

Trias Company Memo 2009-08-28

## Lasertec (Securities Code: 6920 / JASDAQ) Lasertec Corporation

### Business Results Meeting for the Fiscal Year ended June 30, 2009, Follow-Up Company Visit

On August 18, the Business Results Meeting for the fiscal year ended June 30, 2009 was held for Lasertec Corporation (hereinafter Lasertec or the Company). Following the meeting we interviewed President Osamu Okabayashi, who assumed the post in July 2009. The following is the summary of the meeting and interview.

Attending the Business Results Meeting were President Okabayashi; Shu Uchiyama, Director and Executive Officer; Takeaki Tukasaki, General Manager of Treasury and Accounting Departments; and Tetsuya Imai, General Manager of the Corporate Planning Office.

#### **【Summary of Business Results for FY6/09】**

(For the consolidated business results summary, please refer to Consolidated Business Results on Page 6.)

As Table 1 shows, net sales for semiconductor related systems declined sharply in FY6/09, while FPD related systems did well, buoyed by an order backlog at the beginning of the term. Hit by the postponement of capital expenditures by client-manufacturers, orders received and order backlogs for LCD large mask inspection systems and LCD color filter (CF) repair systems of the FPD related systems business posted sharp declines.

**【Table 1】Net Sales/Order Information by Product**

Consolidated (¥million)	FY6/08			FY6/09					
	Orders Received	Net Sales	Order Backlog	Orders Received	YoY Change	Net Sales	YoY Change	Order Backlog	YoY Change
Semiconductor related system	2,911	7,882	1,715	2,638	-9.4%	2,839	-64.0%	1,514	-11.7%
FPD related systems	7,170	4,399	7,193	1,292	-82.0%	4,919	11.8%	3,567	-50.4%
Laser microscopes	923	804	177	467	-49.4%	599	-25.6%	46	-74.0%
Services	1,048	1,049	85	935	-10.8%	908	-13.4%	113	31.7%
<b>Total</b>	<b>12,054</b>	<b>14,136</b>	<b>9,172</b>	<b>5,334</b>	<b>-55.7%</b>	<b>9,266</b>	<b>-34.4%</b>	<b>5,240</b>	<b>-42.9%</b>

While SG&A expenses were reduced by ¥600 million, operating income declined by ¥3.76 billion to △¥660 million y-o-y, including △¥2.47 billion from a gross profit decline as net sales fell; △¥1.43 billion from a poor sales mix which saw higher sales of low gross margin CF repair systems and lower sales of high gross margin LCD large mask inspection systems; and △¥460 million in losses on valuation of products.

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The following are the major new products introduced this fiscal year:

- Semiconductor related systems—MR 300 (WASAVI Series): A MURA/CD error high resolution visualizing system to detect flaws over the entire wafer surface, the Company developed an algorithm to visualize errors in a microscopic region. It is capable of detecting fine film-thickness unevenness in the resist application process and pattern shape deformation of wafers used for pickup devices in digital cameras.
- FPD related systems—71PA/71PP: A peripheral system for 10G large mask inspection system that automatically processes everything from particle inspection to the mounting of pellicles, a film applied to photomasks to protect them from dust and damage. The system is totally automated to avoid manual operations, which is a cause of dust, and developed with the shift from 8G to 10G in mind.
- Clean energy related systems—MP50: A Photovoltaic (PV) cell conversion efficiency distribution measurement system, the first to directly measure the currency density of conversion efficiency. The system adopts an only-one approach by combining Computed Tomography (CT) in addition to the standard Optical Beam Induced Current (OBIC) method. Additional developments are currently being undertaken, including a desktop unit.

### **【Earnings Forecast for FY6/10】**

For the FY6/10 forecast, the Company accounted for the positive impact of the economic stimulus packages implemented by China and Japan and projects a recovery in the semiconductor and LCD markets as a result. While the forecast assumes that the semiconductor industry's capacity utilization ratio bottomed out in the January-March quarter and has entered a recovery phase, it does not expect capital expenditures to be allocated for expanded production. The Company believes that only the strongest chip companies will limit investment to next generation technology development or next generation fab lines. As for the LDC industry, panel makers in Korea, Taiwan and Japan are expected to enjoy a market recovery due to booming sales of LCD TV sets. As for capital expenditures for LCD panels, while Korean makers are expected to expand their 8.5G lines, investment for 10G and above most likely will be pushed back. Expectations are high that Chinese panel makers will invest in new lines, however.

As for trends by product, Lasertec expects sales primarily from the next generation mask inspection system; maskblanks inspection system for use in leading-edge Extreme Ultra Violent Lithography (EUVL) technology; MAGICs series maskblanks inspection system for maskblanks makers; and LCD related sales, mainly from CF inspection and repair systems. Due to stiff pricing competition, however, the business model for CF repair systems will need to be improved. The Company is committed to improving profitability of the business by adopting within the 1H a strategy to differentiate its products through design upgrades and marketing of optional functions.

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As for the release of new products, the following systems will be introduced: a semiconductor mask inspection system in mid-September; a desktop PV cell conversion efficiency distribution measurement system in October; and a semiconductor mask related peripheral system in November. As shown in Table 2, net sales of semiconductor related systems are expected to recover significantly, especially in the 2HF, although expectations of sales from new product lineups, including those released in the previous fiscal year, have been somewhat held in check. As for PV cell related systems, while the Company intends to roll out a series of PV cell conversion efficiency distribution measurement system units, starting with the desktop unit, the Company does not see it contributing to sales growth until FY6/11 and beyond. Still price competition has already begun in the solar cell related market, but Lasertec intends to remain true to its world's-first, only-one policy to avoid being caught in the fray. The Company is also in the process of upgrading its business model to avoid a profit collapse in a business expansion phase.

**【Table 2】Net Sales Forecast by Product**

Consolidated (¥million)	FY6/09 actual		FY6/10 forecast				
	Net Sales	Ratio	Net Sales			Ratio	YoY Change
			1HF	2HF	Full-year		
Semiconductor related systems	2,839	30.6%	1,180	3,690	4,870	50.2%	71.5%
FPD related systems	4,919	53.1%	970	2,110	3,080	31.8%	-37.4%
Laser microscopes	599	6.5%	n.a.	n.a.	800	8.2%	33.6%
Services	908	9.8%	n.a.	n.a.	950	9.8%	4.6%
<b>Total</b>	<b>9,266</b>	<b>100.0%</b>	<b>3,050</b>	<b>6,650</b>	<b>9,700</b>	<b>100.0%</b>	<b>4.7%</b>

Operating income is expected to increase by ¥1.09 billion y-o-y to ¥430 million with improved sales-mix, reduction in cost of sales, improved gross profit due to increased sales and reduction in SG&A expenses.

### **【Mid-Term Management Policy】**

A new, much rejuvenated management framework was launched on July 1, led by Mr. Okabayashi, the newly appointed president. Lasertec is thus operating under the basic understanding that because the world has been transformed by a once-in-a-century economic crisis, Lasertec, too, must undergo a rebirth, and has initiated fundamental reforms to management. Based on the assumption that the semiconductor equipment market can no longer maintain its quantitative growth rate, the Company has clarified that further growth should be driven by solutions developed to meet market needs, including systems equipped with the performance to compete with technological evolution, as well as systems to resolve processing related issues. In addition, the Company intends to further bolster its core competence—the capacity to create new development ideas. In order to develop superior solutions on a timely basis, Lasertec intends to combine its optical systems technology—which it

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has mastered and refined over the years, and includes short wavelength technologies as well as confocal imaging to capture focused images by eliminating out-of-focus light—with such peripheral technologies as electronics, mainly for high density digital circuit design; precision mechanics technology, mainly for superior accuracy and high speed staging; and software development expertise, mainly for image processing.

The following are development cases based on client needs:

- Semiconductor related systems
  - ✧ With advances in exposure technology (\*1), exposure wavelength has become shorter and requires higher energy, which has given rise to such new problems as particle emergence on the photomask surface through repeated exposure. Lasertec developed systems that not only solve these problems, but also handle the increasingly finer and complex patterns of circuits.
  - ✧ In the leading-edge field of EUVL technology, Lasertec developed systems to inspect micro-defects. The Company is also currently developing a next generation, fine environment maskblanks inspection system in collaboration with SEMATECH/USA, the consortium comprised of the U.S. government and private sector that aims to develop and manufacture next generation semiconductors, particularly VLSI.
  - ✧ Lasertec developed inspection systems to handle advances in wafer production, including detection of warpage and depth. While multi-layer, stacked 3D devices—which integrate circuits horizontally, yet avoid using conventional vertical device structures to achieve higher densities and speeds—are about to become marketed, for example, super accurate systems are needed to inspect the etching depth of through-hole electrodes, which interconnect the multi-layered devices horizontally.  
(\*1) The present mainstream is ArF excimer laser technology with a wavelength of 193 nm; future generations will use F2 laser technology with a wavelength of 157 nm and EUV lithography technology with a wavelength of 13-14 nm.
- LCD related systems
  - ✧ Large mask inspection systems for finer, more complex patterns
- Clean energy related systems
  - ✧ Inspection systems for power devices

Lasertec will mark the 50<sup>th</sup> anniversary of its founding in 2010. Over the past half-century, the Company has reinforced its core competence of speedy product development using its core technologies based on the mandate “to create things that do not exist; to build things for the betterment of society.” That is reflected in its capacity to develop new ideas, as mentioned earlier. Given the once-in-a-century transformation of its operating environment, Lasertec is engaged in sweeping organizational changes

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in order to strengthen its core competencies and enhance business growth.

With regards to the Company's organization for product development, it consolidated the semiconductor related systems, LCD related systems, and laser microscope business units into one group. By doing so, it can utilize its human resources on a cross-sectional basis. In addition, the Company merged its Manufacturing Group with its Technology Group. The Company aims to shorten the prototype development period by revamping the development process itself, as well as the transfer process of developed systems (\*2), to standardize process related documentation and upgrade the process and accuracy of information dissemination.

(\*2) Refers to the engineering transfer process arising from the fact that Lasertec, which operates on a fab-less/fab-light business model, passes on second-stage production coming after prototype production to its business partners

From a marketing standpoint, the Company will increase the ratio of new model sales. To do so, it needs to reinforce initiatives not only to meet the manifest needs of our clients, but also to identify and respond to their potential needs as well. In addition, the Company will reinforce from September PR activities through a new marketing tool that will enable us to spin off its technology platform, which it has built up over the years, for use in applications by other industries.

Through these management reforms, the Company aims to improve its operating margin to 20% in FY6/12, up from the projected 4.43% in fiscal 2009. We expect the Company's earnings momentum will depend largely on internal potential for growth based on its capacity for new development ideas, thereby increasing the ratio of new products and producing related benefits, rather than upswings in the silicon and FPD cycles.

**(This concludes the summary of the Business Results Meeting and follow-up interview.)**

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Lasertec Corporation (Securities Code:6920)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)			Key Financial Data (Consolidated)		
No. of Shares Issued	Jun. 08	11,785,800	Total Assets (¥million)	Jun. 08	19,867
No. of Treasury Stock	Jun. 08	522,727	Shareholders' Equity (¥million)	Jun. 08	11,922
Market Value (¥million)	Jun. 3, 2009	10,489	Interest-Bearing Debt (¥million)	Jun. 08	6,100
BPS (¥)	Jun. 08	1,175.7	Equity Ratio (%)	Jun. 08	60.0
ROE (%) ※1	Jun. 08	-5.2	Ratio of Interest-Bearing Debt (%) ※4	Jun. 08	51.2
ROA (%) ※2	Jun. 08	-3.1	Free Cash Flows (¥million) ※5	Jun. 08	-1,726
PER (times)	FY6/09 est.	50.1	※1 ROE=Current Net Income ÷ Averaged Shareholders' Equity of beginning of term and term end ※2 ROA=Current Net Income ÷ Averaged Total Assets of beginning of term and term end ※3 PCFR=Market Value ÷ (Current Net Income+Depreciation) ※4 Ratio=Interest-Bearing Debts ÷ Shareholders' Equity ※5 Free Cash Flows(FCF)=Operating CF+Investment CF		
PCFR (times) ※3	Jun. 08	-58.3			
PBR (times)	Jun. 08	0.8			
Share Price (¥)	Jun. 3, 2009	890			

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY6/05	9,972	1,911	1,928	1,203	98.1	50.00
FY6/06	12,033	2,963	3,060	1,884	162.3	40.00
FY6/07	15,874	3,895	3,895	2,375	203.8	60.00
FY6/08	14,136	3,100	3,156	1,888	165.2	50.00
FY6/09	9,266	△ 657	△ 659	△ 651	△ 57.8	15.00
FY6/10 2Q est.	3,050	△ 780	△ 800	△ 510	△ 45.3	-
FY6/10 est.	9,700	430	370	200	17.8	15.00

Note: FY6/10 est. is the Company's forecast announced on Aug. 10, 2009.

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