August 30th, 2024

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Announcement of Release of Video and Transcript of Financial Results Briefing for Second Quarter of FY 2024

RS Technologies has released the following archived video and transcript of financial results briefing for second quarter of FY 2024 held on August 9th, 2024.
At this briefing session, Satoru Endo, Director and Senior Executive Officer, provided an overview of the financial results for the second quarter of FY2024 and the progress of the medium-term management plan. He also answered questions asked by shareholders and investors during the briefing session.
We hope that it will be useful for all shareholders and investors to review the material.

1. Account Summary of the meeting

Day and Time :
August 21,2024
Speaker:
Satoru Endo, Director and Senior Executive Officer
Susumu Saito, Corporate Officer

2. Source

Archived Video：
https://www.irmovie.jp/nir2/?conts=rs-tec_202408_mO3s
Financial Results（English）：
https://contents.xj-storage.jp/xcontents/AS02916/ad5195b9/cd4c/40e6/8c27/29027b891a47/140120240809569377.pdf



Good morning.

Thank you very much for attending today's briefing on our financial results for the second quarter of the fiscal year 2024.
My name is Endo, Director and Senior Executive Officer.

Now,I would like to begin my presentation.

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For today's presentation, I will skip to talk about our company profile.
Therefore, those who are interested in our company profile,
please refer to the video and transcript of the previous financial results briefing for FY 2023.

Summary of Financial Results for FY2024/12 2Q

02

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Now, let me start from the financial summary on page 12.

Financial Results for the Second Quarter of FY 2024 (Cumulative)

- **Net sales increased by 15.0% year on year to 30,068 million yen**
- **Operating income decreased 4.8% year on year to 6,082 million yen**

(million yen)

	FY 2023 2Q	FY 2024 2Q	Year-on-Year	Difference
Net Sales	26,126	30,068	+15.0%	+3,942
Operating Income	6,395	6,082	△4.8%	△313
Operating Margin	24.4%	20.2%		△4.2pt
Ordinary Income	7,741	7,896	+2.0%	+155
Ordinary Margin	29.6%	26.2%		△3.4pt
Net income attributable to owners of parent	3,722	3,833	+2.9%	+111
EPS (JPY)	141.64 yen	145.42 yen	+2.6%	+3.78 yen

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This is a summary of the financial results for the second quarter of 2024.
Compared to YoY, net sales increased by 15% to 30,068 million yen, operating income decreased by 4.8% to 6,082 million yen,
ordinary income increased by 2% to 7,896 million yen, and net income attributable to owners of parent increased by 2.9% to 3,833 million yen.

Financial Results for the Second Quarter of FY2024 Segment Trends (Cumulative)

- In the reclaimed wafer business, sales and profits increased year on year due to the start of orders from a new semiconductor customers.
- Sales and profits in the prime wafer business decreased year-on-year, partly due to the slowdown in the Chinese market, but the recent business has recovered substantially.
- Sales in the semiconductor-related equipment &materials business increased year-on-year, partly due to the impact of large projects in the first quarter.

(million yen)

	Reclaimed Wafer Business	YoY	Prime Wafer Marketing Business	YoY	Semiconductor-related Equipment & Materials Business	YoY	Other adjustments	YoY	Consolidated total	YoY
Sales	11,035	+14.1%	10,111	△1.1%	9,408	+37.7%	△486	–	**30,068**	**+15.0%**
Operating Income	4,232	+17.3%	2,206	△15.4%	454	△25.4%	△810	–	**6,082**	**△4.8%**
Operating Margin	38.3%	+1.1pt	21.8%	△3.6pt	4.8%	△4.1pt	–	–	**20.2%**	**△4.2pt**

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Here are the financial results by segment in the first half of the fiscal year.

In the reclaimed wafer business, both sales and profits have been strong.
In addition, we started to receive purchase orders for test wafers from newly established semiconductor manufacturing plants in various regions.
From the second half of the fiscal year, the effects of capital investment in 2024 will also contribute to further growth.

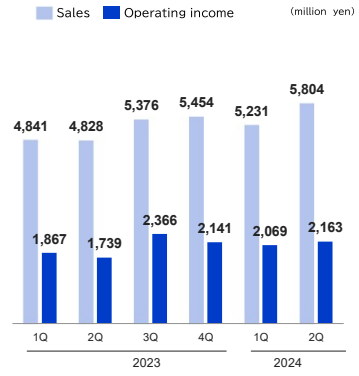
In the prime wafer business, the impact of the slowdown in the Chinese market from 2023 has been continued.
As a result, it ended with negative growth YoY.
However, as for the current performance in 2024, both sales and profits are on an increasing trend.
We are seeing positive movements toward the market recovery from the second half of 2024, which we have been expecting since the beginning of the fiscal year.

In the semiconductor-related equipment and materials business, sales increased significantly due to the impact of the large spot projects in the first quarter.
Operating income has not yet reached the level of the previous year, but we believe that it is definitely entering a recovery trend.

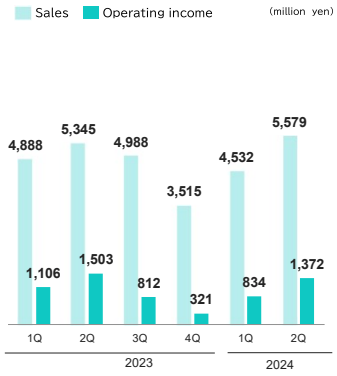
Quarterly Results for the FY2024

- Reclaimed wafer business grew both in unit price compared to the first quarter of 2024. OP margin: 37.2%
- Shipments in prime wafer business increased markedly due to the recovery of the semiconductor market in China. OP margin: 24.5%
- In the semiconductor-related equipment and materials business, sales of scanning acoustic tomograph were strong. OP margin: 9.4%

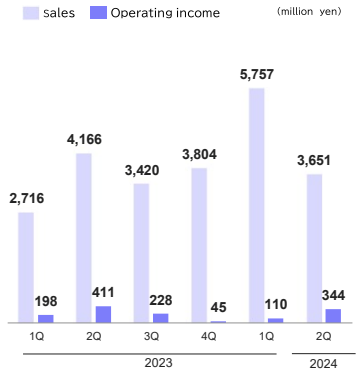
Reclaimed Wafer Business



Prime Wafer Business



Semiconductor-related equipment and materials business



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This is the quarterly performance chart by segment.

◆Reclaimed Wafer Business
The reclaimed wafer business has been able to maintain a high profit structure.
In the second quarter of each fiscal year, we are conducting regular maintenance at our plants in Japan and Taiwan.
Because of it, the operating profit margin decreased by about 2 points from each quarter.
However, the trend is in line with our business plan.

◆The prime wafer business:
Because there are signs of recovery in the semiconductor market in China, and sales and profits increased compared to the first quarter.
Shipment volumes increased for all sizes, particularly 8-inch on the back of increased demand.

◆Semiconductor-related equipment and materials business
sales of scanning acoustic tomograph (SAT) performed well.
DG Technologies ' financial performance are on an improving trend due to a recovery in the semiconductor market.

Balance Sheet

Net assets increased by ¥14.6 billion from the end of the previous year to ¥130 billion (¥115.4billion in the previous year)

(million yen)	FY 2023/12	FY 2024/12 2Q
Current Assets	96,409	**104,605**
Cash and Deposits	70,758	**77,802**
Notes and accounts receivable-trade	12,673	**17,107**
Merchandise and finished goods	6,507	**3,557**
Fixed assets	44,256	**50,841**
tangible fixed assets	35,326	**41,139**
intangible fixed assets	266	**277**
Investments and other assets	8,663	**9,424**
Total assets	140,666	**155,446**
Current liabilities	18,265	**18,275**
Notes and accounts payable	5,174	**6,265**
Short-term debt	3,355	**3,625**
non-current debt	6,973	**7,122**
Long-term debt	2,092	**1,561**
Total liabilities	25,238	**25,397**
Net assets	115,428	**130,049**
Total liabilities and net assets	140,666	**155,446**

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Here is our balance sheet.

Net assets increased ¥14.6 billion year on year to ¥130 billion.



Next, I would like to explain the progress of our medium-term management plan.

Overview of the Medium-Term Management Plan (2024-2026) (Base Plan)

➢ **While a strong sense of stagnation in the semiconductor market will be still remained in the first half of 2024, sales are expected to exceed 2023 as the recovery trend is expected from the second half of the year.**

・In the reclaimed wafer business, capital investments at 3 sites in Japan, Taiwan, and China to increase production capacity will be carried out.

・In the prime wafer business, capital investments to increase our market share at 8 inches and 12 inches in China will be executed.

・In the semiconductor equipment and materials business, entering into new markets and acquiring new customers.

Base Plan＊1

＊1: Medium-term management plan for three existing businesses (Reclaimed Wafer Business, Prime Wafer Business, and Semiconductor Equipment and Materials Business)

(Million Yen)	FY2023 (Actual)	FY2024	FY2025	FY 2026
Net Sales	51,893	54,900	59,300	64,100
growth rate		*106%*	*108%*	*108%*
Operating Income	11,894	14,000	15,330	16,830
%	22.9%	25.5%	25.9%	26.3%
Ordinary Income	14,921	15,400	16,730	18,230
%	28.8%	28.1%	28.2%	28.4%
Net Income	7,703	7,600	8,200	8,800

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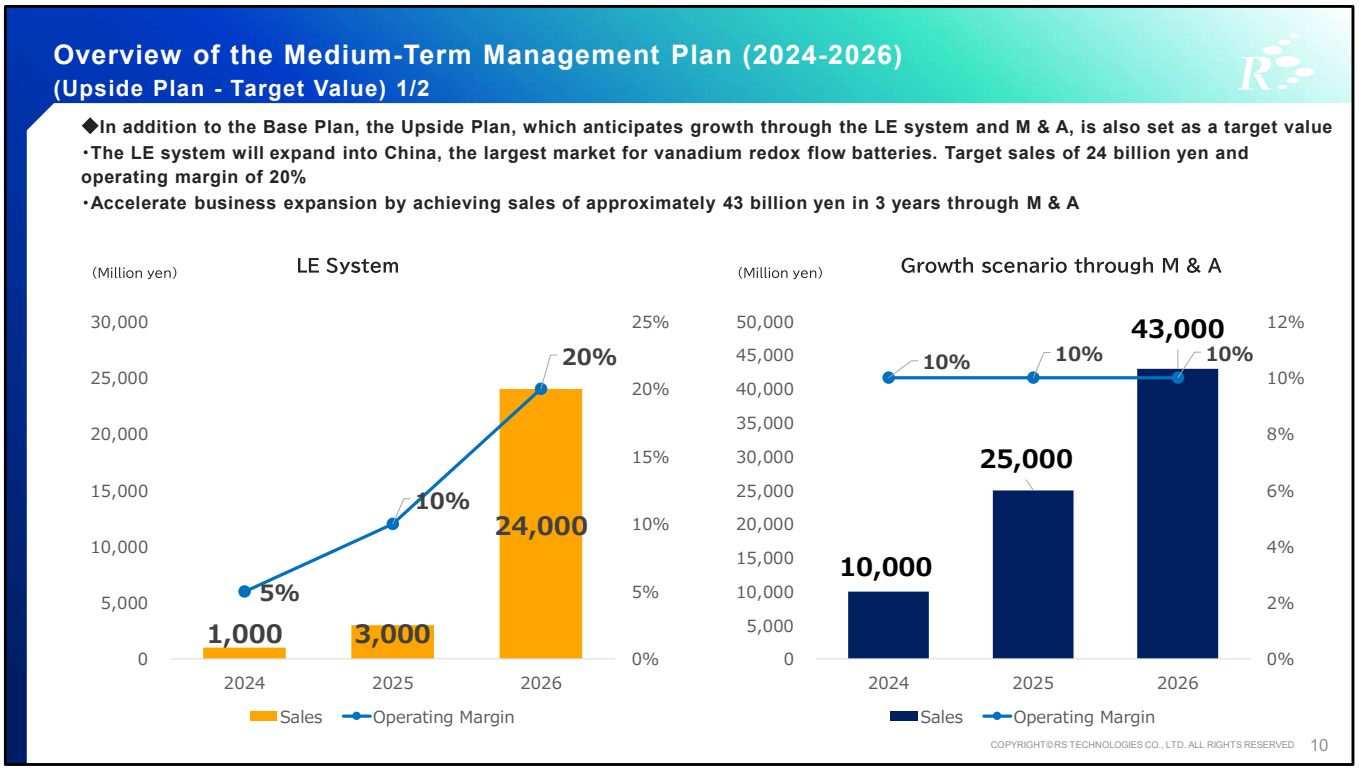
Compared to the first-half forecast disclosed in a report,
sales increased by 13.4% to 30,068 million yen.
ordinary income increased by 8.1% to 7,896 million yen and interim net income increased by 3.5% to 3,833 million JPY.

The increase in sales is mainly due to the impact of winning large bulk sales projects in the semiconductor-related equipment and components business in the first quarter.

In terms of operating income, although the result did not exceed our forecast, we expect that it will show strong recovery from the second-half year.

We will work to achieve further growth in the second half, when the semiconductor market is said to be recovering.



We are currently making concerted efforts to achieve the upside plan.

In the renewable energy business, LE System, which uses vanadium redox flow batteries,
we have already received orders and started manufacturing.
In addition, there are inquiries and negotiations underway, so we will work hard to achieve the plan.
In addition, in order to achieve the sales of 24 billion yen in 2026, we believe it is necessary to invest to expand our production capacity.
The details of the investment are at the stage of internal consideration, so we will disclose them as soon as they are decided.

Regarding M & A, the TOB of Helios Techno Holdings fell through.
We are working to achieve the medium-term management plan
by continuing to scrutinize projects.

再生ウェーハ事業

Capital Investment Plan: Reclaimed Wafer Business

- Increasing production capacity in Japan and Taiwan and mass production in Shandong Province, China, to meet strong demand
- Planning production capacity of 890,000 wafers per month by 2026 to meet its demand

Japan

Total investment **3 billion JPY**

FY 2024	FY 2025	FY 2026
200 million yen	1.3 billion yen	1.5 billion yen

Expansion of production capacity for 12 inch reclaimed wafers and response to miniaturization

2024 – 2026:

Monthly production: increasing + 40,000 wafers/month

Monthly production capacity of 12 inch reclaimed wafers

2023	2024	2025	2026
310,000	320,000	340,000	360,000

Taiwan

Total investment **6 billion JPY**

FY 2024	FY 2025	FY 2026
1 billion yen	1.5 billion yen	3.5 billion yen

Expansion of production capacity for 12 inch reclaimed wafers and response to miniaturization

2024 – 2026:

Monthly production: increasing +70,000 wafers/month

Monthly production capacity of 12 inch reclaimed wafers

2023	2024	2025	2026
230,000	260,000	280,000	330,000

China

Total investment **6.1 billion JPY**

FY 2024	FY 2025	FY 2026
100 million yen	3 billion yen	3 billion yen

Expansion of production capacity for 12 inch Reclaimed wafers

2024 – 2026:

Monthly production: increasing + 150,000 wafers/month

Monthly production capacity of 12 inch reclaimed wafers

2023	2024	2025	2026
50,000	50,000	150,000	200,000

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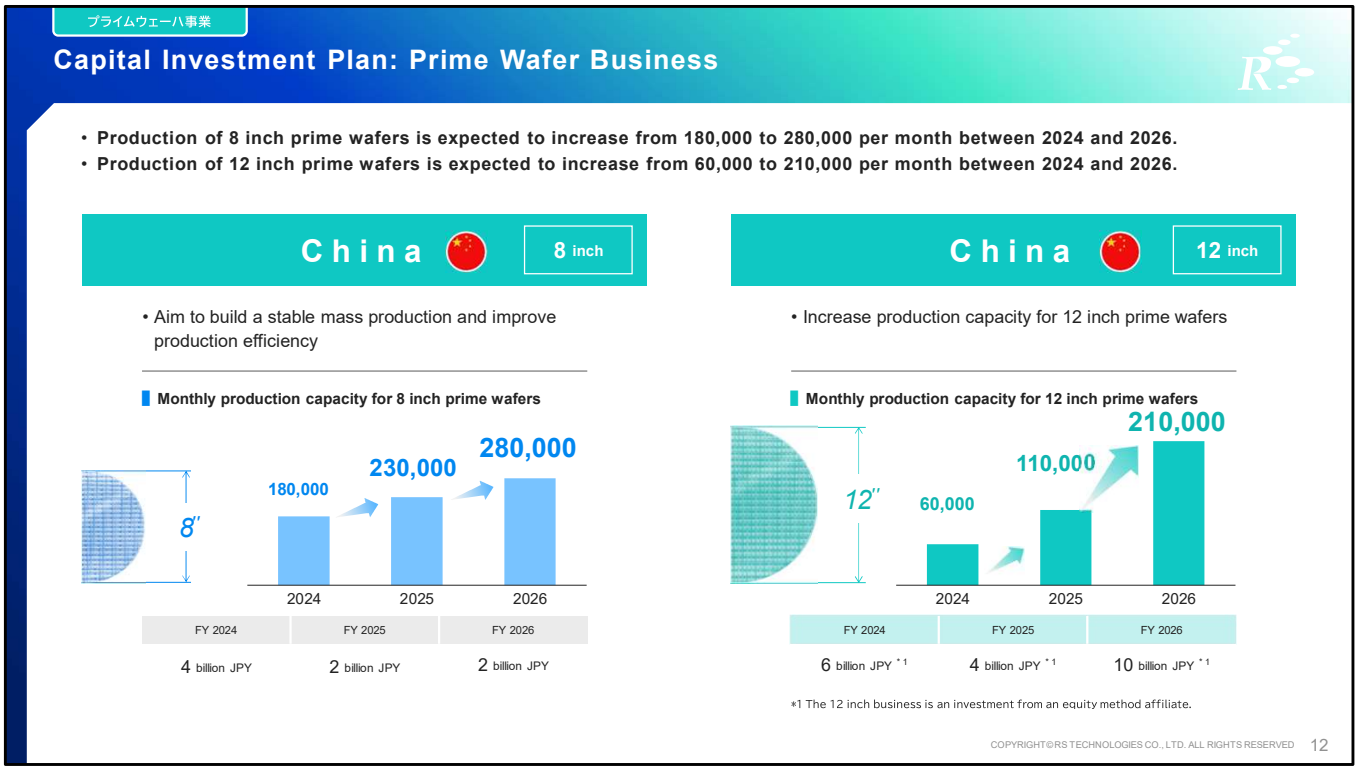
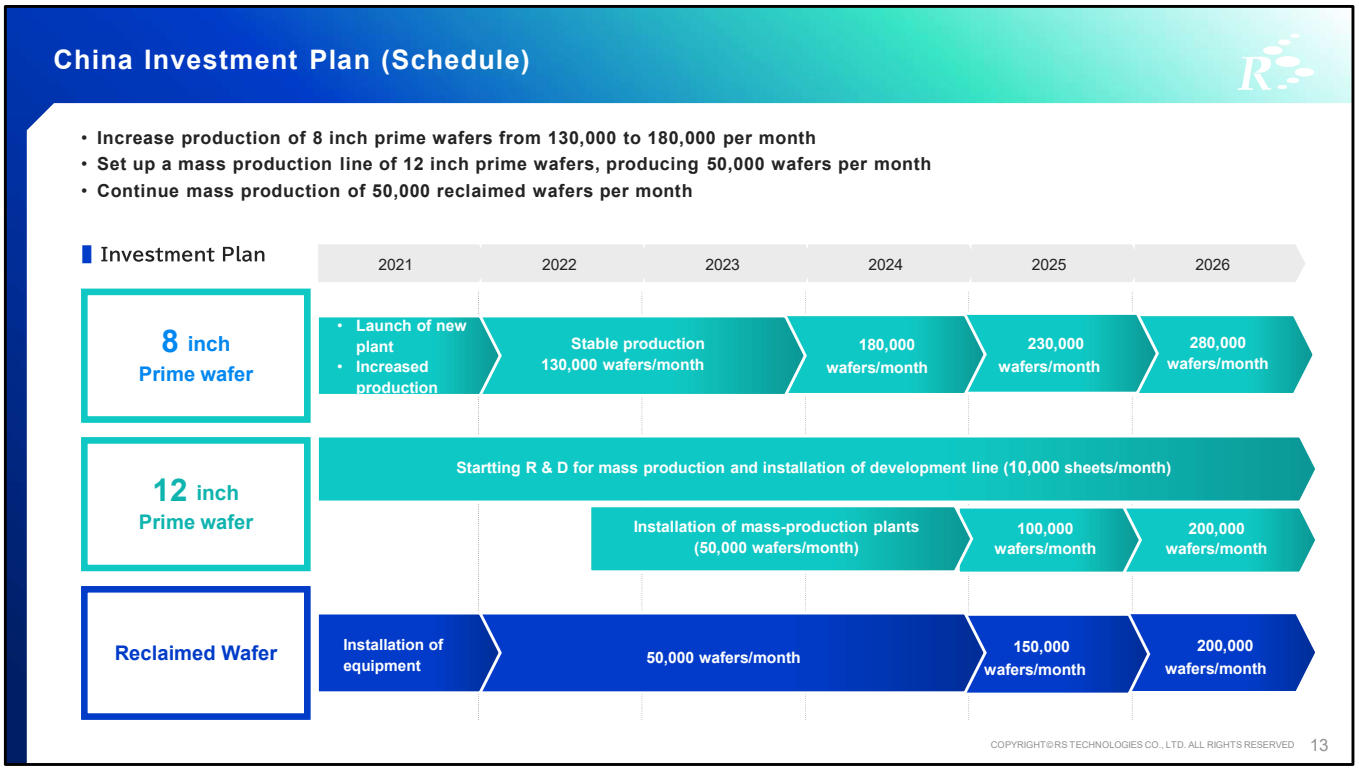
Our capital investment plan is currently progressing as expected.
The effect of investment to increase production in Japan and Taiwan is expected to contribute to business results from the third quarter.



This is about our capital investment plan in the prime wafer business.
We have already prepared to increase the production capacity of 8 inch wafers to 180,000 wafers per month,
which contributed to the production volume in this second quarter.

On the other hand, we are proceeding with 12 inch prime wafers while monitoring the semiconductor market in China.
We believe that there is a good possibility that the movement toward in-house production of semiconductors will become stronger in China in the future, but there is no major movement at this stage.

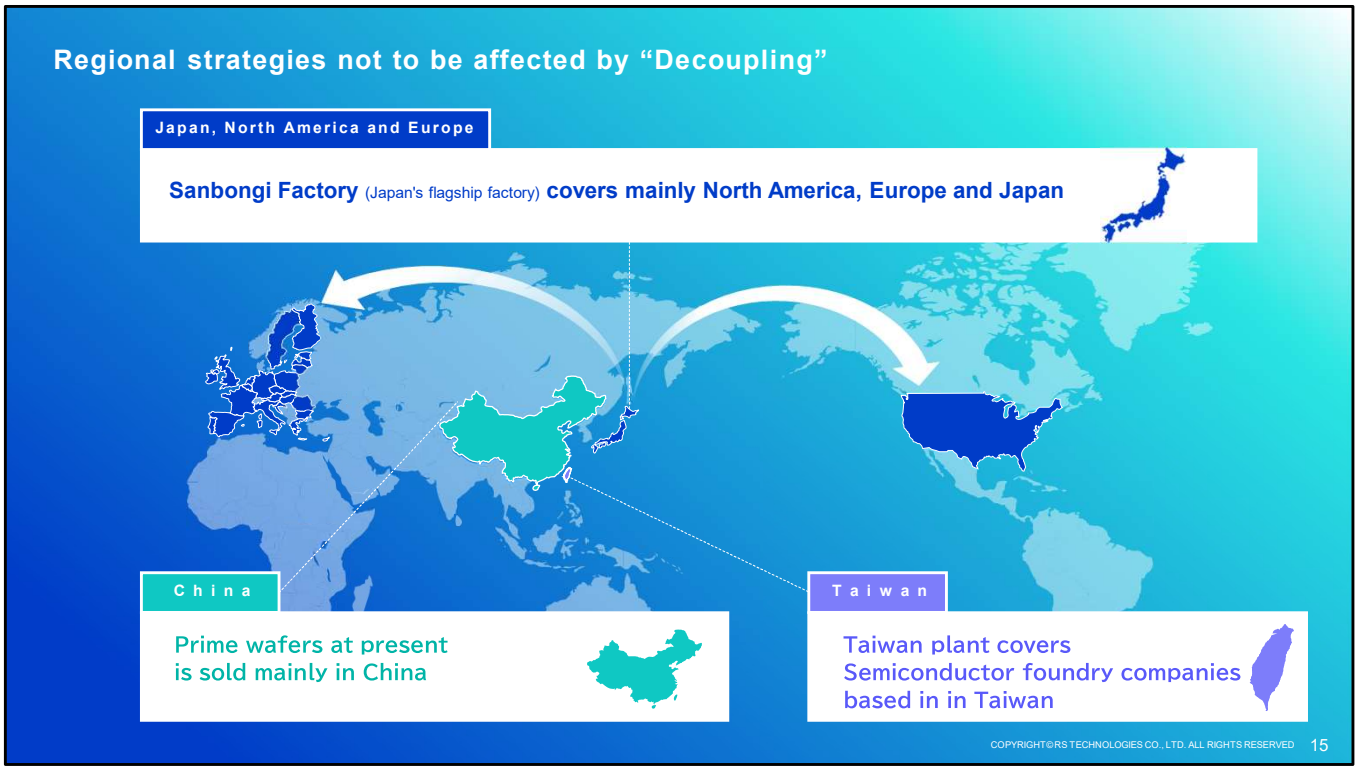
In order to capture demand and gain the market share when the market trends change,
we are currently in the stage of making preparations by improving our technology and maintaining our financial strength.



There are currently no changes to the initial investment plan.



We have already received orders from our new semiconductor plant, which will be a customer of our reclaimed wafer business.
When the new plant is established, test wafers will be used for test operations.
Although there are fluctuations from month to month, we will receive orders for reclaimed wafers even before the plant starts full-scale operations,
we will expand our production capacity through capital investment to capture such demand.



We are also continuing to implement strategy to deal with decoupling.
We are building a system that will minimize the impact on our business and customers even if the U.S.-China trade friction becomes serious.

This concludes my explanation.

Thank you for your attention.

【Q&A】

Q１：What are your company's competitive edge against competitors in reclaimed wafers?

Endo: One is our sales force. In particular, our competitors sell to overseas customers through agents, while we sell directly to customers. Therefore, compared to using agents, we can directly capture our customers' needs more precisely and take quicker actions than competitors using agents.

The second is the number of times we reclaim wafers. Our reclaimed process has the technologies and know-how to increase the number of time wafers can reclaim more than other companies do. Our technologies focus on how to process silicon wafers without damaging them.

The third is that our proprietary technology can remove copper attached to silicon wafer. Copper is one of the most problematic elements among metallic impurities, so customers can re-use the wafers.
These three points differentiate us from other companies and we regard them as our competitive edge.

Q２：Who are our main competitors in recycled wafers?

Endo: Our main competitors in reclaimed wafers are two in Japan and three in Taiwan.

Q３：What is the reason for the 2.3% decline in operating margin in the wafer reclaimed business from the previous quarter?

Endo: This is due to regular large-scale maintenance in Japan and Taiwan in Q2. Although the operating margin declined slightly, it remains in line with our plan.

Q４：What is the forecast of the wafer reclaimed business in Q3?

Endo: The market and demand for reclaimed wafers remained strong in Q2 and we expect them to remain strong in Q3 as well. As the semiconductor market has recovered, we are already seeing strong demand from newly established semiconductor factories in Japan and overseas. We expect that demand will be boosted more than 2Q and we have already prepared to serve the increasing demand in Q3.

Q５：Is the profit margin of the reclaimed wafer business expected to increase?

Endo: We believe that the profit margin is already at a high level, we want to keep the margin in the same level.

Q６：What are your plans for compound semiconductors market?

Endo: Regarding our approach to compound semiconductors, of course, we are monitoring the situation because the process in compound semiconductor is similar to what we do. When we think it is better to make a move, we would like to enter into the market, for example, SiC (silicon carbide) and other compound semiconductors.

However, we have no concrete plans at this point. If the demand increases in the future, we would like to consider specific plans.

Q７：Regarding prime wafers, what is the background to the recent improvement in demand in China?

Endo: Our 8-inch prime wafers are mainly used in semiconductors for EVs, automotive, industrial products, home appliances and so on. The increasing demand for these products in China positively affects our business performance in Q2.

Q８：In the Chinese 8-inch prime wafer market, you mentioned that demand for EV related products was strong, but compared to the current market, it seems strange. Is the production of automotive semiconductors in China still increasing?

Endo: As for the overall market situation, there are various types of EV and automotive products, although the media in general covers that the EV market in China slows down, and our wafer demand for automotive use is increasing, which is reflected in our business performance. Therefore, we can say that demand for our prime wafer is increasing.

Q９：Your sales in prime wafer business are recovering while the recovery of 8-inch prime wafers is lagging among major competitors. Is it fair to assume that your share of 8-inch prime wafers is increasing in China?

Endo: I cannot say why other companies' 8-inch prime wafers are declining, but

our target market is China. Within the Chinese market, our main applications will be power semiconductor including chips for automotive, IGBTs, industrial machinery, home appliances and so on. In this regard, we believe that the Chinese market is becoming more active, which is driving our sales and profits.

Q10: Can you tell us more about the 12 inch prime wafer market in China? It seems that your companies in China are struggling due to continued losses. Can you tell us about the medium-term outlook?

Endo: I believe that the Chinese market for 12 inch prime wafers will definitely grow in the future. However, at this point in time, we do not see that much growth. As a matter of fact, competitors manufacturing 12 inch prime wafers in China have excess capacity from where I see it, partly because of excessive preemptive investment.

As I told you, it seems to me that other companies has conducted excessive investment and has spent a large sum of money in it. Having said that, I believe that they are facing an extremely difficult situation in this market.
Meanwhile, we are making capital investments in a way that meets demand. At this point in time, we are focusing on receiving certification from semiconductor manufacturers and accumulating technical capabilities to meet their needs. Unlike other companies, I'd like to stress that we are making capital investments in line with market conditions.

Therefore, I believe that we are able to contain the large-scale negative effects that other companies are facing. There is no doubt that the market for 12 inch prime wafers in China will expand in the future, so we will make capital investments in a timely manner and establish a manufacturing line for mass-production.

Q11: What are the factors behind the improvement in the operating margin of the prime wafer business?

Endo: There are a number of factors behind the improvement in the operating margin of the prime wafer business. There are two main factors; one is that we were able to reduce costs in the procurement of materials. Another is that our efforts to improve production efficiency led us to lower manufacturing costs.

Q12: When will the 12 inch prime wafer market in China pick up a steam in earnest?

Endo: It is difficult to predict, but at present we predict that the market will pick up a steam in 3 to 5 years. We expect that mass production of 12 inch prime wafer will be active in about 3 years.

Q13: If the 12 inch prime wafer market in China gain momentum somewhere between 2027 and 2029, what is the expected business environment until then?

Endo: I mentioned 2027 as a target, but I think the 12 inch prime wafer market in China will continue to grow until then. We will continue to invest in line with the market growth and create a structure that will allow us to capture market demand when it grows on a large scale.

By 2027, in addition to capturing current demand, we will work with semiconductor manufacturers to prepare for large-scale mass production in the future.

Q14: What is the current status and future outlook for the semiconductor related equipment and material business?

Endo: In semiconductor-related equipment and material business, we expect demand for Scanning Acoustic Tomograph (SAT) remains firm. As capital investment in semiconductor manufacturers has gaining momentum around the world, we expect that the performance in semiconductor related equipment and material business will also recover as well.

In fact, DG Technologies who manufacturers consumable silicon and quartz parts for etching equipment has showed an improving trend in sales, and we expect this trend to continue.

Q15: For DG Technologies, we see that the recovery of the etching equipment market is a sign of DG Technologies' recovery in sales. Please tell us when the recovery will take place.

Endo: As you said, the recovery of DG Technologies will be affected by the etching equipment market. As reported, semiconductor equipment including etching equipment is currently on a recovery trend.

As previously mentioned, DG Technologies has seen the trend of recovery in Q2. we expect to see a more recovery in next quarter.

Q16: What is the status of LE systems? If possible, please give us more details on what projects are in the pipeline.

Endo: Production and shipment of vanadium electrolytes for power storage batteries to North America started this year.

Q17: What is your target market and potential for LE systems? Also, if possible, please tell us about the characteristics of vanadium redox flow batteries （VRFB） and why they are selected.

Endo: Demand is expanding primarily in China and North America. Basically, capturing demand in China and North America will lead to orders for the time being. Vanadium redox flow batteries（VRFB） are mainly used as storage batteries for large-scale power plants. That is our target market.

Recently, there have been reports of accidents involving lithium-ion batteries. VRFB is safer than lithium-ion batteries because it is not flammable. Therefore, it won't cause accidents that could lead to fires. That is the first distinguished characteristics of VRFB.

The second characteristic is that they are easy to deploy for large-scale power plants and are very suitable for large-scale projects.

The third characteristic is that electrolyte of vanadium redox flow does not degrade. It is said that lithium-ion batteries degrade to some extent after 10 years, but vanadium redox flow batteries can be used for 20 years or so.

Based on these characteristics, demand for storage batteries for power plants is increasing around the world. China and the United States are currently leading the way, but I think that demand in Japan will eventually increase.

Q18: Can you tell us about the progress of the Medium-Term Management Plan and the accuracy of its achievement?

Saito: As for the Medium-Term Management Plan (2024-2026) Base Plan, we believe that FY2024 is progressing smoothly as planned. As for the Upside Plan, by executing M & A and LE systems' continued sales activities, we can achieve our goals.