than 30% over a 20-year operating span.

Forecasts

Principle of the vanadium redox flow battery



Source: Prepared by FISCO from the materials provided by the Company

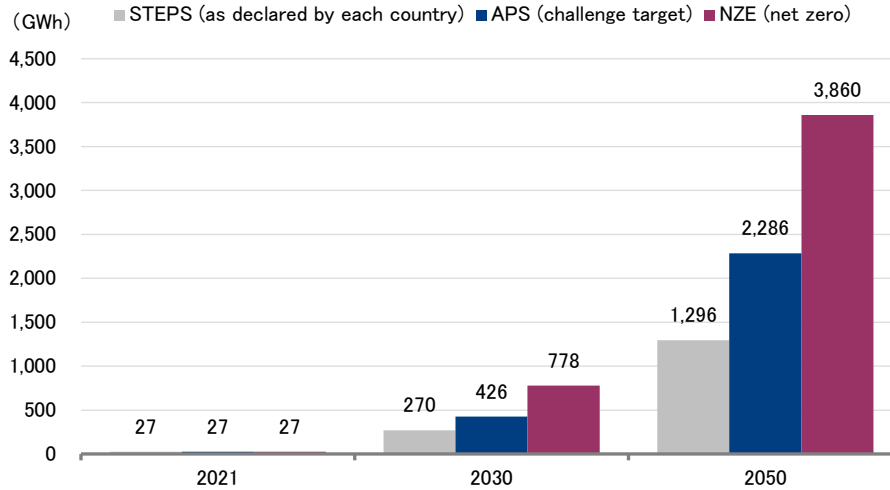
(2) Market outlook

While the daytime supply of electricity from clean energy has increased with the spread of mega solar power plants, cases of such projects being abandoned due to supply and demand concerns are increasingly apparent, and the need for large-scale storage batteries that can store generated electricity and make it available at night is rapidly increasing both in Japan and overseas. According to “IEA World Energy Outlook 2022,” a document included in materials provided by the Company, the most conservative estimate of global stationary energy storage capacity (based on figures declared by each country) predicts that it will expand 10-fold from 27GWh in 2021 to 270GWh in 2030, and 48-fold to 1,296GWh in 2050, with VRFB systems expected to account for a certain percentage of that growth. In particular, in China, the world’s top renewable energy market, the National Energy Administration issued a letter in June 2022 requiring the installation of fire extinguishing equipment, etc. when building large energy storage systems of 6MWh or more, because of the risk of ignition associated with lithium-ion and sodium sulfur (NaS) batteries. This has increased focus on and investment in highly safe VRFBs. In addition, projects for large-scale energy storage systems using VRFBs are beginning to take off in Europe, the United States, and Australia.

New VRFB storage capacity is expected to grow rapidly from 1.5GWh in 2022 to 20GWh in 2028, 50% of which will be in Asia, primarily China. In terms of the equivalent electrolyte market, it will expand from 90,000 m³ in 2022 to 1.2mn m³ in 2028, a rate of more than 50% per year.

Forecasts

Stationary large battery storage capacity



Note: Prepared by LE System based on "IEA World Energy Outlook 2022"
 Source: Prepared by FISCO from materials provided by the Company

(3) Strengths of LE System

Currently, most electrolyte manufacturers are Chinese, and LE System only began full-scale production in 2023, but going forward it aims to capture the top share in the market for electrolytes for VRFBs. LE System has identified three core competencies for capturing that top market share, including: The ability to procure a stable supply of vanadium as a raw material; cost competitiveness in the electrolyte production process; and comprehensive technology strengths that will enable collaboration with numerous battery manufacturers. LE System intends to leverage these strengths in selling to VRFB manufactures in Japan and overseas.

a) Ability to procure a stable supply of vanadium

The four main vanadium-producing countries are South Africa, China, Russia, and the US, which together account for more than 90% of production. More than 80% of its applications are for steelmaking additives (to improve strength and heat resistance), but it is also widely used in the chemical and electronics industries. While vanadium pentoxide is commonly used as a VRFB electrolyte, there was an issue with market fluctuations making it very difficult to control procurement costs. To mitigate the risk of market fluctuations, LE System has a variety of technologies to recover vanadium from waste (residue) discharged from thermal power plants and plant facilities, etc. LE System also aims to establish a stable procurement system by partnering with major domestic and foreign oil companies and steel manufacturers, as well as major South African mining companies.

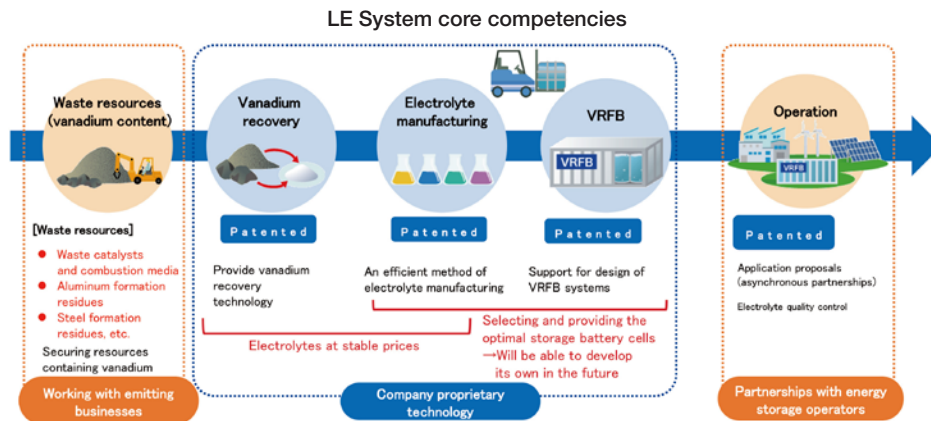
Forecasts

b) Cost competitiveness

The general electrolyte production flow involves purchasing vanadium pentoxide, dissolving and filtering it, then converting it to a 3.5 vanadium oxide solution through an electrolytic reduction process to make electrolytes. By contrast, LE System has established a technology for producing electrolytes directly from ammonium metavanadate (“AMV”), an intermediate product generated in the process of refining vanadium pentoxide. LE System estimates that electrolyte production costs will be about 50% of that of other companies because AMV is negotiated on a relative price basis and can be procured at a lower cost than vanadium pentoxide; electricity costs can be reduced to less than half because dissolution time is 4/5ths shorter; and a reduction device with a higher liquid surface contact area compared to other companies is used. Since electrolyte production accounts for about 35% of the cost of VRFBs, this system is attracting attention as a technology that could lead to lower costs for the entire system. Another strength, according to its own research, is that the electrolyte contains fewer impurities than other companies’ products and is of higher quality. This is because fewer impurities are seen as more suited to long-term operation. In addition, lead-free and antimony-free technologies have been established so that the product is compatible with environmental regulations.

c) Comprehensive technology strengths

LE System sees its strengths in: A team of technical advisors who have been involved in the development of VRFB-related technologies in Japan for over 30 years; an established network at the development level with cell manufacturers in Japan and overseas as it continues research in and development of electrolytes; VRFB design technology which enables it to develop proprietary cells and propose VRFB systems. In terms of its patent strategy, LE System holds patents in vanadium recovery technology, electrolyte production processes, and VRFB system design, among others (14 patent applications, of which five have been granted).



Source: Prepared by FISCO from materials provided by the Company

Forecasts

(4) LE System current status and forward outlook

LE System currently has its R&D center at the Tsukuba Technical Center, as well its Namie plant (Fukushima Prefecture) which was completed in September 2021 and serves as its mass production plant. The Namie plant has a production capacity of 5,000 m³/year, but it did not go into operation until 2022, and thus has no sales results. However, in 2023, the company received orders from several Asian manufacturers and began mass production. The company acquired technical certification for its Namie plant at the end of 2022 from Sumitomo Electric Industries, Ltd. <5802>, a domestic VRFB manufacturer, and expects to capture orders soon. In Japan, the Company plans to increase production capacity by 5,000 m³/year by 2025, using subsidies from a subsidy program for companies that create jobs that support independence and a return home. However, in response to a growing number of inquiries from Chinese manufacturers, it is also considering establishing a new manufacturing base in China. If Le System does enter that market, it is expected to be with a 50,000 m³/year plant. China is also the world's largest renewable energy market, so growth expectations are high.

In the future, the Company aims to build a production system with a capacity of 150,000 m³/year, which, at current electrolyte sales prices, would amount to about ¥90.0bn. Considering that mass production will lead to lower prices, it is more than likely that this will grow into a multi-billion yen business, and further developments will be closely watched.

■ Returns to shareholders and ESG initiatives

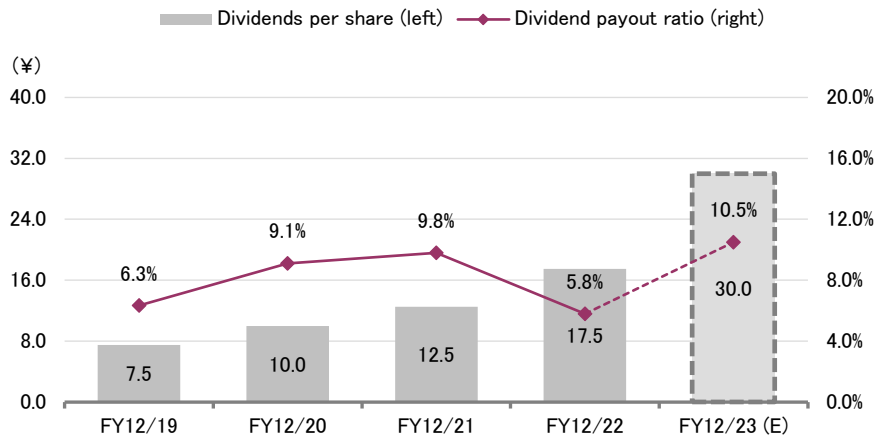
Company announces that the dividend per share for FY12/23 will be ¥30.0, a YoY increase of ¥12.5.

1. Shareholder return policy

Making fair returns to shareholders is an important concern of management, and the Company's basic policy is to return profits to shareholders by paying dividends. It demonstrates a flexible policy of paying out dividends after considering a comprehensive range of factors, including current profits, the outlook of its medium-term management plan, financial condition and investment plans. On December 22, 2023, the Company announced that it will pay a dividend of ¥30.0 per share for FY12/23 (a payout ratio of 10.5%), an increase of ¥12.5 over the previous fiscal year, taking into account that consolidated results were on track to achieve plan. This will be the sixth consecutive year of increased dividends. While a payout ratio of 10.5% is not high, the Company's basic stance is to reward shareholders by increasing corporate value through profit growth, as it needs to continually allocate funds to capital investment, human resources and M&A to achieve future growth. That said, the Company is expected to gradually round up its dividend level going forward, as the Company is conscious of a long-term payout ratio level of 30%.

Returns to shareholders and ESG initiatives

Dividends per share and dividend payout ratio



Note 1: FY12/22 includes a commemorative dividend of ¥2.5 following the listing of the Chinese subsidiary
 Note 2: The Company conducted a 1:2 share split on December 31, 2022, so the dividends have been retroactively adjusted
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. ESG initiatives

The Company is advancing the following initiatives from an ESG perspective to help achieve a sustainable society.

(1) Environment

The Company has formulated an environment policy, and based on ISO14001, it has established quality and environmental management committees to conduct environmental impact evaluations for environmental problems, such as those relating to environmental pollution and energy use, and after setting annual targets, it progresses environmental improvement activities. Specifically, as measures to prevent environmental pollution by plants, it defines management standard values for the chemical substances selected by the Company, conducts monthly monitoring and yearly management reviews, and works to reduce emissions. Additionally, to conserve the water environments in the areas around its plants, the Company sets its own drainage standards and regularly monitors drainage by plants, and works to prevent water pollution. It is also working to reduce the amount of industrial-waste emissions by recycling waste and to reduce industrial water usage and improve the reuse rate. In addition, as a measure to prevent global warming, it is working on reducing energy usage and reducing CO₂ emissions by installing solar power generation facilities (power generation capacity, 1.5 MW).

The wafer reclaim business can itself be positioned as an environmentally friendly business, because the use of reclaimed wafers contributes to reducing the consumption of energy that is necessary to manufacture new wafers. The CO₂ emitted in manufacturing reclaimed wafers is only around 1/9th of the emissions of manufacturing new wafers, so it contributes significantly to reducing CO₂ emissions.

Returns to shareholders and ESG initiatives

Track record of environmental initiatives

| | Chemical material usage (kg/k wafers*1) | Industrial-waste emissions (excluding sludge*2) (kg/k wafers) | Water usage (m ³ /k wafers) | Energy usage converted to crude oil (kl/k wafers) | CO ₂ emissions (t/k wafers) |
|--------|---|---|--|---|--|
| FY2017 | 116.104 | 31.228 | 165.620 | 0.969 | 2.218 |
| FY2018 | 111.324 | 28.766 | 158.698 | 0.906 | 1.995 |
| FY2019 | 117.133 | 32.075 | 153.998 | 0.899 | 1.981 |
| FY2020 | 124.921 | 31.855 | 136.524 | 0.844 | 1.846 |
| FY2021 | 119.098 | 29.463 | 123.995 | 0.795 | 1.739 |
| FY2022 | 116.766 | 30.162 | 107.084 | 0.739 | 1.559 |

*1 Calculated by converting the number of reclaimed wafers manufactured at the Sanbongi plant to 8-inch wafers

*2 Sludge is disposed of at a facility shared with other companies, so it is difficult to ascertain sludge for the Company alone and it is excluded from industrial-waste emissions.

Source: Prepared by FISCO from the Company's website

(2) Society

To provide high quality products and services to customers, the Company has constructed a quality assurance system that is based on the quality policy formulated in-house. It conducts quality control and is continuously working to improve quality through a quality management system based on ISO9001.

The Company's code of conduct for employees is "Aim to create a free and open corporate culture in which diversity is respected and work environments that are easy to work in," and it is working to recruit and develop diverse human resources and to create environments that are easy to work in. Specifically, it has formulated an action plan toward a work-life balance for up to 2025, and its aims are to reduce work hours outside of the prescribed work hours, improve the rate of employees taking paid leave, and increase their usage of the childcare and nursing care leave systems. It is also creating work environments in which women can be active and is aiming to increase the percentage of employees who are women (currently above 40%, excluding night-shift workers).

The Company is working to disclose information appropriately to shareholders and investors. For local communities, employees actively participate in local volunteer activities, while it also actively accepts members of local communities, such as through work experience, plant tours, and internships, and it is contributing to developing the next generation.

(3) Corporate governance

In accordance with its corporate philosophy and code of conduct, the Company's management targets are to fulfill its social responsibilities in relation to its various stakeholders and to maximize enterprise value. To achieve these targets, it has positioned conducting management with enhanced corporate government as an important issue and is working to strengthen it. As a specific measure for this, following a resolution at the general meeting of shareholders in March 2022, it transitioned from being a company that establishes an auditing committee to a company that establishes auditing and other committees. It will strengthen the supervisory function over the board of directors by appointing to the board audit committee members who will be responsible for auditing and supervising the directors' execution of duties. Also, by separating business execution from supervision, it is aiming to speed up decision-making and further improve enterprise value.

Other than these initiatives, as an organization that conducts risk management, the Company has established a risk management committee that regularly evaluates business activities and other aspects. If there are risks, measures are taken to counter them. In addition, it has formulated a basic policy for compliance and once a year conducts compliance education and training for all employees, while it has also built an information security management system and is working to ensure compliance with information security-related laws and norms.



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