TOWA CORPORATION

FY2026Q2 Earnings Announcement

November 6, 2026

Event Summary

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[Participants]	100
[Number of Speakers]	2

Muneo Miura	Director, President Executive Officer
Kazuhiko Nakanishi	Director, Executive Officer, Corporate Planning Division Manager

Presentation

Moderator: It is time to commence the financial results briefing for Q2 of the fiscal year ending March 2027 of TOWA CORPORATION.

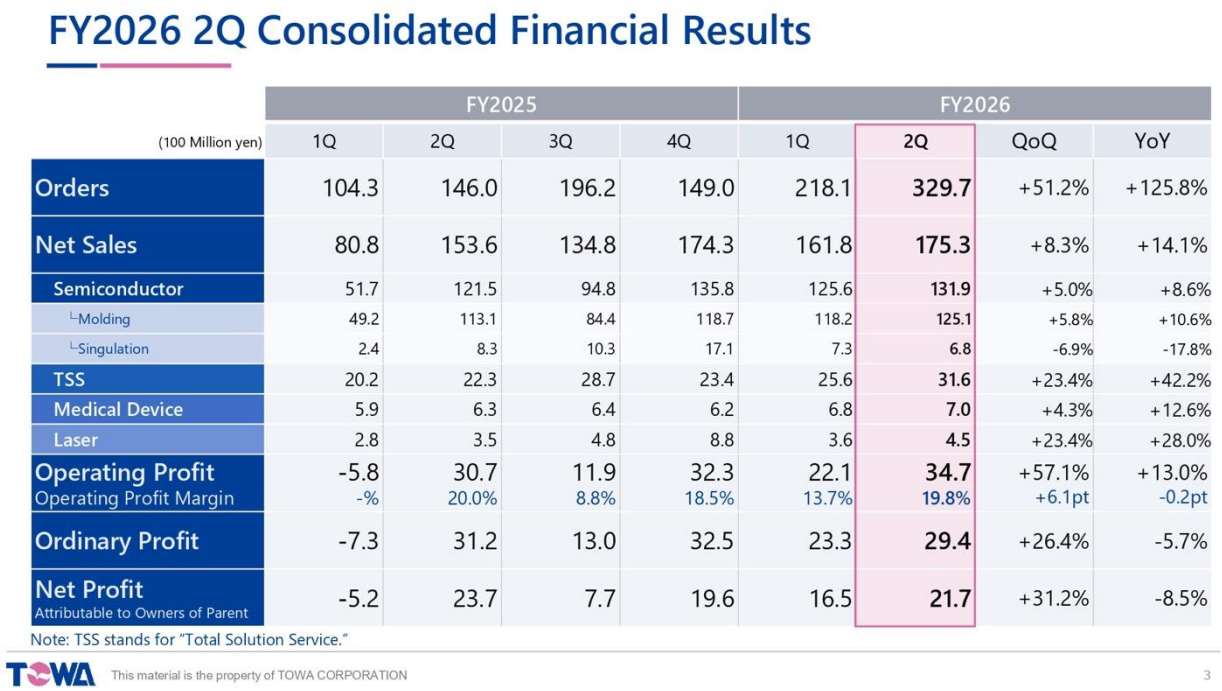
Thank you very much for joining us despite your busy schedules today. Regarding today's briefing, the full transcript, including the question-and-answer session, will be transcribed and made public. Thank you for your understanding in advance.

First, let me introduce today's two speakers.

Muneo Miura, Director, President Executive Officer. Kazuhiko Nakanishi, Director, Executive Officer, Corporate Planning Division Manager.

Today, Nakanishi will first explain the financial summary, followed by Miura explaining the business environment and earnings forecast. After that, we have set aside a question-and-answer session.

Nakanishi will now present the financial result. Please go ahead.



FY2026 2Q Consolidated Financial Results

(100 Million yen)	FY2025 1Q	FY2025 2Q	FY2025 3Q	FY2025 4Q	FY2026 1Q	FY2026 2Q	QoQ	YoY
Orders	104.3	146.0	196.2	149.0	218.1	329.7	+51.2%	+125.8%
Net Sales	80.8	153.6	134.8	174.3	161.8	175.3	+8.3%	+14.1%
Semiconductor	51.7	121.5	94.8	135.8	125.6	131.9	+5.0%	+8.6%
└Molding	49.2	113.1	84.4	118.7	118.2	125.1	+5.8%	+10.6%
└Singulation	2.4	8.3	10.3	17.1	7.3	6.8	-6.9%	-17.8%
TSS	20.2	22.3	28.7	23.4	25.6	31.6	+23.4%	+42.2%
Medical Device	5.9	6.3	6.4	6.2	6.8	7.0	+4.3%	+12.6%
Laser	2.8	3.5	4.8	8.8	3.6	4.5	+23.4%	+28.0%
Operating Profit	-5.8	30.7	11.9	32.3	22.1	34.7	+57.1%	+13.0%
Operating Profit Margin	-%	20.0%	8.8%	18.5%	13.7%	19.8%	+6.1pt	-0.2pt
Ordinary Profit	-7.3	31.2	13.0	32.5	23.3	29.4	+26.4%	-5.7%
Net Profit Attributable to Owners of Parent	-5.2	23.7	7.7	19.6	16.5	21.7	+31.2%	-8.5%

Note: TSS stands for "Total Solution Service."

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Nakanishi: I will explain the summary of the consolidated financial statements.

First, the consolidated results for Q2.

Orders reached JPY32.97 billion, up 51.2% QoQ and 125.8% YoY. In addition to generative AI, capital investment expanded across a wide range of fields, including power management applications for data center servers, resulting in a quarterly record high following Q1.

Net sales were JPY17.53 billion, up 8.3% QoQ and 14.1% YoY. Revenue increased by steadily converting high order backlogs into sales.

Operating profit was JPY3.47 billion, with an operating profit margin of 19.8%. Thanks to the effect of increased sales, we saw a significant QoQ increase in profit, and our profit margin improved by 6.1 percentage points. Ordinary profit was JPY2.94 billion, and net profit attributable to owners of the parent was JPY2.17 billion.

FY2026 First Half Consolidated Financial Results

(100 Million yen)	FY2025 1H	FY2025 2H	FY2026 1H	HoH	YoY
Orders	250.3	345.2	**547.8**	+58.7%	+118.8%
Net Sales	234.4	309.1	**337.1**	+9.1%	+43.8%
Semiconductor	173.2	230.6	**257.6**	+11.7%	+48.7%
└Molding	162.4	203.1	**243.3**	+19.8%	+49.8%
└Singulation	10.8	27.4	**14.2**	-48.0%	+31.9%
TSS	42.5	52.2	**57.3**	+9.9%	+34.7%
Medical Device	12.2	12.6	**13.8**	+10.1%	+13.5%
Laser	6.4	13.6	**8.2**	-39.6%	+29.0%
Operating Profit	24.9	44.2	**56.8**	+28.6%	+128.1%
Operating Profit Margin	10.6%	14.3%	**16.9%**	+2.6pt	+6.3pt
Ordinary Profit	23.9	45.5	**52.8**	+16.0%	+120.6%
Net Profit Attributable to Owners of Parent	18.4	27.4	**38.3**	+39.7%	+107.2%

Note: TSS stands for "Total Solution Service."

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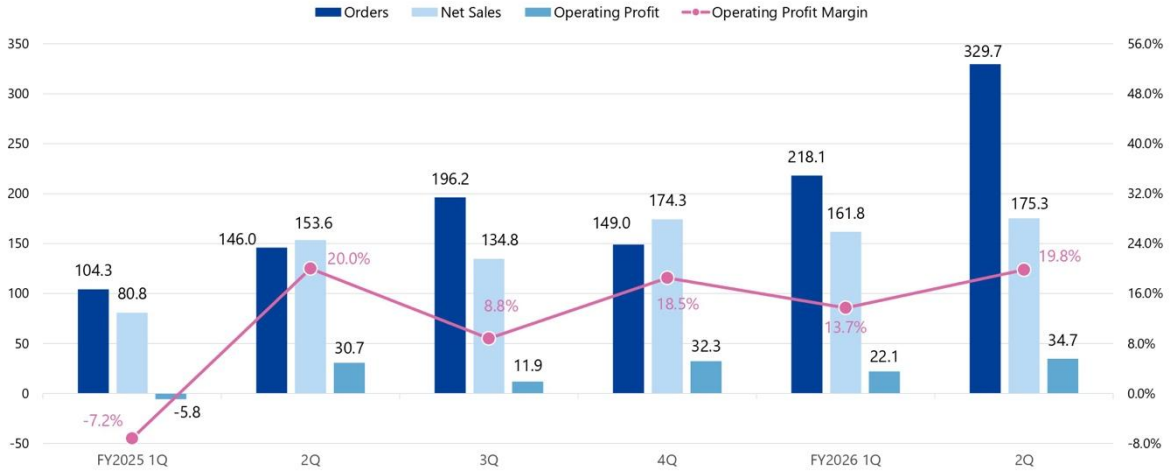
Next, let's look at the consolidated results for H1.

Orders were JPY54.78 billion, a 118.8% increase YoY, marking a new record high for a half-year. Net sales reached JPY33.71 billion, a 43.8% increase YoY, marking the highest half-year record. In the semiconductor business, our main molding sales have grown significantly to JPY24.33 billion.

Operating profit was JPY5.68 billion, with an operating profit margin of 16.9%. Compared to the same period last year, profit increased by JPY3.19 billion, with a profit margin improving by 6.3 percentage points. Ordinary profit was JPY5.28 billion. Net profit attributable to parent company shareholders for the period was JPY3.83 billion.

Key Financial Trends

Quarterly (100 million yen)

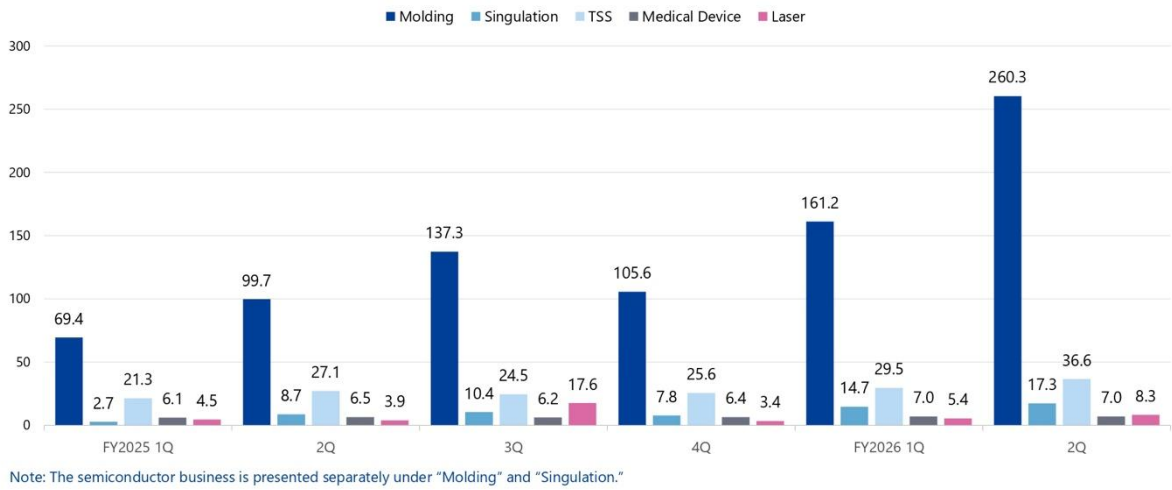


Next, let's look at the quarterly trends of major business performance.

Both orders and net sales continue to recover, and operating profit margins are improving. Regarding orders, we set a new quarterly record high, following Q1.

Orders by Business Segment

Quarterly (100 million yen)



Note: The semiconductor business is presented separately under "Molding" and "Singulation."

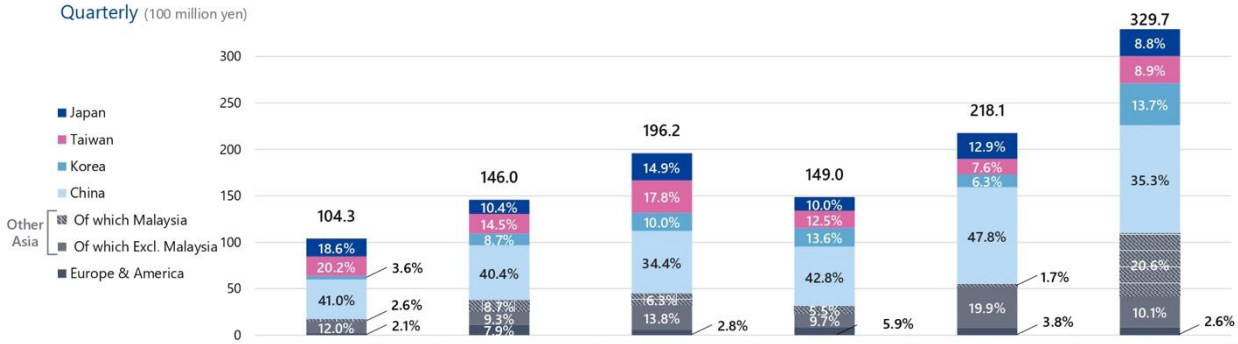
Next, let's look at the orders by business segment.

Molding orders for Q2 totaled JPY26.03 billion, driving overall order expansion. Demand is expanding not only in advanced logic and memory-related fields for generative AI but also in power management applications for servers in data centers.

Singulation was JPY1.73 billion, and TSS business was JPY3.66 billion, both exceeding the previous quarter. The TSS business is seeing increased demand for consumables and after-sales services, driven by improved equipment utilization rates among customers.

Orders by Region (Ship to Region)

Quarterly (100 million yen)



	FY2025 1Q	2Q	3Q	4Q	FY2026 1Q	2Q
Japan	19.3	15.2	29.2	14.8	28.0	29.0
Taiwan	21.0	21.2	34.8	18.5	16.6	29.2
Korea	3.7	12.6	19.5	20.2	13.8	45.1
China	42.7	59.0	67.4	63.8	104.1	116.2
Other Asia	15.2	26.3	39.5	22.6	47.1	101.2
Of which Malaysia	2.7	12.7	12.4	8.1	3.6	67.8
Of which Excl. Malaysia	12.5	13.6	27.0	14.5	43.4	33.4
Europe & America	2.1	11.5	5.5	8.8	8.2	8.7
Total	**104.3**	**146.0**	**196.2**	**149.0**	**218.1**	**329.7**

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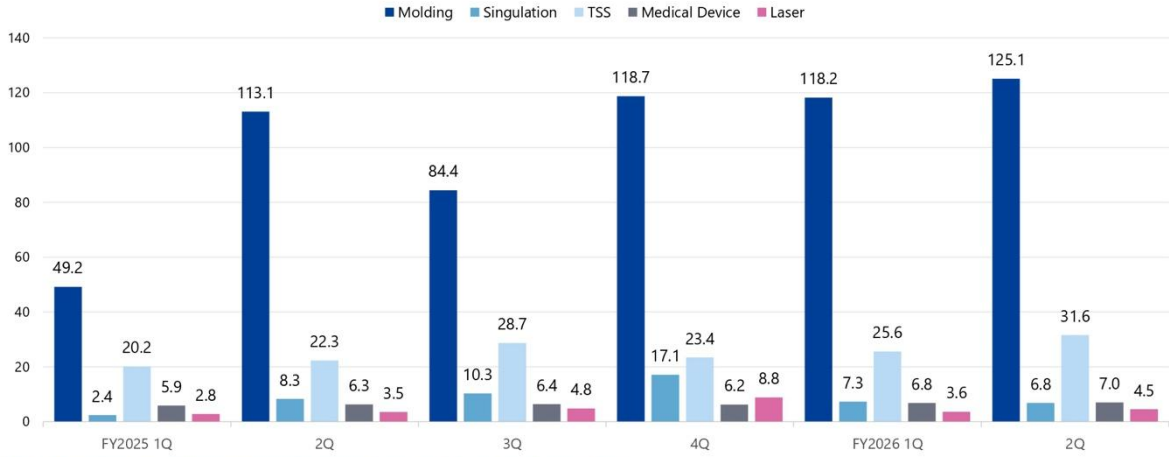
Next, the orders by region based on shipping destinations.

In Q2, orders in China reached JPY11.62 billion, other Asia JPY10.12 billion, and South Korea JPY4.51 billion, with orders in each Asian region increasing significantly.

In China, investment toward semiconductor in-house production remains strong. In Taiwan and South Korea, memory-related investments have become more active, driven by generative AI demand. In other Asia, investments in analog and power semiconductors, mainly from Malaysia, contributed.

Sales by Business Segment

Quarterly (100 million yen)



Note: The semiconductor business is presented separately under "Molding" and "Singulation."

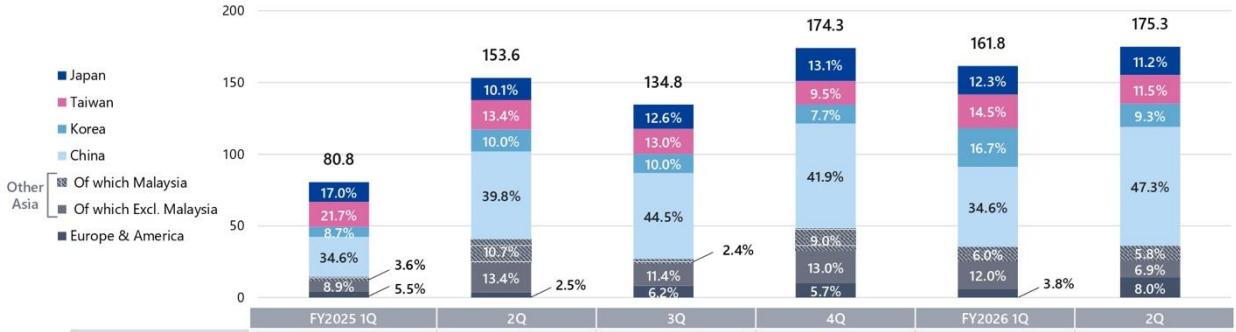
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Next, let's look at net sales by business segment.

Molding sales in Q2 reached JPY12.51 billion, surpassing both the previous quarter and the same period last year. We are sequentially converting high order backlogs into sales. The TSS business amounted to JPY3.16 billion, driven by increased equipment deliveries and demand for consumables and after-sales service from the operation of customer equipment. The medical devices business was JPY700 million, and the laser business was JPY450 million, both surpassing the same period last year.

Sales by Region (Ship to Region)

Quarterly (100 million yen)

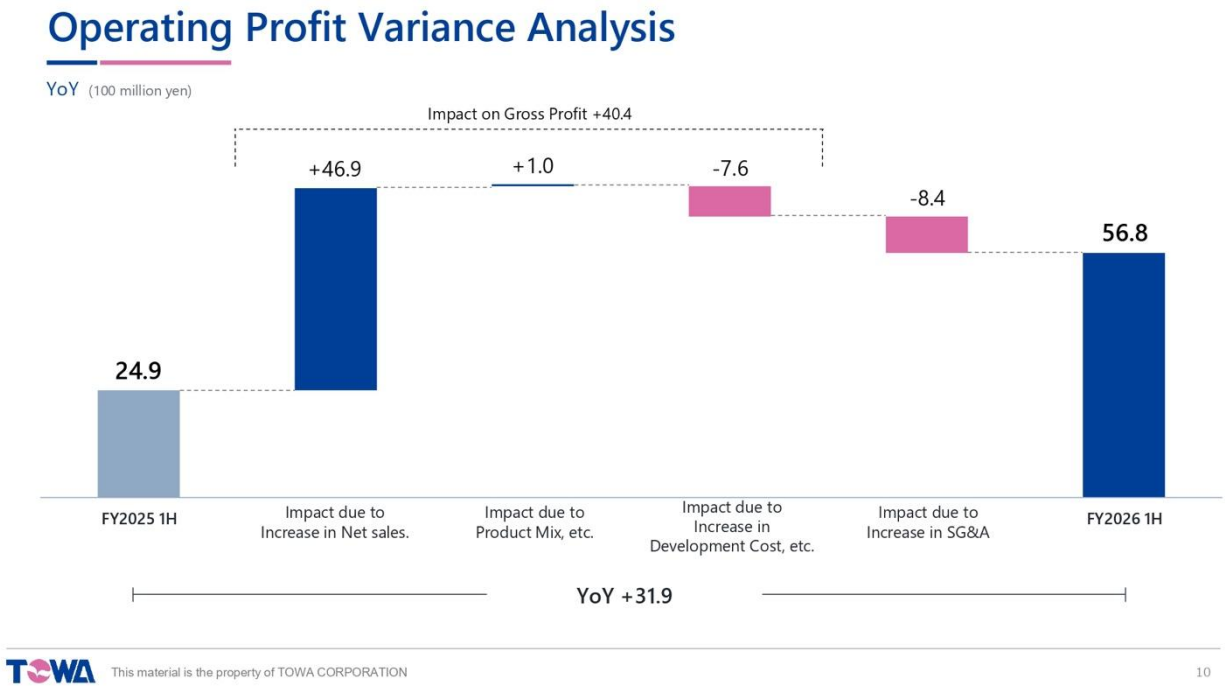


	FY2025 1Q	2Q	3Q	4Q	FY2026 1Q	2Q
Japan	13.7	15.5	16.9	22.9	19.9	19.6
Taiwan	17.5	20.6	17.5	16.5	23.3	20.1
Korea	7.0	15.3	13.4	13.3	27.0	16.2
China	27.9	61.2	59.9	73.0	56.0	82.8
Other Asia	10.1	36.9	18.6	38.4	29.1	22.3
Of which Malaysia	2.8	16.4	3.2	15.7	9.7	10.1
Of which Excl. Malaysia	7.2	20.5	15.4	22.7	19.4	12.1
Europe & America	4.4	3.8	8.3	9.9	6.2	14.0
Total	80.8	153.6	134.8	174.3	161.8	175.3

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Next, sales by region based on shipping destinations.

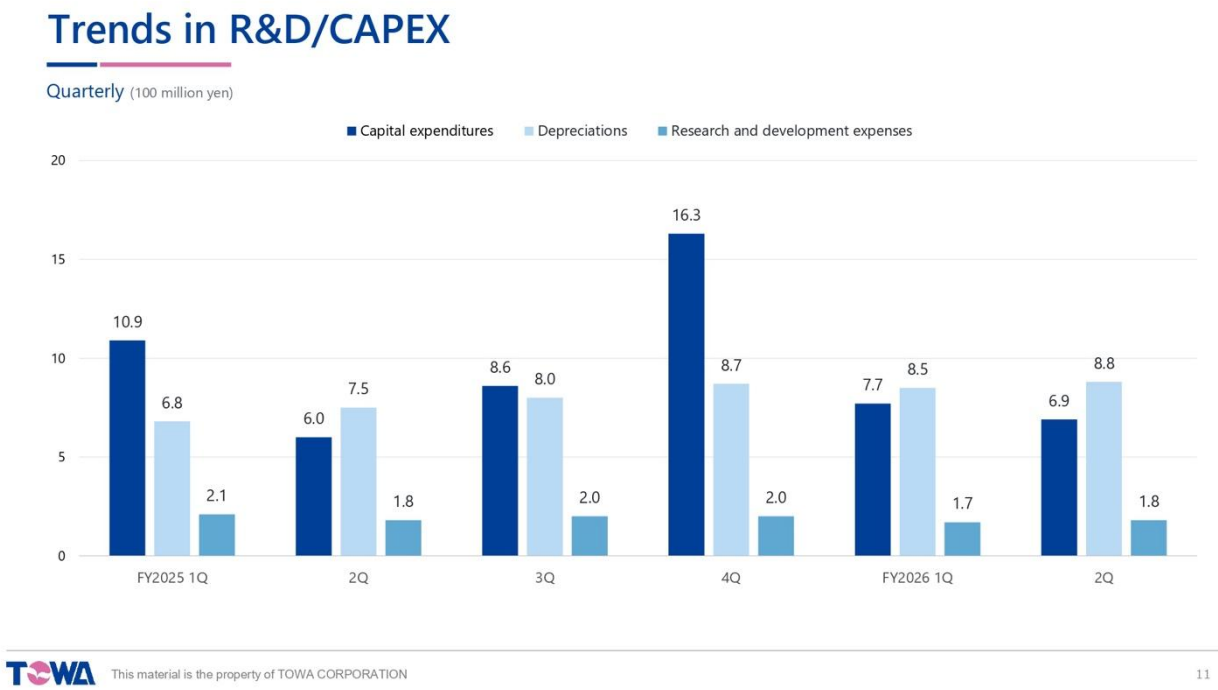
In Q2, China saw the largest share at JPY8.28 billion, an increase of JPY2.68 billion from the previous quarter. Similarly to orders, capital investment toward in-house semiconductor manufacturing has contributed to increased sales. For H2, we expect sales expansion mainly in Asia, supported by a high level of order backlog.



Next, it presents the factors behind the change in operating profit in H1 compared to the same period last year.

Compared to an operating profit of JPY2.49 billion in the same period last year, the impact of increased sales increased profit by JPY4.69 billion. On the other hand, increases in development costs included in manufacturing costs contributed to a profit decrease of JPY760 million, and the impact from product mix and other factors increased profit by JPY100 million, resulting in an increase in gross profit of JPY4.04 billion.

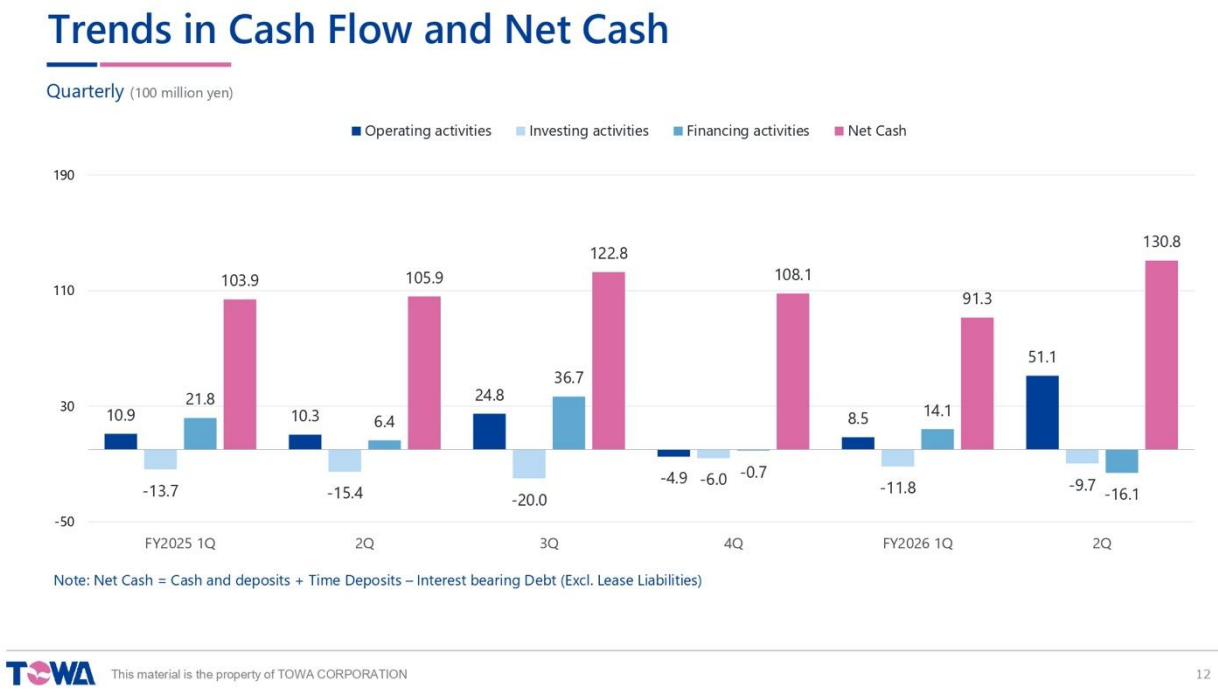
Additionally, selling, general and administrative expenses contributed to a decrease of JPY840 million, mainly due to increased personnel expenses. As a result, operating profit increased by JPY3.19 billion YoY to JPY5.68 billion.



Next, we look at the quarterly trends for research and development expenses, capital investment, and depreciation expenses.

Capital expenditures in Q2 amounted to JPY690 million, depreciation expenses were JPY880 million, and research and development expenses were JPY180 million. Capital investment focused on upgrading production facilities and smart factories.

Going forward, we will continue to actively invest in strengthening our production and development systems while monitoring demand trends. Regarding research and development, we are continuously focusing on the development of next-generation molding technologies.



Next, let's look at the trends in cash flow and net cash.

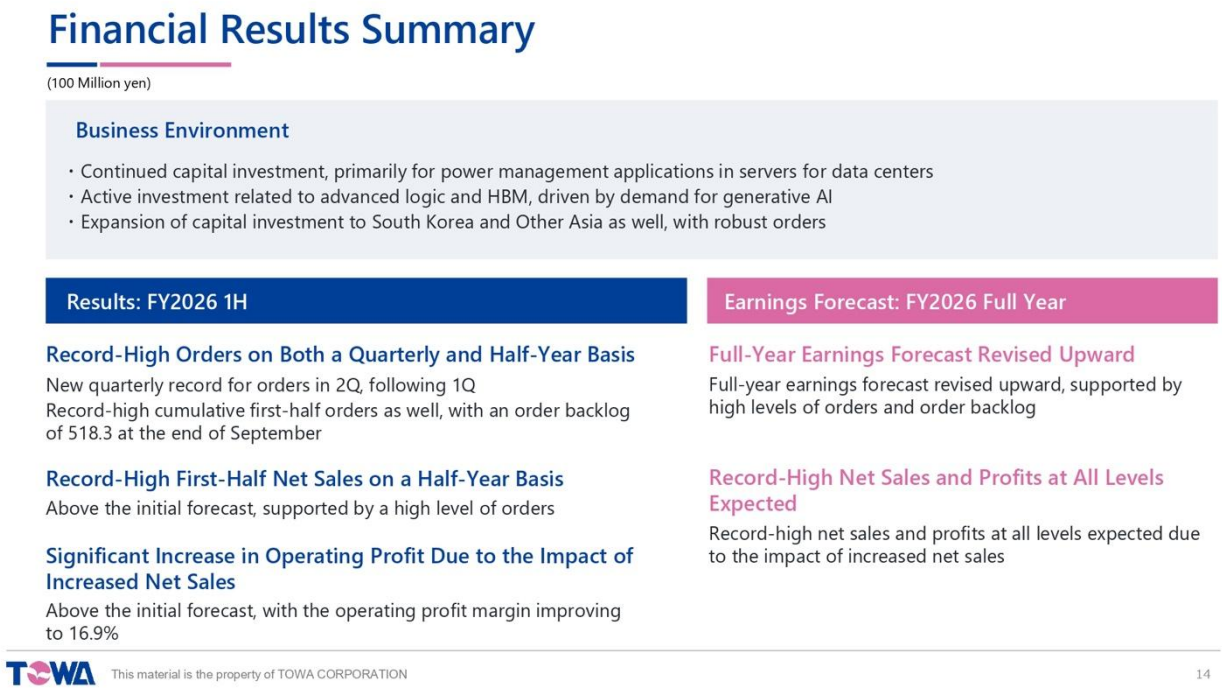
Operating cash flow for Q2 was JPY5.11 billion. In addition to recording profit, improvements in working capital led to a significant increase from Q1. Investment cash flow was negative JPY970 million, and financial cash flow was negative JPY1.61 billion due to dividends and loan repayments.

As a result, net cash at the end of September was JPY13.08 billion. Going forward, we will continue to utilize funds while balancing growth investments with financial soundness.

Moderator: Next, Miura will explain the business environment and earnings forecast. Please go ahead.

Miura: Based on the financial results just explained, I, Miura, will explain the business environment and full-year earnings forecast.

In H1, capital investment expanded across a wide range of fields, including generative AI-related applications and power management applications for data center servers. We have reliably captured this demand, resulting in high levels of both order volume and sales. From here, I will explain in order of the current market environment, the production system to respond to expanding orders, and the revised full-year earnings forecast.



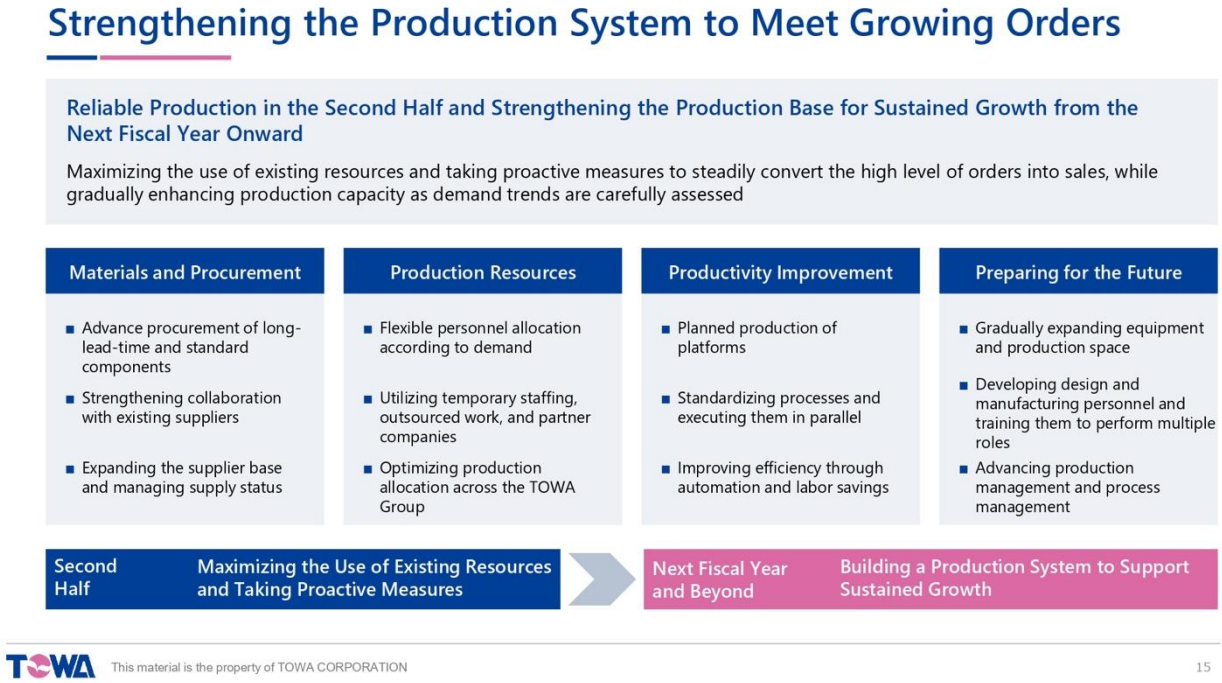
Here is a summary of the H1 results and full-year outlook.

Regarding the business environment, driven by expanding demand for generative AI, capital investment in memory-related equipment has become more active in South Korea and Taiwan. Additionally, in other Asia, capital investment is expanding, mainly for power management applications of servers for data centers. Investment in in-house semiconductor manufacturing continues in China as well, and demand is broadly expanding beyond specific regions and applications.

In this environment, orders for Q2 reached JPY32.97 billion, marking a new quarterly record high following Q1. The cumulative orders for H1 also reached JPY54.78 billion, about 2.2 times the previous year, marking a record high for a half-year. As of the end of September, the order backlog had reached JPY51.83 billion, further strengthening the foundation supporting future sales growth.

Net sales in H1 were JPY33.71 billion, about 1.4 times the previous year, marking a new record high for a half-year. Operating profit was JPY5.68 billion, with an operating profit margin of 16.9%, showing a significant improvement from the same period last year, mainly due to increased sales. We evaluate that not only did we expand orders, but we also steadily converted backlog orders into sales, which also led to improved profits.

Based on these H1 results and current order status, we have revised our full-year earnings forecast upward. In H2, we will reliably convert the high order backlog into sales, aiming for record highs in both sales and profits at each stage.



Next, I will explain strengthening our production system to accommodate the expansion of orders.

To meet the current expansion in orders, we will strengthen our supply system in all aspects of material procurement, production resources, and productivity. We will simultaneously address the achievement of our performance in H2 and establish a foundation to support growth from next fiscal year onward.

In terms of material procurement, we are proactively arranging long-lead parts and standard parts, strengthening collaboration with existing suppliers, and expanding our sourcing sources. Regarding production resources, we are optimizing production allocation including domestic and overseas group bases, in addition to flexible personnel allocation and the use of partner companies.

In terms of productivity, we use a common platform for planned production, process standardization, parallelization, automation, and labor-saving to shorten lead times and reduce man-hours. In H2, we will make full use of existing resources and steadily convert backlog orders into sales. From next fiscal year onward, we will gradually expand our facilities and production space while monitoring demand trends.

Financial Forecast

(100 Million yen)	FY2025 Full Year Results	FY2026 1H Results	FY2026 2H Fcst	FY2026 Full Year Fcst	FY2026 YoY (Full Year)	FY2026 Initial Forecast Full Year Fcst
Net Sales	543.6	337.1	372.8	710.0	+30.6%	640.0
Semiconductor	403.9	257.6	278.8	536.4	+32.8%	483.9
└Molding	365.6	243.3	263.8	507.1	+38.7%	448.9
└Singulation	38.2	14.2	15.0	29.2	-23.5%	35.0
TSS	94.7	57.3	58.0	115.3	+21.7%	100.2
Medical Device	24.8	13.8	13.0	26.9	+8.2%	25.8
Laser	20.0	8.2	23.0	31.2	+55.7%	29.9
Operating Profit Operating Profit Margin	69.1 12.7%	56.8 16.9%	74.6 20.0%	131.5 18.5%	+90.1% +5.8pt	102.4 16.0%
Ordinary Profit	69.4	52.8	74.6	127.5	+83.5%	102.4
Net Profit Attributable to Owners of Parent	45.9	38.3	51.6	90.0	+95.9%	70.0

Note: TSS stands for "Total Solution Service."

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Here is the revised full-year earnings forecast.

Full-year sales are projected to be JPY71 billion, an upward revision of JPY7 billion from the initial forecast. This is a 30.6% increase from the previous fiscal year, and we expect it to reach a record high. On the profit side, operating profit was revised up by JPY2.91 billion to JPY13.15 billion from the initial forecast of JPY10.24 billion. We expect an operating profit margin of 18.5%.

Ordinary profit is planned at JPY12.75 billion, and net profit attributable to parent company shareholders is planned at JPY9 billion, with both net sales and profit at each stage expected to reach record highs.

Looking at only H2, we plan sales of JPY37.28 billion, operating profit of JPY7.46 billion, and an operating profit margin of 20%. Against a backdrop of order backlog accumulated at the end of H1 and the favorable current order environment, we will steadily advance responses in production and procurement to ensure the reliable realization of planned sales and secure profits.

On the other hand, uncertainties due to material supply status, delivery dates for each project, geopolitical risks, and the business environment remain. We will continue to monitor these risks while steadily achieving our business performance.

Dividends

(Yen)	FY2025 Records	FY2026 Initial Fcst	FY2026 Revised Fcst
per share interim dividend	0.0	0.0	0.0
per share year-end dividend	20.0	24.0	30.0
Total	**20.0**	**24.0**	30.0

Note: Our basic policy is to provide stable and continuous dividends, and we return profits to shareholders by comprehensively taking into consideration our business performance and future business developments, among other factors.
Note: In light of the upward revision to the full-year consolidated earnings forecast, we will revise the annual dividend forecast for the fiscal year ending March 31, 2027, from the previous forecast of 24 yen per share to 30 yen per share.

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Finally, let me explain the dividends.

Based on the upward revision of the full-year consolidated earnings forecast, the year-end dividend forecast for the fiscal year ending March 2027 will be increased by JPY6 from the previous forecast of JPY24 per share to JPY30 per share. Since no interim dividends are implemented, the annual dividend forecast is also JPY30 per share.

Our basic policy is to pay stable and continuous dividends. Based on this, we will comprehensively consider factors such as performance status, growth investments necessary for future business development, and strengthening the financial foundation, and we will return profits to our shareholders. This dividend increase is based on the H1 results and full-year outlook. We will continue to achieve sustainable profit growth, enhancing corporate value and enhancing shareholder returns.

This concludes the financial results presentation for Q2 of the fiscal year ending March 2027.

In H2, we will steadily translate a high level of order backlog and a favorable order environment into our performance, aiming to achieve our full-year plan. Looking ahead to future growth, we will continue to work on improving profitability and lead to sustainable enhancement of corporate value.

Thank you very much for your time today. We kindly ask for your continued understanding and support.

Moderator: Thank you very much.

Question & Answer

Moderator [M]: Now, we will move on to the question-and-answer session.

This is the first question. Mr. Ujihara, please go ahead.

Ujihara [M]: President Miura, Mr. Nakanishi, thank you always for your continued support.

Miura [M]: Thank you for your continued support.

Ujihara [Q]: Thank you for the upward revision you made. I would like to ask two questions. First, although it's a bit difficult to go into detail, this is about orders from Korea.

According to the materials we received, Q1 was JPY1.384 billion, and Q2 was JPY4.517 billion. It's been a long time since you posted a figure of the level of JPY4.5 billion, as you made a figure of JPY4.4 billion during three months of July to September in 2023.

So, regarding my question, as mentioned earlier by Mr. Nakanishi and Mr. Miura, it was related to memory. Are these orders for so-called MUF applications? Also, when I cover your company, most investors push back, saying, "If hybrid bonding becomes available, we won't use MUF anymore." There are quite a few strong opinions about the potential of memory in Korea. I would like to hear President Miura's views on this matter. Thank you in advance.

Miura [A]: Thank you very much. First, regarding memory demand in South Korea, initially, I think in 2023, we received a large number of orders for equipment for HBM. But after that, production didn't grow much. The reason for this sluggish growth isn't that there's no demand. HBM memory has multiple layers. Since there were not enough chips for this, the customer significantly increased their investment in chip fabs.

Moreover, while the number of HBMs is insufficient, customers want to increase production further, but since chips are not coming out of the fabs, there has been no investment in the back-end processes at all.

This time, for the first time this fiscal year, including orders, we have finally seen a stable chip volume from Fab. Customers are also building and expanding factories for the backend process, and we are now starting to receive orders for our assembly process, backend process, as well.

The main product is basically MUF, but our equipment can also be used to manufacture other products, including CoWoS, so although not 100% MUF, we currently receive orders for equipment that will be used mainly for MUF but also to manufacture other products.

Ujihara [Q]: Thank you very much. What about hybrids?

Miura [A]: Regarding hybrids, I think there are various discussions, but the information we currently have from customers is that HBM is completely lacking. Naturally, HBM is needed not only for data centers but also for agent AI and robots, and there is a complete shortage.

Nowadays, customers prefer to build large quantities of existing products rather than spend time thinking of new things, investing, and evaluating them. This depends on how customers will concretely move forward, but it is extremely difficult to close the MUF gap any further. Naturally, material costs will rise and yield will deteriorate. Currently, there are height restrictions, so there is a movement to relax these restrictions and produce more products with the same function even if thickness increases slightly.

Regarding hybrid bonding, what we have heard from customers is that if it really becomes impossible during assembly, they will go hybrid bonding. Naturally, hybrid bonding requires more expensive equipment than those we use for our MR MUF assembly process, and currently, the technical issues are extremely challenging. If customers found it impossible to do, they will go with that choice. However, with the current shortage or the urgent need to produce products, we do not feel from customers that our equipment demand is decreasing because hybrid bonding has emerged.

Ujihara [Q]: Understood. Thank you very much for explaining it in detail. The second point. President, last time, the orders dropped once during July to September in 2023, correct? As the President says, it is because customers don't need it as they cannot get chips.

The orders are JPY4.5 billion in this Q2. I'm not sure the figures by quarter, but is it correct to assume there is a good chance of additional orders? I wonder if this is the peak here, and how much will the momentum in orders around there continue?

Miura [A]: As I mentioned earlier, the question is whether there is space for assembly at the customer's factory, but currently, some are still under construction, and some Korean manufacturers are building very large factories in the US. Taking that into account, as long as the factory is still being built, we expect the number of units delivered, including orders, to continue.

Ujihara [Q]: Understood. This is the third and last question.

Since the President mentioned earlier that it is for power management in data centers, in our terms, it feels like molding for power semiconductors.

Once, our chemical analyst covering chemical manufacturer, had a chance to speak with someone from the company. Based on the sense of market sentiment they conveyed, is it fair to say that demand is finally starting to translate into orders for your company's molding equipment?

Miura [A]: I don't really understand the business relationship with chemical manufacturers at this stage, so I don't really know, but the rapid growth is definitely in power supplies. There are various views surrounding the elections, including talk that the results of the midterm elections might lead to a decrease in the number of data centers. For now, things have not stopped at our side, but of course, there are power supply issues and other issues, so ICs that manage power are becoming extremely necessary.

In addition, naturally, there is a discrete device in our terms, which is a small, analog package to control current rectification. Roughly speaking, data center GPU requires about 500 units of this device on the substrate and the demand for that has increased significantly by multiplying the number of GPUs with the number devices required.

Also, as I mentioned earlier, not only data centers but the demand for Agent AI is truly growing rapidly.

We hear that the current focus is on products for the use of data centers, but, sorry for repeating same things, taking this situation into account, the demand for AI-related semiconductors has increased significantly.

Ujihara [M]: Understood. Thank you very much.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Ujihara. Next question. Mr. Shimamoto, please go ahead.

Shimamoto [Q]: I would like to ask three questions.

The first point is about HBM, which was asked earlier by Mr. Ujihara. During my discussions after the Q1 results announcement, I heard that companies adopting MUF may not place major HBM-related orders for the time being. If this perception is incorrect, then that's not the case. So, have you noticed any changes in movement in this Q2? First, let me confirm this.

Miura [A]: As I mentioned earlier, there were no factories at customers' side to accept our products, so there were no orders from customers at all. But now, not only Korean manufacturers but also American companies have been building factories with plans to mass-produce HBM starting in 2027. Against this backdrop, demand for HBM is increasing.

Shimamoto [Q]: As a follow-up, there's been quite a bit of talk about plans to despec HBM recently. There's talk that next year's product might have eight layers instead of twelve, but should I think that's related to your company's orders? How about this?

Miura [A]: For example, even if it is re-speced, our mold equipment will not change. However, as I mentioned earlier, there is still an absolute shortage of products, so there is a trend where you have to downgrade the specs and make new ones. We do feel that demand is growing in order to increase production in such areas.

Shimamoto [Q]: Understood. Thank you very much. The second point is about orders. Congratulations on a very strong Q2. I would like to ask how we should view things from Q3 onward. I understand that the outlook is no longer disclosed, but if possible, could you tell me whether there is room for further gains in H2, or since the Q2 was indeed strong, the outlook is things are calming down for now? Could you share your current impressions, President Miura?

Miura [A]: At present, there is no sign of it stopping. However, while we are not in the situation where we keep saying that we don't know the future, we are moving toward establishing solid, reliable, and highly likely order sales plans for each quarter, and so far, including next fiscal year, there is no sign of this slowing down.

Shimamoto [Q]: Understood. Thank you very much. Third, regarding capacity, judging by the current order balance, it seems production is already quite tight.

Although there is some mention in the materials, I have an impression that there isn't much concrete talk about, for instance, how much room there is to increase capacity next year, or about converting warehouse into spaces for new factories in places such as Suzhou. Regarding that, could you go further into the discussion about how much production capacity can be increased next year, and specific land use measures? That's all.

Miura [A]: We have set a medium- to long-term goal of JPY100 billion in sales by 2032, and along with that, we are making all necessary investments every year. Considering the current order situation, there is no issue with the current capacity to produce that volume. Regarding investment, we will continue to invest according to our plan, and it is not a situation where we suddenly need to change the investment amount.

However, as I mentioned earlier, although we have capacity for processed and internal products, including molds, the real issue is the purchased products. I believe not only we but also companies involved in front-end and other processes are facing significant difficulties with motors and sensors. Delivery times for purchased products have been significantly extended, and we are working hard in procurement to ensure receiving stable supply in this area.

Shimamoto [Q]: Thank you very much. One more point as a follow-up. Is it correct that you do not have much thinking to bring forward JPY100 billion in 2032 as a long-term capacity plan? For example, with the possibility of receiving orders worth JPY30 billion per quarter.

Miura [A]: About our targeting JPY100 billion, we are not thinking to have a capacity for production of JPY100 billion for the target of JPY100 billion. We would like to have some additional capacity as a buffer, as it is very difficult to operate at 100% capacity.

As I mentioned earlier, forecasting five years ahead is extremely difficult, but we have made various calculations during this trend, and we intend to proceed with investments according to the current plan, within the range that our current capacity can handle even if actual demand exceeds our forecasts. However, if it really happens that the orders increase suddenly, we intend to consider our investment policy accordingly.

Shimamoto [M]: Understood. That is all for now. Thank you very much.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Shimamoto. Next question. Mr. Nakanomyo, please to ahead.

Nakanomyo [M]: My name is Nakanomyo from Jefferies Securities. Please go ahead.

Miura [M]: Thank you for your continued support. Thank you in advance.

Nakanomyo [Q]: Sorry for asking a similar question, but I believe you previously mentioned that demand for equipment for HBM is expected to be ten-odd units per year over the next few years. Does that scale seem to have shifted and been raised?

Miura [A]: Originally, until now, one company had been the main player, but as I mentioned earlier, other companies have also obtained certification and are supplying the product. Demand for Agent AI is also very strong, so in that context, the volume is expected to be about 1.5 to 2 times the previous volume.

Nakanomyo [Q]: In that sense, it's possible to see the demand for around 20 units a year.

Miura [A]: That's right. After that, I think it all depends on the factory construction.

Nakanomyo [Q]: Also, I think demand for general-purpose memory is strong. Could you share some of the current situation and future outlook?

Miura [A]: Regarding general-purpose memory, I think prices for mobile phones and other devices have become very high. However, demand is highest for HBM, the unit price is high, and we recognize that memory manufacturers concentrated all their chips on HBM and never made general-purpose memory.

However, with the addition of fabs completed and demand for chips for general-purpose memory has also emerged. Orders for compression equipment for general-purpose memory had remained sluggish for a long time, but demand for general-purpose memory has been increasing rapidly, particularly since around last year, and we expect it to continue growing.

Nakanomyo [Q]: What are your thoughts on NAND?

Miura [A]: Similarly, for NAND, development and prototyping of high-performance NAND are currently being conducted in parallel, so we expect both regular NAND and high-performance NAND to increase going forward.

Nakanomyo [Q]: Orders from Malaysia in Q2 have increased significantly, but how should we view H2?

Miura [A]: Since we are a company that produces and manufactures, we want to level out production, so we are checking future demand, or rather, forecast for our orders. However, for now, the current orders are based on orders from end users, and we do calculations of how much production and delivery must be made.

For those that will begin mass production around the middle of next year, we suddenly received equipment orders.

However, from what I've heard, not only the annual plan but also a plan for six months ahead has suddenly emerged this time. Then, early or around the middle of next year, I think there will be another forecast for six months or one year ahead. Therefore, I believe there are probably no signs of this stopping at present.

Nakanomyo [Q]: How about the lead time right now?

Miura [A]: Our equipment has various length of lead time depending on the type of equipment. Until now, we have been announcing about six months or half a year, but now it has already exceeded a year, and we are currently talking with customers.

Nakanomyo [M]: That's all. Thank you very much.

Miura [M]: Thank you very much.

Moderator [M]: Thank you for your question, Mr. Nakanomyo. Next question. Mr. Hasegawa, please go ahead.

Hasegawa [M]: This is Hasegawa from Morgan Stanley Securities. Please go ahead.

Miura [M]: Thank you in advance.

Hasegawa [Q]: Could you explain about the profit margins? I would like to know the changes from Q1 to Q2 in H1 and the projections for H2. I don't know the gross profit, but your current plan is that the OP margin will rise to 20%.

I imagine that compression molding equipment for the MUF applications mentioned earlier will likely contribute to the increase. However, the question is rising material costs, price changes, and at the beginning of the fiscal year, advanced PLP products, so-called development products. There were also stories about projects with low profit margins, such as having to adapt to other companies that were already ahead.

Could you explain the changes in profit margin from Q1 to Q2 and the expected changes in H2?

Nakanishi [A]: Let me explain. The operating profit for H1 was JPY5.68 billion, and we project the operating profit in H2 to be JPY7.46 billion. One of the reasons for that is an increase in sales, with an estimated impact of JPY1.64 billion. Apart from that, we expect about JPY100 million from product mix.

Furthermore, the impact of reduced development cost is estimated at JPY170 million, and the impact to gross profit is projected to be an increase of JPY1.92 billon.

Regarding SG&A expenses, due to increases in personnel expenses and other factors, there will be a decrease of JPY140 million, and we expect operating profit increase of JPY1.77 billion to JPY7.46 billion.

Hasegawa [Q]: The impact of development costs generally ends in H1. Is it correct?

Nakanishi [A]: That's right. As you mentioned, the launch process did incur costs, but since we get used to the process due to standardization, these costs have decreased somewhat, and things are progressing well.

Hasegawa [Q]: Understood. Also, although it wasn't in the factors you mentioned, I think there will be quite a bit of price increases for materials and purchased products. Recently, there was talk about motors, and the price of magnets is also rising, so I think you may be facing price negotiations. Also, printed circuit boards seem to be rising quite quickly.

How much impact does the price increase of these procured goods have? Can you pass it on to the product, or will it be absorbed through gains from higher capacity utilization or something else? Could you share your thoughts on that?

Nakanishi [A]: Specifically, we don't forecast these increases in numbers. Rather, we plan to absorb that by changing the types of components, procurement sources, or combinations.

Also, while the prices of components have increased, our sales prices have become easier to negotiate under this demand situation. Therefore, by raising sales prices in that respect, we believe we are gradually absorbing the price increases of components.

Hasegawa [Q]: Understood. Thank you very much. Then, I would like to ask about the approach to next fiscal year and beyond. With the rise in material prices, and since we are now looking six months to a year ahead in terms of pricing, I think discussions about next fiscal year are finally beginning. Is it correct to understand that the terms of trade are looking quite favorable compared to this fiscal year?

Nakanishi [A]: That's right. We've been making various efforts recently, such as price negotiations and reducing raw material and cost, but I think these efforts will finally take shape in next fiscal year and beyond, though not on a large scale, and gradually lead to results.

Hasegawa [Q]: Thank you very much. Next, regarding the power supply issue mentioned earlier. A story about power supplies in data centers. So, is it correct to understand that orders you are getting are based on the customers' intention to mass-increase the production of existing products?

Miura [A]: That's right. For both existing and future products, the current issues include power supply, such as insufficient power, and as performance increases, heat dissipation issues arise. Orders for existing products are also increasing, but looking ahead, orders for magnetic materials have already started coming in. Power semiconductors that use resins with good heat dissipation properties are also becoming increasingly common nowadays.

However, to make it, traditional transfer methods cannot do this and it is already well established that only our compression equipment can do it. Therefore, these orders are increasing.

Hasegawa [Q]: Understood. Thank you very much. Next, regarding production capacity, on slide number 15, there was a talk about the gradual expansion of production space and such.

I don't think you're thinking about simply expanding the space, increasing assembly capacity, and using the same man-hours. So, there are large spaces overseas like Suzhou and Malaysia, and I think you are probably thinking about how to utilize these spaces effectively without expanding it to maximize the value. Could you explain a bit more about how to increase production capacity, that is, supply capacity to customers, and what kind of space expansion this refers to?

Miura [A]: We have set a target of JPY100 billion for 2032 and have been increasing capacity by investing as planned.

This time, if there is truly a shortage, we will have to consider new factories. As you just mentioned, especially for the China factory, there is still surplus space, so as planned, we will expand the factory within the existing site, and as sales rise, production volume will also increase.

Hasegawa [Q]: If you go all that far, for example, with molding equipment now, you can easily make about 5 billion a month. If you do it in Suzhou now, for example, I think you can go 6 billion per month or more.

Miura [A]: That's right. It's possible even now. As Nakanishi explained earlier, orders for singulation have also increased significantly. Blade-related part of singulation has high demand in China. So, we have to produce it as well.

Hasegawa [Q]: Thank you very much. And finally, if you have any updates on INNOMS's subsequent progress, please let us know.

Miura [A]: Regarding INNOMS, our customers are still actively evaluating in the field for us. There are no particularly major problems; rather, we are taking time to confirm whether these can be used for mass production. We are currently proceeding with the field evaluation, with the possibility of starting sales to other memory customers as early as April next year.

Hasegawa [Q]: So, if it works well, it really seems like you can win orders from China's memory investment. Is it correct?

Miura [A]: Yes, since we issued a press release about INNOMS, we receive inquiries from China requesting to bring the product right away. However, the product is still under field evaluation. When it works, I think we can supply it to China as well.

Hasegawa [M]: Understood. Thank you very much. That's all from me.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Hasegawa. Mr. Kusunoki, please go ahead.

Kusunoki [Q]: Thank you for your help. My name is Kusunoki from LMR. Thank you very much. I have one question regarding your approach to production capacity.

If my memory serves me right, your company originally set a mid-term plan target of JPY71 billion in sales for the fiscal year ending March 2028, and although it may be a coincidence or not, I believe you raised the target of sales for this fiscal year to JPY71 billion.

There were some figures mentioned earlier, but to put it simply, how much can be recorded next fiscal year? For example, with the current level of orders. If orders continue to reach JPY20 billion in a quarter, multiplying by four gives JPY80 billion, so can we reach JPY80 billion next fiscal year? But if it's JPY25 billion per quarter, and by multiplying by four, you might be able to reach JPY100 billion next fiscal year. Do you have any thoughts on that?

Miura [A]: It is extremely difficult to finalize future order forecasts, but if we continue under the current environment, it will probably be about 20% above this fiscal year's results, or roughly 10% above at minimum, so I think it will reach around JPY80 billion.

As you just mentioned, if this demand continues to increase, we may reach JPY100 billion. We are considering various scenarios including such situation. That is the situation with production capacity.

Of course, as I mentioned earlier, we are proceeding with internal production based on our medium- to long-term plan, and we also have many partner manufacturers. When capacity is tight, we have a system in place to ask partner manufacturers for help in various ways, so including the upside in the near one or two years, we have some capacity to manage.

Kusunoki [M]: Understood. Thank you very much. That's all.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Kusunoki. Mr. Shimamoto, please go ahead.

Shimamoto [Q]: I'm sorry to bother you for the second time.

I want to reconfirm the capacity aspect. Something many investors probably think is that you have already secured JPY30 billion in orders, and assuming you do not expect orders to drop significantly from the next quarter onward and if JPY30 billion in orders continues, it will reach JPY120 billion in a year. However, you estimated the sales for next fiscal year in a way that JPY100 billion is still far from next fiscal year. I have an impression that there seems to be a significant gap here.

I think it may be because your company's orders have long lead times, and orders with delivery dates far ahead are coming in ahead of time, so there are fewer orders requiring urgent delivery for sales next fiscal year. Is that the correct understanding?

Miura [A]: Regarding our in-house production, we currently have onetime large orders. As I mentioned earlier, taking into account our partner manufacturers, we have a capacity that allows us to generate about JPY100 billion in next fiscal year.

However, the purchased items with lead time of more than one year is increasing. If these items come in, we can start production, but if it doesn't come in, we can't make it. Therefore, current issue is mainly procurement.

Shimamoto [M]: Understood. It became very clear. Thank you very much.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Shimamoto. Mr. Fukuyama, please go ahead.

Fukuyama [M]: My name is Fukuyama from Daiwa Securities.

Miura [M]: Thank you for your help. Thank you in advance.

Fukuyama [Q]: Thank you in advance. Since the projected number of equipment units for HBM is about 20 units per year, I would like to reconfirm the background behind the increased tone compared to last time.

Is this because device manufacturers have shifted toward increasing the number of units by reducing the number of layers, which has led to a growing importance of molding devices and to an increased projection? Or is it because the customer's site and space have been secured ahead of schedule, which is why the projection was raised? Please tell us which is the most important factor behind this upward revision and which factor has contributed the most to raising the forecast.

Miura [A]: First of all, the chip was not supplied sufficiently until now; therefore, the factory for the subsequent process couldn't be built either. However, since around last year, the amount of chips has started becoming available, and customers have started constructing and completing the assembly plant, so the volume is increasing.

Another reason is that, although one company used to be the dominant player, from 2027 onward, two other major memory manufacturers will also build factories and increase production, leading to a positive increase in demand.

Fukuyama [Q]: I see. I thought it was because HBM moving from twelve layers to eight and logic dies were increasing, and that the importance of molding equipment might increase and there might also be more molding processes. However, is it correct that that is not the case?

Miura [A]: I think that's probably still to come.

Fukuyama [Q]: That's for the future.

Miura [A]: In any case, even with the current volume of supply, it is insufficient. Under these circumstances, there are moves to just downgrade specs and manufacture them, but currently, we still don't have factories to assemble them. The fact that factories have been established has led to increased orders, which is a major factor.

Fukuyama [M]: Understood. Thank you very much.

Miura [M]: Thank you very much.

Moderator [M]: Thank you, Mr. Fukuyama. Does anyone else have any questions? Since all your questions have been asked, I would like to conclude the question-and-answer session.

Thank you very much for joining us despite your busy schedule today. With this, we hereby conclude the financial results briefing for Q2 of the fiscal year ending March 2027 of TOWA CORPORATION**.** Thank you very much.

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
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Notes

1. This document was edited from the original recording and transcripts provided by SCRIPTS Asia, Inc.
2. The yearly accounting period from April of the current year to March of the following year is denoted by FY (Fiscal Year), and quarterly accounting periods are denoted by 1Q (April – June), 2Q (July – September), 3Q (October – December), and 4Q (January – March). Depending on the monetary unit, figures lower than the minimum unit may be truncated, as a result of which the total sum may not match. Percentages are calculated based on the actual figures and rounded to the nearest whole number.

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