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Attention: All concerned parties

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Q&A for the Financial Results Briefing Session for the Fiscal Year Ended May 31, 2022 (Excerpts)

On July 12, 2022, we held an online financial results briefing for the fiscal year ended 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: What information can you give us on the scale of the contribution to earnings from the adoption of pupil lens modules by new customers?

A1: Out of consideration for our customers, I am afraid that we cannot disclose how much of the net sales forecast of 7.6 billion yen for the fiscal year ending May 31, 2023, is attributable to sales of pupil lens modules to new customers.

We estimate the current scale of the market for pupil lens module sales to new customers at approximately 0.8 billion yen. We aim to thoroughly penetrate this market to achieve growth.

I'm happy to be able to present you with such promising news, but we are only just starting to penetrate this market. We will strive to achieve a robust scale in this market.

Q2: Please explain the progress of orders for new buildings from Japanese customers.

A2: We expect an increase in orders in this area. Judging from the inquiries we have received, our market position regarding illuminators is improving. We believe that this customer recognition is linked to the sincere approach we have adopted until now.

Q3: Please tell us about the net sales contribution from pupil lens modules and illuminators in the fiscal year ended May 31, 2022.

A3: We recorded net sales of 3.9 billion yen in the Internet of things related works segment. Of this, around 70% was from illuminators, around 23% was from pupil lens modules, and around 7% was from other sources.

Q4: When do you hope to achieve the targeted increases in market share shown in the materials (p. 6) for the Financial Results Briefing Session?

A4: We believe that these targets are attainable this fiscal year. Our goal is not simply to meet these targets: more challenges await beyond them. Whether we can maintain or further raise the level of our targets will be one of the most important points of the next Medium-Term Business Plan.

Q5: Compared to the results for the fiscal year ended May 31, 2019 (net sales of 7.9 billion yen and operating income of 1.9 billion yen), for the fiscal year ending May 31, 2023, you forecast lower net sales but higher operating income (net sales of 7.6 billion yen and operating income of 2.2 billion yen). What is the reason for this?

A5: The main reason is the difference in product mix in the Internet of things related works segment. We anticipate an increase in the proportion of overseas sales of illuminators, etc. in the fiscal year ending May 31, 2023. We expect this to result directly in an increase in profit margin. The ratio of Japanese to overseas net sales of products in the fiscal year ended May 31, 2022, was approximately 6:4. We expect this ratio to reverse in the fiscal year ending May 31, 2023.

Q6: Please explain in a little more detail about the new SiC (silicon carbide) business mentioned in the Consolidated Financial Results.

A6: We plan to provide specific details regarding the new SiC business in the next Medium-Term Business Plan, which will be announced in January next year. So please look forward to that.

At the present stage, we are engaged in testing for the purpose of investigation. We will eventually decide whether to take on this challenge after considering whether we can succeed in the SiC market

and analyzing factors such as the structure of competition, market trends, and internal economic factors.

Regarding the question of what kind of customer value we can generate, we anticipate market changes to create the need for high-voltage, highly efficient devices that can be controlled at high speed. These conditions are difficult to satisfy with devices using Si (silicon) materials, and we forecast that these will be progressively replaced with materials such as SiC. However, these materials themselves are extremely hard, and we expect this to lead to a decline in productivity.

If we can address this issue by developing value-added products that can increase productivity, then we believe that we will be able to generate customer value. We are currently examining whether we can achieve this using our expertise in manufacturing from an optical perspective.

Q7: Please tell us about any products in the promotion business of the promotion business of Industry 4.0 segment for which growth expectations are especially high.

A7: The losses sustained in this segment have been ameliorated significantly compared to the fiscal year ended May 31, 2021. Segment net sales are broadly split between Meiritz Seiki's precision vibration isolation systems and Tokyo Technical Instruments' gear testing machines. Of these, Tokyo Technical Instruments achieved net sales and operating income that were close to the highest ever recorded in over four decades of corporate history. We are aiming to build on this, targeting further growth through the development of FA image processing equipment and a range of other products.

We believe that progress in AI technology due to more advanced semiconductors is associated with driving growth in the FA image processing equipment field. Although AI technology itself is not new, more advanced semiconductors have given rise to semiconductor chips equipped with AI capabilities, which have recently led to the widespread utilization of AI. This has enabled swift, localized decision-making using image data. FA image processing has huge potential: it is a business that pioneers new markets and creates new innovations for the future.

Because gears are coated in oil, it is extremely difficult to detect surface scratches using images. Our strength lies in our optical technologies and image processing technologies, which enable the detection of these scratches. We are really looking forward to the future of this field.

We are currently working on precision vibration isolation systems with the expectation of growth in the display and OLED display markets. We think that displays will transition from two to three dimensions with the use of multiple cameras. To display 3D images, however, it will be necessary to increase resolution. High added-value active vibration isolation systems, in particular, will be especially important in the context of increased investment in RGB OLED displays. As the size of the

display increases, so does the weight of manufacturing equipment. We are developing vibration isolation systems to target this market.

We are also developing equipment such as vibration data monitoring devices based on the use of AI, and proposing these to customers. Our efforts have been very well received by major display manufacturers overseas, and we regard this as a market where we can accumulate a substantial volume of orders. We aim to achieve growth focused on these two areas. Our market share for vibration isolation systems is still low, both in Japan and overseas. With robust initiatives, there is ample room for sales growth as we expand our market share.

We aim to grow this segment into the second pillar of our business by firming up the foundations of our existing businesses and raising net sales with new products.

Q8: You have said that the number of image sensors equipped in smartphones will increase over the medium to long term, but at present, there are increasing concerns over a slowdown in the semiconductors market, and demand for smartphones and other such devices is declining. Have you seen any change in the production and capital investment trends of customers in the CMOS manufacturing industry in Japan and overseas?

A8: I think that it is true that there are increasing concerns over a slowdown in the semiconductors market, and I am aware that this is due to declining demand for smartphones. In that context, there has been no change at present in the trend of investment in image sensor manufacturing equipment by our customers in Japan and overseas. Personally, I expect the issues with parts and other materials to be resolved by the end of this year or so, and demand to recover accordingly.

We believe that the right approach at the present stage is to respond to the current situation with an eye to medium- to long-term trends.

Q9: Is there a risk that you will not be able to procure components?

A9: The risk is not zero. However, compared to other companies, we only have a limited number of components for which there are procurement concerns, and the risk is therefore relatively low. I think that procurement risk has been especially high over the past year, but the situation is forecast to improve.

Q10: You mentioned that the backlog of orders at present is the highest on record. Please share your outlook regarding whether you will proceed to work through this backlog, or whether there is a chance that further orders will accumulate.

A10: At this stage, I think that we will be working through the backlog of orders. The present backlog is equivalent to over half of the forecast net sales for the fiscal year ending May 31, 2023, and we will begin by working through this backlog to enhance the productivity of our customers.

After that, I think that it will be time for us to accumulate further orders.
