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Attention: All concerned parties

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Q&A for the Financial Results Briefing Session for the First Three Months of the Fiscal Year Ending May 31, 2023 (Excerpts)

On October 12, 2022, we held an online financial results briefing for the first three months of the fiscal year ending May 31, 2023. 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: Please tell us about the status regarding orders and inquiries received since the second quarter in the internet of things related works segment, by customer type.

A1: With respect to orders from major domestic customers, we believe that the order trend will be firm in view of customers' extremely robust capital investment plans, although we are not sure about the timing of the orders that will be received.

With respect to orders from major overseas customers, we were worried for a while but now feel that the situation has improved somewhat during the three months of the first quarter.

For both domestic and overseas customers, we will first work on delivering products that have accumulated as a backlog of orders, and also look to acquire more orders.

Q2: Please talk about the background of improvement in the operating environment for the environmental energy related works segment.

A2: In the previous fiscal year, the business environment was aggravated temporarily due to social

situations and other factors, but my impression is that things are recovering this fiscal year and returning to the normal business cycle. Still, as we do not anticipate any sharp increases in net sales and profits in the existing business areas, we will aim for growth of business by focusing on the development of new products.

Q3: Please talk about the background of improvement in the operating environment for the promotion business of the industry 4.0 segment.

A3: We believe this is a result of improvement efforts on the part of on-site members bearing fruit. Going forward, leveraging the business foundation thus enhanced through the improvement efforts, we will seek to accomplish the development of new products and aim for further profit improvement.

Q4: When do you anticipate illuminators for automotive application to make a significant contribution to business performance? Would you share with us the image you may have on such aspects as schedule and scale of contribution?

A4: While inquiries are coming in this fiscal year, we expect that it will be from next fiscal year or the subsequent fiscal year that sales will really start expanding in scale. I believe that the coming two years are the critical period. We anticipate that customers will be expanding the volume of their production of devices for automotive application, and will need to increase productivity of the testing processes. Since testing processes of devices for mobile application are different from those for automotive application, how to make use of our pupil lens modules along with illuminators would be a key point in our strategy. Given that our technological strategies have already been developed, we will strive to firmly capture the opportunities and dig deeper into the image sensor market with our illuminators and pupil lens modules.

Q5: The order backlog is continuing at a high level. Do you have concerns about postponement of revenue recognition as in the previous fiscal year? What is your outlook, taking into consideration stagnation of the market for final applications (smartphones, PCs, etc.) that is caused by stagnation of the semiconductor market?

A5: At the present stage, we do not anticipate any postponement of projects that are included in the order backlog. It is true that, in the short term, there are recession concerns due to interest rate hike,

but we believe that this is a necessary process for returning to normal economic activities and so for the medium to long term we are not worried.

On semiconductors, which are seen to be slowing down, because they have come to be deeply rooted in people's lives compared to the past, we think the demand will increase in the future. With the emergence of such technologies as the metaverse and volumetric capture, we are convinced that there will always be a need for image sensors and are not worried even if a short-term drop in demand is projected.

Q6: Please tell us about the businesses that will drive the company going forward and trends such as in capital investment.

A6: We recognize that we are extremely blessed to be operating in a market environment that the image sensor industry offers. However, looking ahead at 10 or 20 years from now, we believe that we must transform into a company that can create the next growth businesses. And we have the competence to accomplish that. As we are currently in the process of preparing our medium-term business plan that can give you confidence in the growth of Inter Action, for today's session, allow me to refrain from answering inquiries on the image of our businesses.

Q7: Is it difficult to make a forecast of the trend in orders from image sensor manufacturers?

A7: It is possible to make a forecast of the general trend based on our business experience, but a more accurate trend is difficult to forecast given advancement of customers' ordering systems and the tendency for the order forecast to change within a short time in line with changes in the business environment.

Q8: Could you tell us the current situation and future outlook of pupil lens modules for new customers?

A8: Our impression is that they are penetrating the customer base at a higher pace than anticipated. With respect to the market size, our projection is 1.3 billion yen or larger, as there is possibility that new customers' application in their devices will be broader than anticipated.

Also, orders from new customers account for a high percentage of orders for pupil lens modules received in the first quarter.

Q9: The inventory level appears high. Is this intentional?

A9: Work in process, which is one of the indicators of inventory level, has increased compared with the previous year, but this is due to advanced procurement necessary to be able to respond to customers' requirements. We ask that this is viewed as being an indication of the many inquiries we are receiving from our customers.

Q10: Please tell us about customer trends, other than major customers, in the internet of things related works business, including changes, if any.

A10: While inquiries are increasing, how broad we should be expanding our customer base is an issue we are currently reexamining. We have been pursuing what only we can do, and as a result, we have been able to secure high profitability. We believe that we need to assess whether or not we would wish to expand market share even at the cost of reducing product prices.

Also, we believe it would be more beneficial for the company, in the medium to long run, that employees are assigned to areas that generate new businesses. Since this leads to shareholder returns such as stock price improvement and dividends, we will be working on initiatives that would expand our potential from a medium- to long-term perspective.
