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To all concerned.

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Q&A for the Financial Results Briefing for the Fiscal Year Ending May 31, 2023, and Medium-Term Plan (Excerpts)

On July 12, 2023, we held an online and in-person hybrid financial results briefing for the fiscal year ending May 31, 2023, and our medium-term plan. This document summarizes and makes public the main points of that Q&A session. Some amendments have been made for clarity.

Q1: Could you explain in detail the background of the ‘growth ceiling’ in your existing businesses? What is lacking there, or what issues led to the ceiling’s creation?

A1: The ‘growth ceiling’ can be attributed to our employees’ satisfaction with their work after several years of robust earnings growth, and the steady lessening of apprehension for the future. As a result, the ambition to embark on new initiatives to grow the company has fallen, leading to stagnating sales growth and shrinking market share.

Going forward, we hope to achieve our MTP targets by actively engaging with customers and other business partners, and by predicting future demand and promoting development to lead our customers.

Q2: Is there a possibility of a Pupil Lens Module (PLM) competitor appearing?

A2: Up until now, we have essentially had a monopoly on our PLM customers, but competition is appearing. We have already begun strengthening our customer relations, working to differentiate ourselves from competitors. Externally, too, we are focusing on collaborating with other companies to add even more value to the product.

Q3: Could you tell us about competition in each segment, and which strategies you use to beat that competition?

A3: Competition varies from business to business, so we plot different strategies for each competitive environment. We believe one of our strengths as a group company is that our product development is always one step ahead of our customers, and we prioritize becoming the leader in each industry in which we do business. By gaining the top share in each industry, we will carve out a future for our business, and by creating things only we can create, we will improve our sales and profitability. Another strength is our ability to offer total systems of products. Other companies typically offer all-purpose products separately, but we are able to offer an innovative system of multiple products, often customized, that put the customer first.

Our competition in the IoT related business is domestic illuminator manufacturers. We differentiate ourselves with our main strength: the technical prowess to realize optical properties in line with image sensor development. We also push our product development beyond current trends by collaborating with customers, and differentiate ourselves by always refining new technology.

In future, we will consider offering middle- to low-end products in addition to high-end products to grow our sales. Currently, middle- to low-end image sensor manufacturers buy lower-priced products from other companies. Rather than compete on prices, we aim to change our existing image sensor manufacturer customers' approaches by suggesting they should expand and take those lower markets. Specifically, because our strength is in our total system products as I mentioned before, we hope to succeed in this competitive landscape by pushing collaboration between our illuminators, PLMs, and the technologies owned by our subsidiaries and other companies.

We developed our laser processing equipment business late, so our competition is all existing laser equipment manufacturers. We plan to differentiate ourselves by turning processing recipes into data and equipping inspection functions onto our products. These two techniques improve usability and ease of processing, allowing for equipment that can adapt to a variety of materials. By strengthening these techniques, we plan to grow the business with the same customer service and support we have polished in our other businesses in service of our customer first mindset.

We also developed our AI image processing business late, and there are already several surface inspection companies in the market to act as competition. That said, within our AI business is our FA image processing equipment business, which is already differentiating itself from the external gear testing that has been the norm until now by using the gear knowledge we gained in our existing gear testing system business and meshing it with AI. We also received several inquiries from other industries when we participated in JIMTOF 2022, and we aim to use those as footholds to expand sales to fields beyond gears.

Q4: With a company of your size, good sales of a product could dramatically raise overall sales and operating profit – are there any new businesses we can expect great things from?

A4: We expect much from all of the new businesses detailed in our MTP.

Take the FA image processing equipment within our AI image processing business, for example: until now, accurate measurement of defects such as surface scratches or smudges has largely been challenging, but our technology can pinpoint defects accurately. Furthermore, other companies' image processing equipment is typically sold separately as cameras, lighting, etc., but we offer cameras, lighting, and even transport in an all-in-one system. We have been told by customers that they have seen no other company that prioritizes customer experience so much when designing products.

In our vibration solutions business, it has previously been time consuming to accurately identify which vibration is the source of any issues in the vibration process because of a lack of vibration visibility when using older products, but our vibration monitoring app visualizes the vibrations, cutting down on analysis time, and improving our customers' productivity.

In this way we actualize our company purpose, revealing the invisible and making the impossible possible for our customers, and we believe that by doing so we will create new markets and increase our earnings.

Q5: You explained that sales trends in the IoT related business in FY 5/2024 will include a higher proportion of domestic sales and lower profitability, but do you think that will be temporary? Also, will selling the new illuminator model to your main domestic customer not improve margins?

A5: We believe the higher proportion of domestic sales will be temporary. At the moment, the balance between domestic and overseas sales has broken down largely due to the slumping Chinese smartphone market, but we expect the image sensor related market to recover from 2025, thereby increasing our proportion of overseas sales.

By selling our new illuminator model to our main domestic customer, profitability will increase. We plan to improve profitability even further by selling products in line with trends in technological developments.

Q6: Could you outline how overseas PLM sales were in the previous fiscal year, and your expectations for this fiscal year?

A6: Our customer is currently in the final testing stages of full-scale installation. If all goes well, we expect the introduction of mass production to begin within FY 5/2024. We have no precise scale estimates for once installation is completed, but believe the business will generate several hundred million Yen in sales.

Q7: Is your technology capable of responding to image sensor tech trends?

A7: We have already responded to the three major mobile image sensor trends. Specifically, we have addressed the enlargement of image sensors with our new illuminator model, and, anticipating ToF sensor demand, we have furthered development so we are able to offer our products in time for releases of final application products such as smartphones.

Q8: What are the target applications and largest issues in the laser processing equipment business?

A8: We target next-generation power semiconductor processes (e.g. dicing) that use materials such as silicon carbide.

As things stand, we see three main issues in this business. The first is increasing prices as we create solutions that can manage a variety of materials: to address this, we sell our products at different grades, and we allow the flexibility to incorporate additional functions with add-on products. The second is the issue of the supply chain: to address this, we select second and third players and carry out parallel testing of alternative products. The third is the construction of a solid business structure: to address this, we make sure we understand customer demand and prioritize productivity and support in our structure.

Q9: Could you outline future orders trends in the IoT related business and the details of any large orders you have won in FY 5/2024?

A9: We expect robust growth in domestic orders. Large orders are also domestic and are for the new illuminator model. We had relatively few overseas orders in FY 5/2023, so we believe there will be rebound demand, although we lack visibility on exact timing.