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Attention: All concerned parties

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Q&A for the Financial Results Briefing Session for the First Half of the Fiscal Year Ending May 31, 2022 (Excerpts)

On January 19, 2022, we held an online financial results briefing for the first half of the fiscal year ending May 31, 2022. This document summarizes and makes public the main contents of the Q&A session during the briefing. Some of the contents have been edited for clarity.

Q1: You explained that one of the background factors of decreases in net sales and earnings in the first half of the current consolidated fiscal year was the delay in posting sales primarily in the internet of things related works segment. Of the net sales for which posting was delayed, how much do you anticipate collecting in the second half? Please give us your current views.

A1: In the second half, we expect to record net sales at a level that would enable us to achieve the full-year consolidated earnings forecast for the fiscal year ending May 31, 2022. However, because our illuminators are used in combination with other firms' equipment, delivery dates of our illuminators would be pushed back in the event of delays of delivery dates at other firms. If the dates of delivery to our customers are actually pushed back, we will need to re-examine our earnings forecast and take appropriate measures.

Q2: Going forward, if the size of orders from customers expands in the internet of things related works segment, will you be able to respond with your existing manufacturing facilities without any problem?

A2: In the present circumstances, we can respond with existing facilities without any problem. Having also arranged advance procurement of parts and materials necessary for production, we do not foresee risks of delays in delivery to customers for causes attributable to our firm. Further, the internet of things related works segment is a type of business akin to a “semi-fables” one that uses outsourcing. This enables space-saving manufacturing within our office premises. And since there is excess space in the building itself, we can flexibly respond if there is any need for facility enhancement.

Q3: Please explain the current and future situation with respect to the trend in demand from both Japanese and overseas customers for products of the internet of things related works segment.

A3: Inquiries from both Japanese and overseas customers are primarily demand associated with new capital investment, but we have yet to receive actual orders. Given the size of the inquiries, we will endeavor to ensure that they lead to orders.

Q4: Please explain your order forecast for the second half in the internet of things related works segment. Also, how do you see the trend of orders associated with new capital investment of major Japanese and overseas customers?

A4: While it is difficult to give a clear answer on order forecast for the second half, we expect to be able to secure orders around March from Japanese customers, as they end their fiscal year on March 31, and around January to February from overseas customers, whose fiscal year closes on December 31.

In the present competitive environment of illuminators for Japanese customers, we believe that we hold a dominant position, while for major overseas customers, there are no competitors. Therefore, we expect that we will be able to secure orders if and when customers, both in Japan and overseas, proceed with placing orders associated with their new capital investment. The risk is the possibility of our customers pushing back the timing of their investment because of our inability to deliver illuminators due to such factors as delays in delivery dates at other firms caused by a shortage of semiconductors. However, this is not to say that customer demand for illuminators would vanish. Even if their investment is pushed back, we expect to be able to secure orders within around one year. The risk therefore is insignificant.

Q5: Please explain the background of inquiries that are observed in the internet of things related works segment.

A5: We presume that they are primarily associated with new capital investment in devices for smartphones by Japanese and overseas customers.

Q6: Please explain progress in the introduction of pupil lens modules and a new diffuser model for overseas customers.

A6: With respect to pupil lens modules, we plan to push forward in securing orders for mass-production models in the second half. During the three months of the second quarter under review, several prototypes were provided and currently, customers are in the process of verification. Going forward, a more advanced manufacturing technology would be required as a result of changes in image sensor specifications, including reduction of pixel size, increase in pixel count, and move to larger sensors. In line with these changes, the difficulty level of quality tests will rise, which leads us to believe that pupil lens modules will become indispensable in the inspection process of image sensors for smartphones. Meanwhile, we consider shortening of delivery time to be a challenge, which we will strive to address to push forward with the introduction of pupil lens modules.

With respect to diffusers, the new model is complete and ready for shipment, which is scheduled to start. Still, we believe that aiming for the introduction of pupil lens modules should be our top priority.

Q7: In the internet of things related works segment, it is my understanding that, while major overseas customers are outsourcing the inspection process, Japanese customers are basically conducting processes internally up to the inspection process. Is there any possibility that this situation of in-house inspection by customers will change in the future?

A7: We view the difficulty level of technology for image sensor inspection to be as high as that of manufacturing technology, and because each company has its own know-how in the inspection process, we presume that there will be no change to the situation with respect to the inspection process at both Japanese and overseas customers.

Q8: Please explain the current competitive situation with respect to illuminators. Have you made any arrangement for advance procurement of parts and materials to prepare for delivery delays?

A8: At present, there are no competitors in our business with major overseas customers, and regarding Japanese customers, we hold a dominant position. Taking this situation as an opportunity, we will endeavor to accomplish our mission “To be The Hidden Champion King of King makers.”

With respect to advance procurement of parts and materials in preparation for delivery delays, this is implemented by closely monitoring the situation on the premise that all equipment that we manufacture is sold out.
