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For Immediate Release

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Q&A Session Summary from the Financial Results Briefing for the Six Months Ended August 31, 2023

Today OXIDE Corporation held a financial results briefing for analysts and institutional investors. The following is a summary of the responses to the main questions asked by those in attendance. To promote clarity, some additions and corrections have been made to the original transcript, and are included in this summary.

- Q. Please explain the sales and earnings situations for the Semiconductor business in the first and second quarters of this fiscal year.
- A. **In the first quarter, OXIDE achieved its highest quarterly net sales to date. The net sales figure above was a result of procuring larger amounts in advance in order to respond to defects in some components that had been occurring since the third quarter of the previous fiscal year. The higher-than-expected net sales are also reflected in profit. In the second quarter, the number of components procured in advance was almost exhausted by August, and the acceptance rate for newly procured components was also poor. As a result, both net sales and profit were lower than expected.**
- Q. **Could you tell us the first-half results for maintenance-related net sales in the Semiconductor business compared to the budget?**
- A. Maintenance service net sales in the Semiconductor business in the first half were approximately 200 million yen, slightly lower than expected. A reason behind this is that in light of the problems with the components described above, the Company has reached an agreement with major customers to prioritize sales of laser products rather than maintenance. As demand for maintenance services remains strong, we will respond by increasing production capacity, mainly at Factory No. 4, which began operations in September.
- Q. Am I right in understanding that improved products with high quality, as outlined in the Semiconductor business defect countermeasures, will be delivered from a second vendor?

A. Improved products with high quality are scheduled to arrive from the current vendor and a second vendor. The physical mechanism causing the defects has been identified. The current vendor will improve its products using the necessary response measures, and the effects will be seen from the fourth quarter onwards. The second vendor has already succeeded in developing improved products using the response measures, and they will be available starting in the fourth quarter, around the same time as the ones expected from the current vendor.

Q. Please explain in detail the proactive efforts your company has taken regarding the defects in some components from the Semiconductor business that have occurred since last year.

A. Our main effort was to clarify the physical mechanism responsible for the component defects, and to develop measures to counter the problem. All along, we have engaged in repeated discussions with the overseas vendor that supplied the defective components. Since the vendor would not disclose details of the manufacturing process in order to protect their manufacturing expertise, and the problem had not occurred in applications other than ours, it was difficult to investigate the root causes. As there was no prospect of resolving the problem at that point, we took the lead in analyzing the physical phenomena involved with the aim of finding a fundamental solution. As a result, we were able to identify the physical mechanism responsible.

Based on this, we prepared specific improvement measures in terms of both materials and structure to produce higher quality components, and presented them to the vendor. Currently, both OXIDE and the vendor have completed verification of the relevant principles, and we are currently evaluating the long-term reliability of the prototype. Through these efforts, we will be able to procure components with high quality. In the fourth quarter, we expect sales in our Semiconductor business to start growing again, enabling us to approach our full-year budget.

Q. Please give us a breakdown of the results for the second quarter, both consolidated and non-consolidated.

A. At the beginning of the fiscal year, the budget was given both on a consolidated and non-consolidated basis, but starting this fiscal year, we are basically disclosing only consolidated results. The additional costs associated with consolidation are as follows. Goodwill amortization costs were just under 70 million yen, and together with PMI costs, we incurred around 80 million to 90 million yen. Implementation of the stock-based compensation plan was slower than expected because it took time to communicate with tax authorities. Also, Raicol's non-consolidated results were almost in line with expectations. The drop in OXIDE's Semiconductor business caused the consolidated results to fall short of the plan.

Q. You indicated that this fiscal year, the Healthcare and Frontier Technology business results are expected to remain largely in line with the initial budget, while results in the Semiconductor business are expected to drop below the initial budget. Could you explain about the divergence from the full-year budget?

Also, could the Healthcare business results be higher than expected in the second half?

A. The downturn in the Semiconductor business is having an impact on our overall sales plan. Although we

have not disclosed any revisions to the plan, we anticipate that the delivery of new and improved components without defects will contribute to sales starting in the fourth quarter. As the criteria for forecast revision have not been met at this point, we have decided not to make any revisions. However, since it will depend on the shipment volume for laser products equipped with the improved components that are received going forward, we believe that the results may be higher than expected, or even lower in some cases.

In the Healthcare business, sales recovered in the first half, and in the second quarter in particular. The second half results will depend on performance at our main customers. China accounts for around 20% to 30% of the global market, and since last year the impact of the Chinese market is gradually being felt. We believe that we will need to consider the second half of the year more carefully than expected. For this reason, we are making forecasts that are slightly more cautious than usual. The first priority is to achieve our planned figures.

Q. What is the sales forecast for brain PET-related products this fiscal year? Could you also give us your forecast for the next fiscal year and beyond?

A. Since the start of this fiscal year, we have been receiving an increasing number of inquiries concerning scintillator single crystals for brain PET scanner. Sales of them in this fiscal year are expected to account for more than 10% of the Healthcare business. Because brain PET scanner is a smaller device, they only need about a third of the single crystals used in whole-body PETs. A set of crystals for a whole-body PET scanner sells for approximately 40 million yen. Since single crystals for brain PET scanner are small, complex, and have high processing costs, the relatively smaller amount of single crystals used does not mean that net sales per device will be one-third lower than for whole-body PET scanner. Since profit margins are also higher, we expect net sales to increase as the number of devices expands. The extent of future market growth will depend on the demand for scans and the rate at which hospitals acquire brain PET scanner.

Q. Regarding your Quantum Physics business, I would like to know your specific target customers and when sales could begin.

A. OXIDE and Raicol have been jointly developing a quantum entangled light source, and we recently succeeded in creating a module by combining OXIDE's mounting technology and Raicol's crystal growth technology.

In the field of quantum cryptographic communications, many startups and other companies are finally starting to commercialize communication systems using entanglement, which offer a high level of security. Going forward, we plan to expand this business by using this kind of startup to deliver the new technology to society, or by selling the newly developed light source module to organizations that are leading the way in implementing such systems, such as national research institutes.

As for the timeline, over the next few years, demonstration experiments will likely continue at research institutions on a developmental basis, followed by actual implementation. Governments worldwide are also making large-scale investments in research and development, including these demonstration experiments. OXIDE has already achieved sales of several hundreds of millions of yen by supplying the crystals and

chips needed to generate quantum entangled light. By providing a quantum entangled light source module offering higher added value, the business scale could expand exponentially.

Q. What were Raicol's sales in the second quarter? Did they meet the initial plan? Could you provide us with the sales breakdown percentages for the company's four business areas? Also, if armed conflict escalates in Israel, do you expect exceptional demand?

A. Raicol's initial net sales plan was around 1.5 billion yen overall, as the contribution from the second quarter is equivalent to three quarters' worth. Raicol's net sales for the second quarter were approximately 450 million yen. This pretty much aligns with the initial plan. Aerospace & Defense accounts for around 50% of the four-business total. Medical Aesthetics and Quantum Physics account for around 20% each, and Energy accounts for about 10%.

The Aerospace & Defense business accounts for approximately 50% of Raicol's net sales. Some of the orders planned for the first half of the year have not yet been received. These orders may end up concentrated in the second half of the fiscal year due to the armed conflict. These circumstances could end up having a positive effect on sales. However, it is difficult to predict the situation at this point, as it depends on how the military conflict unfolds.

Certainly, it is unclear how the armed conflict that began on October 7 in Israel will affect sales going forward. Currently, Raicol is not concerned about production capacity, but as reported, some employees have been called up for reserve duty, so this could have an impact on the Company in the months ahead. We need to keep an eye on how this unfolds.

Q. Tell us more about the current situation for Raicol given the armed conflict between Hamas and Israel.

A. The city of Rosh Ha'Ayin in central Israel, where Raicol's head office is located, is about 80 km from the Gaza Strip and about 110 km from the conflict area on the Lebanese border. Despite the immediate chaos following the Hamas attack, Raicol resumed operations on October 10. We have also confirmed that all the company's employees, including their family members, are safe. However, as reported in the media, 300,000 reservists have been called up in Israel, and about 15 Raicol employees are among them. The relevant impact on Raicol's business performance will be disclosed in a timely manner as necessary once it becomes clearer.

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