



OXIDE

Supplementary Explanatory Materials for the Nine Months Ended November 30, 2023

**January 12, 2024
TSE Growth Market: 6521
OXIDE Corporation**

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I will go over the details of the supplementary explanatory materials now.

Results from the First Nine Months of FY2/24

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■ Net sales and operating profit fell short of initial budgets.

(Million yen)

	FY2/24 1Q (March - May)		FY2/24 2Q (June - August)		FY2/24 3Q (September - November)		FY2/24 9 months (March - November)		Difference between budget and result B-A
	Budget	Result	Budget	Result	Budget	Result	Budget (A)	Result (B)	
Net sales	1,315	1,359	2,183	1,964	2,527	1,370	6,027	4,693	(1,333)
Operating profit	(229)	(48)	90	(40)	215	(541)	76	(631)	(707)
(Operating margin)	(17.4)%	(3.6)%	4.1%	(2.1)%	8.5%	(39.5)%	1.3%	(13.5)%	—
R&D expense	242	193	256	239	289	281	787	714	(72)
Capital investment	—	979	—	278	—	452	—	1,785	—
EBITDA*	(122)	46	345	211	487	(315)	709	(58)	(767)

* EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization

First, I will give an overview of the financial results for the third quarter.

Net sales and operating profit fell short of initial budgets.

The main cause was the inability to secure net sales in the Semiconductor business due to the impact of defects with some components.

Net sales were 4,693 million yen, failing short of the budget.

For this reason, operating loss increased, to negative 631 million yen.

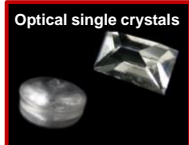
[Semiconductor] 3Q Results

- The residual impact of defects in some components continued in the third quarter, and results fell short of the initial budget.

(Million yen)

	FY2/24 1Q (March - May)		FY2/24 2Q (June - August)		FY2/24 3Q (September - November)			FY2/24 9 months (March - November)		
	Budget	Result	Budget	Result	Budget Disclosed in April	Forecast Disclosed in October	Result	Budget Disclosed in April	Forecast Disclosed in October	Result
Net sales	919	1,017	1,273	773	1,342	650	491	3,534	2,440	2,282

Our products for semiconductor wafer inspection systems



Semiconductor wafer inspection system (image picture)



Next, let's look at the current situation in each business.

In the Semiconductor business, the forecast for third quarter sales was explained when disclosing second quarter financial results, but we fell short of that forecast, resulting in 491 million yen.

This was due to more time than expected being required to resolve the problem of defects in some components.

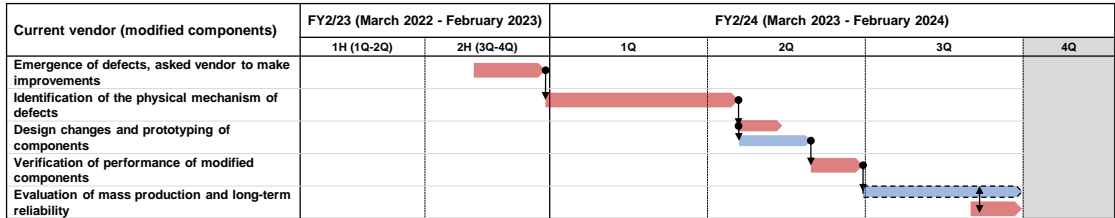
Details are explained on the next page.

[Semiconductor] Handling of Defects in Components

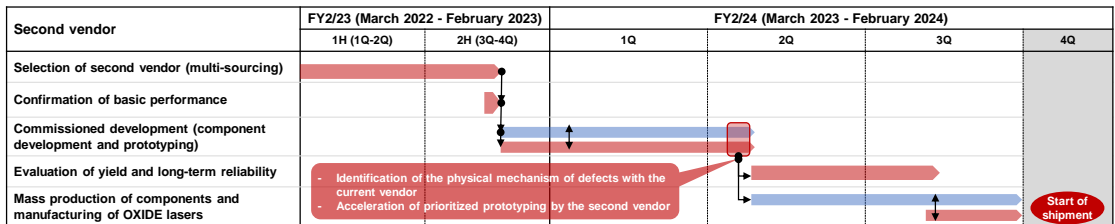
- **Current vendor:** Identified the physical mechanisms that cause defects and completed performance verification of prototype improved components.



However, there were problems with the vendor's engineering, and it is taking more time than expected to establish mass production.



- **Second vendor:** Succeeded in mass production of components based on OXIDE designs, and passed long-term reliability evaluation with high yield. OXIDE lasers equipped with the second vendor's components are scheduled to be shipped from mid-January 2024.



I will explain the status of handling the component defects by the current vendor and the second vendor.

First, I will explain the status of the current vendor.

As reported with the second quarter financial results, we identified the physical mechanisms that cause defects and completed performance verification of prototype modified components.

However, there were problems with engineering at the vendor, and technology for mass production has not been established.

We have verified various conditions of the manufacturing process one by one with the vendor, and this has taken more time than expected.

Next, I will describe the status of the second vendor.

This vendor succeeded in mass production of components based on OXIDE designs, and passed long-term reliability evaluation with a yield of 100% at present.

Following certification by major customers, OXIDE lasers equipped with the second vendor's components are scheduled to be shipped from mid-January 2024.

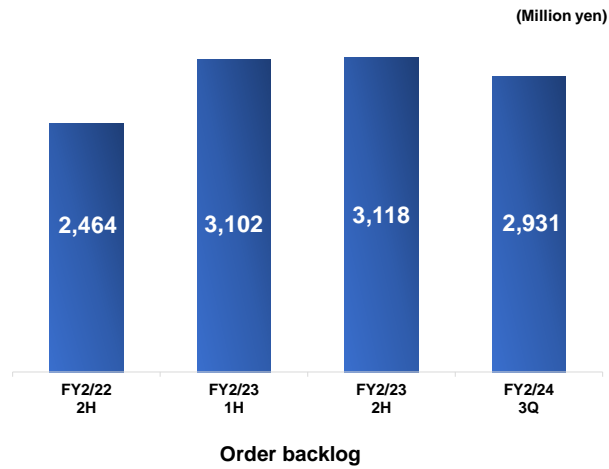
Going forward, we intend to mainly use the second vendor's components to replace the components of the current vendor.

Learning from this problem, we will strengthen the risk management system, and proceed to use multiple vendors such as a third vendor and a fourth vendor, and also use internal production.

[Semiconductor] Order Backlog

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■ Order backlog remained high.



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5

Next, let's look at the Semiconductor order backlog.

Although the problem of defective components continued, OXIDE has maintained high demand for its advanced lasers.

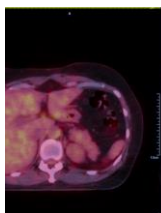
At present, there have been no cancellations by customers, and the order backlog remains high.

[Healthcare] 3Q Results

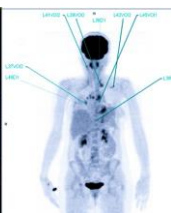
■ Results for the first nine months were slightly below the budget.

(Million yen)

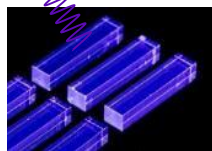
	FY2/24 1Q (March - May)		FY2/24 2Q (June - August)		FY2/24 3Q (September - November)			FY2/24 9 months (March - November)		
	Budget	Result	Budget	Result	Budget Disclosed in April	Forecast Disclosed in October	Result	Budget Disclosed in April	Forecast Disclosed in October	Result
Net sales	296	245	368	597	528	440	371	1,193	1,282	1,214



PET diagnostic image



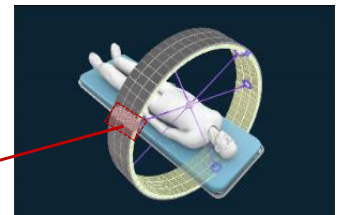
Radiation



Scintillator single crystals



Scintillator single crystals for PET scanner



PET scanner structure

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Next, let's look at the Healthcare business.

Net sales temporarily recovered in the second quarter but fell below the initial budget and forecast in the third quarter at 371 million yen.

However, results for the first nine months were slightly above the budget.

[Frontier Technology] 3Q Results

- During the first nine months, some large projects for laboratory applications were delayed, and the budget was not reached

(Million yen)

	FY2/24 1Q (March - May)		FY2/24 2Q (June - August)		FY2/24 3Q (September - November)			FY2/24 9 months (March - November)		
	Budget	Result	Budget	Result	Budget Disclosed in April	Forecast Disclosed in October	Result	Budget Disclosed in April	Forecast Disclosed in October	Result
	Net sales	100	96	541	594	657	675	506	1,298	1,365

Main areas

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Raicol

Power semiconductors
SiC single crystals, Ga₂O₃ single crystals

Aerospace & Defense

Medical Aesthetics

LIDAR, 5G

Quantum Physics

Energy

Next, let's look at the Frontier Technology business.

Net sales for the first nine months were 506 million yen, falling short of budget because some large projects for laboratory applications were delayed.

The budget was not reached in the first nine months.

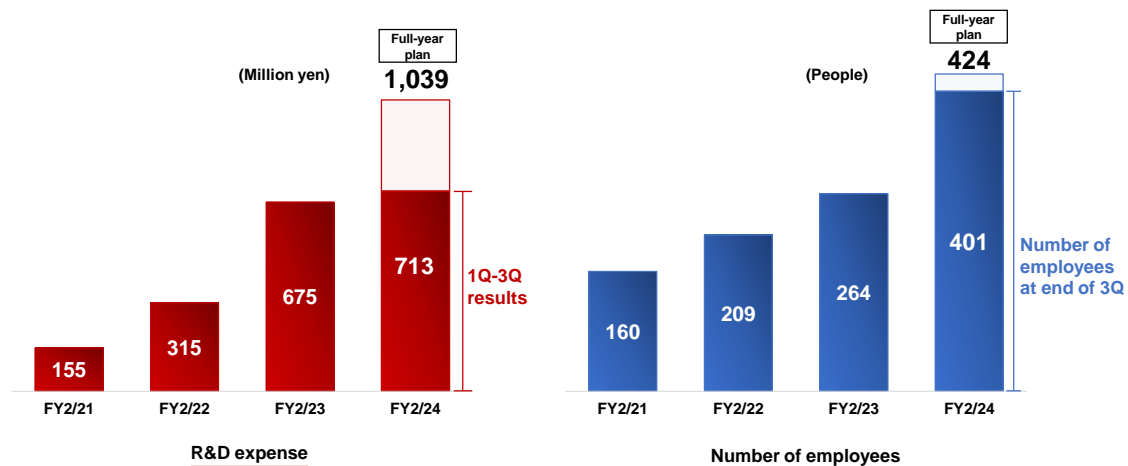
However, expansion of the business portfolio has progressed due to acquiring Raicol as a subsidiary in March 2023.

In particular, sales have growth in the two areas of Aerospace & Defense and Quantum Physics.

In future, we will further accelerate the creation of synergies between OXIDE and Raicol.

[R&D Expense and Personnel Plan]

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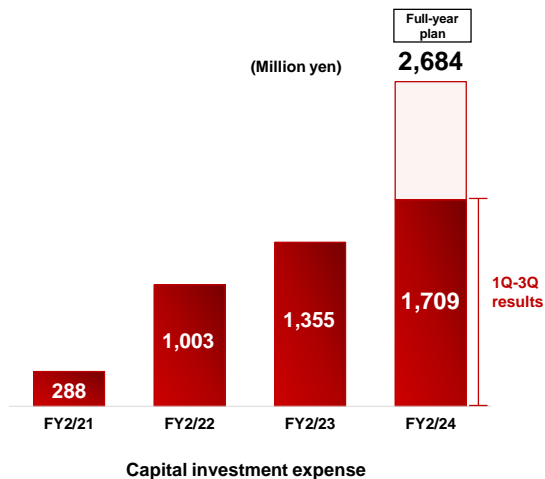
Next, I will explain R&D expense and the personnel plan.

We mainly invested R&D expense in the area of power semiconductors, totaling 713 million yen for the first nine months.

The number of employees was 401 on a consolidated basis as of November 30, 2023.

[Capital Investment]

- Cumulative capital investment until 3Q was 1,709 million yen.
We mainly invested in Factory No. 4 for semiconductors and Factory No. 5 for power semiconductors.



Factory No. 4:
Increased DUV laser production



Factory No. 5:
SiC single crystals

Next, I will explain our capital investment.

Cumulative capital investment for the first nine months was 1,709 million yen.

We mainly invested in Factory No. 4 for semiconductors and Factory No. 5 for power semiconductors.

Downward Revision of Full-Year Financial Forecasts for FY2/24: Non-Consolidated

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■ Full-year financial forecasts for FY2/24 have been revised downward.

(Million yen)

	FY2/23 Non-consolidated	FY2/24 Full-year forecasts (March - February)		
		Previous forecast (Apr. 14)	Revised forecast (Jan. 12)	Percentage change
Net sales	5,752	7,294	5,128	(29.7)%
Gross profit	2,279	2,777	1,300	(53.2)%
SG&A	1,742	2,095	2,052	(2.1)%
Of which, R&D expense	675	813	741	(8.9)%
Operating profit (loss)	537	681	(752)	—
Non-operating income (loss)	150	263	379	44.1%
Ordinary profit (loss)	687	945	(374)	—

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10

After that, I will move on to the full-year financial forecasts.

First, let's look at non-consolidated financial forecasts.

The forecast for net sales will be revised downward by 29.7% to 5,128 million yen.

For this reason, operating loss is also expected to be negative 752 million yen.

Downward Revision of Full-Year Financial Forecasts for FY2/24: Consolidated

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■ Full-year financial forecasts for FY2/24 have been revised downward.

(Million yen)

	Reference: FY2/23 Non-consolidated	FY2/24 Full-year forecasts (March - February)		Percentage change
		Previous forecast (Apr. 14)	Revised forecast (Jan. 12)	
Net sales	5,752	8,773	6,511	(25.8)%
Gross profit	2,279	3,554	2,024	(43.1)%
SG&A	1,742	2,603	2,592	(0.4)%
Of which, R&D expense	675	1,039	1,003	(3.5)%
Additional expenses associated with consolidation	—	476	265	(44.4)%
Operating profit (loss)	537	471	(833)	—
Non-operating income (loss)	150	181	100	(44.8)%
Ordinary profit (loss)	687	652	(733)	—

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11

Now I will move on to consolidated forecasts.

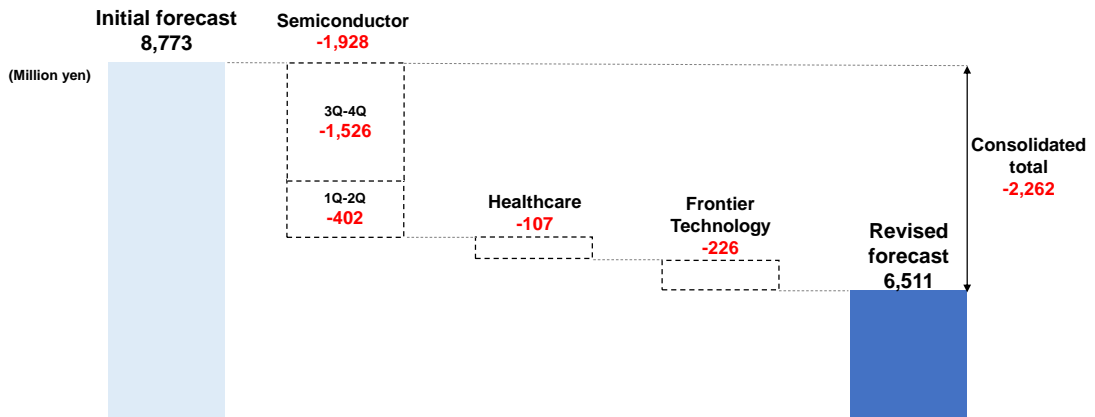
The forecast for net sales will be revised downward by 25.8% to 6,511 million yen.

For this reason, operating loss is also expected to increase, to negative 833 million yen.

Full-Year Financial Forecasts for FY2/24: Main Factors in the Downward Revision of Net Sales

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- The main factor in the downward revision of net sales for the full-year financial forecast for FY2/24 is a decrease in net sales due to the impact of defective components in the Semiconductor business.
- A recovery from defects in some semiconductor components was expected in 3Q and 4Q, but there were problems with the vendor's engineering, and more time than expected was required to establish mass production.



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12

Here, I will explain the main factors leading to the downward revision of net sales for the full year by 2,262 million yen.

Semiconductor revenue is down by 1,928 million yen.

A recovery from defects in some components was expected in 3Q and 4Q, but there were problems with the vendor's engineering, and more time than expected was required to establish mass production.

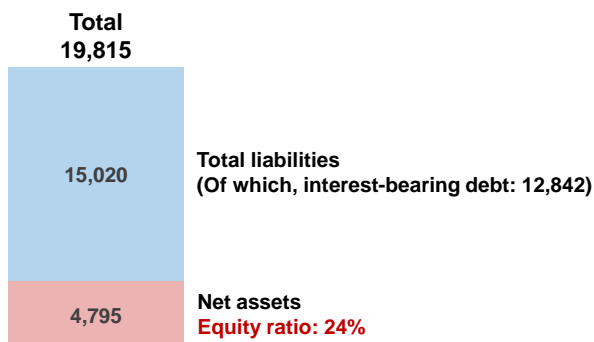
Outside the Semiconductor business, the Healthcare business revenue is down by 107 million yen, and the Frontier Technology business revenue is down by 226 million yen.

Equity Ratio

- In response to robust demand for funds, we have built close relationships with financial institutions, and utilize not only shareholder's equity, but also borrowings. The equity ratio as of the end of 3Q was approximately 24%.
- It is recognized that it is necessary to strengthen financial standing including the improvement of equity ratio to expand means of funding into the future.

[Balance Sheet at End of 3Q: Liabilities and Net Assets]

(Million yen)



Next, I will explain the company's equity ratio.

In response to robust demand for funds, OXIDE has built close relationships with financial institutions, and utilizes not only shareholder's equity, but also borrowings.

The equity ratio as of the end of the third quarter was approximately 24%.

It is recognized that it is necessary to strengthen financial standing including the improvement of equity ratio to expand means of funding into the future.

Third-Party Allotment: Disclosed on December 15

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- On December 15, the Board of Directors passed a resolution to make a third-party allotment with KLA-Tencor Japan, Ltd. (the Japanese subsidiary of the KLA Group) as the allottee, and payment was completed on January 5, 2024.
- The equity ratio will be approximately 38% due to the third-party allotment.
- KLA is a company listed on NASDAQ in the United States with consolidated net sales of approximately 1.5 trillion yen^{*1} in FY2022 and market capitalization of approximately 10.7 trillion yen^{*2}.

Issuance conditions

- Number of shares issued: 950,000
- Issue price: 2,959 yen (price determined at a 5.0% discount on the average closing price for the past month)
- Amount paid: Approx. 2.81 billion yen
- Dilution rate: 9.45%

Reasons for selecting the allottee

Leading company in semiconductor inspection systems

OXIDE's optical technology is highly regarded

Strategic partnership since investment in 2006

*1: Reference value calculated based on USD 10.49 billion in consolidated net sales for FY2022 at a rate of 145JPY/USD.

*2: Reference value calculated based on USD 73.99 billion in market capitalization as of January 5, 2024 at a rate of 145JPY/USD.

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14

OXIDE made a third-party allotment with KLA-Tencor Japan, Ltd., which is the Japanese subsidiary of the KLA Group, as the allottee, and payment was completed on January 5, 2024.

The amount paid was approximately 2,811.05 million yen.

KLA is listed on NASDAQ in the United States, and is a leading company in semiconductor inspection systems.

It had sales of approximately 1.5 trillion yen in FY2022 and market capitalization of approximately 10.7 trillion yen as of January 5, 2024.

KLA holds OXIDE's optical technology in high regard.

OXIDE and KLA have been deepening relations as strategic partners for 18 years since KLA invested in OXIDE in 2006.

KLA is in an important position capable of providing OXIDE with development guidelines for products that will be required by the semiconductor industry in future because it supplies products and services to major semiconductor manufacturers worldwide.



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