

Translation

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Supplementary Explanation Regarding Revision of Full-Year Earnings Forecast and Change in Consolidated Subsidiary (Share Transfer)

OXIDE Corporation (the "Company") announced the "Notice Regarding Revision of Full-Year Consolidated Earnings Forecast" and the "Notice Regarding Change in Consolidated Subsidiary (Share Transfer) and Recognition of Extraordinary Loss." today.

To provide more detailed information in response to opinions and questions anticipated from our shareholders regarding these two disclosures, we are publishing this supplementary explanation document.

We sincerely appreciate the opinions and questions we receive and will continue to dedicate our full efforts to enhancing corporate value. We ask for your continued support.

Q. Revenue has been revised upward by approximately 13.6% from the initial forecast. Please explain the background behind the revenue increase despite a decline in orders at Raicol.

A. While orders at Raicol Crystals Ltd. (headquartered in Israel, hereinafter "Raicol") have decreased, revenue of OXIDE alone have remained robust. As a result, consolidated revenue are expected to increase by approximately 13.6% compared to the initial forecast. In particular, the Semiconductor business and Frontier Tech business areas are projected to exceed initial expectations.

In the Semiconductor business, increased shipments of deep ultraviolet lasers and single crystal products, along with development contracts for next-generation lasers, are significantly contributing to sales. Maintenance demand for deep ultraviolet lasers also remains robust. In the Frontier Tech business areas, increased shipments of Faraday rotators for data centers are contributing to sales.

Q. Operating profit is projected to increase by approximately 12.5% from the previous forecast. Please explain the background for this.

A. Due to the prolonged conflict, the boycott of Israeli products, inflation within Israel, and rising material costs, Raicol is projected to incur an operating loss of approximately JPY 450 million on a standalone basis for the full year. The operating profit increase on a standalone basis for OXIDE has offset this operating loss at Raicol. As a result, on a consolidated basis, we expect to achieve operating profit exceeding the initial forecast. The main factors contributing to the increase in standalone operating profit are, as previously explained, increased sales in the Semiconductor business and Frontier Tech business areas.

Q. This time, both operating profit and ordinary profit have been revised upward, while net profit has been revised downward. Could you please explain the main reasons for this? In particular, it has only been two weeks since the announcement of the 3Q results on January 14th. What occurred during this period to necessitate the revision? Also, significant amounts are projected below operating profit (non-operating income/loss, extraordinary gains/losses, etc.). Please provide details on these items as well.

A. Key developments since January 14 include the transfer of all shares in Raicol and related loan receivables (hereinafter "the Transfer") and an improvement in the likelihood of securing sales orders by the end of February. Based on these factors, the revised earnings forecast is as follows:

Operating Profit: JPY 460 million (JPY 51 million increase from previous forecast, approximately 12.5% increase)

Ordinary Profit: JPY 600 million (JPY 358 million increase from previous forecast, approx. 147.9% increase)

Net Income: JPY -500 million (JPY 574 million decrease from previous forecast)

The factors behind this revision can be broadly divided into two categories.

1. Increased demand in the Semiconductor business and expanding demand in Frontier Tech business areas

In the Semiconductor business, inquiries from three major customers have been increasing since the second half of last year. From late last year through early this year, there was a noticeable trend of accelerated development and requests for earlier shipments. As a result, this business segment is expected to generate approximately JPY 400 million in additional revenue for the fourth quarter compared with the initial plan.

In the Frontier Tech business areas, a new project for Faraday rotators for data centers has been decided, and revenue is expected to increase by approximately JPY 400 million in the fourth quarter.

The profit increase from these revenue gains is expected to exceed the JPY 450 million downward

revision to Raicol's forecast by approximately JPY 50 million. Therefore, we are revising our operating profit forecast upward.

2. Foreign exchange gains, extraordinary loss from the transfer, and tax effect accounting impact

Regarding non-operating income, foreign exchange gains of approximately JPY 350 million are expected for the full year due to the weakening of the yen. This gain arises from the conversion of loans extended by our company to Raicol, denominated in yen, into NIS (New Israeli Shekel) for Raicol's financial statements, benefiting from the yen's depreciation. This represents income from financial factors independent of operating activities.

Regarding extraordinary gains and losses, an extraordinary loss of approximately JPY 1,700 million is expected to be recorded in connection with this transfer. The breakdown includes an accounting treatment of approximately JPY 500 million, where the cumulative foreign currency translation adjustment previously accumulated in net assets will be transferred in full to extraordinary gains upon the transfer of Raicol shares. This is because, when selling an overseas subsidiary, the cumulative foreign exchange differences that have fluctuated in yen terms in the past must be recognized in profit or loss. On the other hand, an extraordinary loss of approximately JPY 2,200 million is expected to arise as a loss on sale from this transfer. After netting these items, an extraordinary loss of approximately JPY 1,700 million will be recorded.

Finally, regarding the income tax adjustment: The extraordinary loss from this transfer and the JPY 2,715 million impairment loss on goodwill and other assets recognized last fiscal year will be finalized as a tax expense (carryforward loss) due to this transfer. As a result of applying tax effect accounting, the income tax adjustment for the current period is expected to be JPY -514 million. This results in a temporary difference for tax purposes, increasing the recognition of deferred tax assets. Consequently, the income statement will show a negative tax expense, which will boost net income. This is based on accounting tax adjustments and is characterized as a non-cash adjustment for the current period.

Q. Please explain again the background leading to the transfer of Raicol shares. As the first M&A since listing, we had expected it to contribute to growth. Why was the decision to transfer made now? Also, why wasn't the decision to transfer made sooner?

A. We consolidated Raicol as a subsidiary in March 2023. Our objective was to combine Raicol's technological capabilities in nonlinear optical crystals and electro-optic devices, along with its sales network centered in Europe, with our mass production and single crystal growth technologies. This integration aimed to expand our product portfolio and sales channels, driving mid-to-long-term business growth.

However, immediately after making it a consolidated subsidiary in October 2023, conflict erupted in Israel. This led to a sudden, severe deterioration in the external environment due to force majeure factors: employee reserve duty call-ups, boycotts of Israeli products primarily in Middle Eastern countries and Europe, and rising inflation and soaring material costs within Israel due to the prolonged conflict.

In response to these circumstances, the Company has been examining and implementing improvement measures across technology, manufacturing, and sales, including reviewing staffing levels and fixed costs, to restore Raicol's profitability. Believing that the business potential was not entirely lost and that options should not be closed prematurely, the Company pursued both management efficiency and business continuity for a certain period, thus not immediately deciding on a transfer.

However, despite these ongoing efforts, headwinds from the external environment have outweighed them. The full-year 2025 outlook now projects an operating loss of approximately JPY 450 million for Raicol alone. Furthermore, a permanent ceasefire in Gaza has yet to be achieved, and uncertainty surrounding the situation in the surrounding region, including Iran, continues to grow.

Given the heightened uncertainty surrounding Raicol's current business environment and medium-to-long-term performance outlook, we determined that returning to the business plan envisioned at the time of acquisition is not realistic. Therefore, from the perspective of enhancing the corporate value of our entire group while avoiding further expansion of the impact from external factors, we concluded that transferring Raicol's shares is the best course of action.

Following the share transfer, our collaborative relationship will continue, including Raicol's exclusive supply of critical crystals for next-generation semiconductors to our company and cooperation through the acquisition of crystal growth furnaces. Going forward, we will focus our management resources on key growth areas such as quantum, data centers, and power semiconductors, in addition to our core Semiconductor and Healthcare businesses, aiming to achieve sustainable growth.

- Q. The transferee, Israel Special Material Platform LP, is a company led by Raicol CEO Aner Yarden. We understand this transaction as an MBO by Mr. Yarden. While we imagine Mr. Yarden, as CEO, bears some responsibility for Raicol's deteriorating performance, what is the rationale for transferring to him? Were no other suitable transfer candidates considered?
- A. In selecting the transferee, Israel Special Material Platform LP, we engaged in discussions with multiple candidates, including companies outside Israel. We comprehensively evaluated the economic rationality for our company, considering factors such as the sustainability of the collaborative relationship between Raicol and our company, and the prerequisite for that—the viability of Raicol's business continuation. As a result, considering the current geopolitical situation in Israel and regulatory/practical constraints, we judged that transferring to the current management team would lead to the smoothest business succession and the most stable continuation of our collaboration—including the exclusive supply of key crystals to our company, joint development, and quality control—and thus represented the most economically rational option for us. Thus, this decision prioritizes maintaining and enhancing business value while ensuring certainty for our company.
- Q. I question the appropriateness of acquiring Raicol in March 2023. The geopolitical risks in Israel should have been recognizable even before the October 2023 conflict. Were these risks sufficiently discussed by the Board of Directors or other relevant bodies at the time of acquisition? Was the acquisition of Raicol itself fundamentally a mistake? How do you view responsibility for this?
- A. The decision to acquire Raicol was approved by our Board of Directors following thorough discussion and deliberation. During the acquisition review process, we comprehensively evaluated the upside—including Raicol's objective value at the time of acquisition, its growth potential, and business synergies—alongside the downside risks, such as business and geopolitical risks, based on the opinions of external experts. However, the Israel conflict that erupted in October 2023 was the largest since the 1993 Oslo Accords. It was extremely difficult to predict with high accuracy at the time of acquisition the risk of such a large-scale conflict occurring and prolonging within a year of the acquisition. We believe the decision to acquire Raicol was technically and strategically sound, based on the information available and the business environment at the time. However, it is also true that we subsequently faced a challenging business environment, and we sincerely acknowledge this point. We believe the crucial point is to confront environmental changes head-on and implement flexible, optimal adjustments. Summarizing the valuable experience gained from the Raicol M&A and subsequent PMI, the management team and Board of Directors, led by CEO Furukawa, will unite to sincerely address the challenges arising from this decision. We will responsibly advance management to achieve the next phase of growth while continuously tackling management issues, including the impact of these challenges.

Q. The transfer amount of JPY 1 billion appears significantly lower than the acquisition price of USD 25.3 million (approximately JPY 3.4 billion at the time). Please explain the appropriateness of this transfer amount.

A. Considering the significant changes in the external environment since the acquisition of Raicol, the deterioration in profitability, and the difficulty in forecasting an immediate recovery in performance, among other factors, we determined that this was the most economically rational condition for our company after comparing multiple potential buyers. We held discussions with multiple candidates, including companies outside Israel, but no offer exceeding JPY 1 billion was presented by the transferee, Israel Special Material Platform LP. Furthermore, even after the share transfer, we plan to continue our collaborative relationship with Raicol, including its exclusive supply of critical crystals for next-generation semiconductors to our company and the acquisition of crystal growth furnaces. These arrangements will contribute to our business growth.

Raicol is projected to incur an operating loss of approximately JPY 450 million in fiscal 2025, and its profitability beyond the next fiscal year remains uncertain. Maintaining its consolidation would therefore pose a significant risk factor to the profitability of our entire group. To maximize the corporate value of our group, we determined that transferring Raicol at this time and allocating the proceeds to our future growth strategy is the optimal course of action.

Q. Please explain how the consolidated balance sheet has changed following the transfer of Raicol.

A. Raicol's balance sheet will be deducted from the consolidated balance sheet, reducing consolidated total assets by approximately JPY 4,000 million from the third quarter-end balance of JPY 17,329 million. As a result, we anticipate consolidated total assets of around JPY 13,000 million and an equity ratio of approximately 35% at the end of February 2026. We believe this will lead to a certain improvement in our financial balance.

Q. Looking at the level of this upward revision, it seems to be approaching the figures set out in the medium-term management plan. What measures do you plan to focus on from here to achieve the medium-term management plan, which targets the fiscal year ending February 2029?

A. In addition to growth in our existing Semiconductor and Healthcare businesses, we will focus on the quantum, data center, and power semiconductor fields. Regarding the mid-term management plan targets, while the transfer of Raicol may partially slow revenue growth, we aim to achieve the KPIs of a 12% operating profit margin and a 22% EBITDA margin ahead of schedule, starting from the fiscal year ending February 2029.

Q. Please provide an outlook for the next fiscal year.

A. We will provide the outlook for the next fiscal year in our full-year earnings announcement scheduled for disclosure on April 14, 2026.

Q. Please explain how you envision the growth strategy for OXIDE following the transfer of Raicol.

A. We will further advance selection and concentration across the entire group, strengthening the profitability and competitiveness of our core Semiconductor and Healthcare businesses while prioritizing management resources in growth areas such as quantum, data centers, and power semiconductors. This will enable us to enhance corporate value over the medium to long term. Details will be explained in the full-year financial results announcement scheduled for April 2026 and in the "Matters Concerning Business Plans and Growth Potential" scheduled for May of the same year.