## Q2 FY2025/12 Financial Results and Full-year Outlook

**Q. Regarding the financial results for Q2 FY2025, net sales increased while profit decreased compared to Q1. What were the main factors behind this?**

A. In terms of gross profit margin, it remained flat compared to Q1, so the main reason for the decline in profit was an increase in SG&A expenses.
We decided to increase the provision for bonuses based on the performance as of the end of Q2, and the additional provision for Q1 was also recorded in Q2.
Additionally, expenses increased in Q2 due to participation in exhibitions such as FOOMA and CIMT, as well as holding private shows.
If we adjust for the bonus provisions between Q1 and Q2, we recognize that there is no significant difference in the operating profit margin between the two quarters.

**Q. One of the reasons for the decline in profit in Industrial machinery segment is said to be the reassessment of cost allocation following organizational changes. How significant is this impact? Can the current profit margin be maintained? Is the segment profit target for this fiscal year still achievable?**

A. Due to the organizational change in January 2025, shared system-related costs have increased by several tens of millions of yen per quarter.
Although the outlook for the automotive industry remains uncertain and a quick recovery is unlikely, demand for optical connectors and contact lenses remains robust, and we intend to capture this demand effectively.
Although progress toward the segment profit target is currently low, we remain committed to improving profitability through ongoing structural reforms.

**Q. What was the reason behind the improvement in working capital in the first half?**

A. Inventory decreased by approximately 1.5 billion yen.

**Q. Is there any impact from tariffs?**

A. As of the end of Q2, there has been no direct impact on performance. We expect customers to bear the tariff costs, so the overall impact remains limited.
However, we are closely monitoring potential effects on the market and capital investment by small and medium-sized enterprises.
Due to continued uncertainty, we have not revised our full-year plan in response to the impacts of tariffs.

## Demand Trends

**Q. What percentage of total Electrical Discharge Machines (EDMs) unit sales is attributable to MT ferrule applications? And how about the order volume?**

A. Although we do not disclose the breakdown by industry, demand for MT ferrules continues to show a steady upward trend. Regarding our ultra-precision wire-cut EDM, the "EXC100L+", only a few units were sold annually until last year.
However, driven by growing demand for MT ferrules, inquiries have increased to several units per month this fiscal year.

**Q. What is the competitive landscape of the optical connector market?**

A. The optical connector field is characterized by a high level of confidentiality, making it difficult to obtain detailed information on the competitive landscape. However, we currently recognize that the number of competitors remains relatively limited.
In particular, with regard to our ultra-precision machining system for MT ferrules, the "EXC100L+", we believe our technological advantage is clearly demonstrated in this field.

**Q. How do you assess the sustainability of strong demand in the machine tool market within Greater China?**

A. The Greater China market has historically exhibited significant annual fluctuations. However, given that China remains the largest market for mold and die industry, which is a major application area for EDMs. We expect demand to continue.

**Q. With global defense-related budgets on the rise, are there any areas where this trend is having a direct or indirect positive impact on your business?**

A. We have seen a certain level of benefit from this trend, with demand showing an upward trajectory. Regionally, increased activity has been observed particularly in Europe, the U.S., and Japan.

**Q. Has the U.S. tariff policy had any impact on the mold manufacturing market in China?**

A. Some impact has been observed among export-oriented companies in China. However, domestic demand continues to be solid.

**Q. While production of EVs and smartphones in China appears to be slowing, is mold-related capital investment continuing in the region?**

A. Future policy developments by the Chinese government will be a key factor. China possesses a robust industrial foundation and remains a resilient market. Depending on policy direction, a resurgence in active investment can be expected.

## Regarding Initiatives to Enhance Corporate Value

**Q. The business alliance with Advantage Partners (“AP”) is said to enhance management control. What specific areas of management are currently considered challenges?**

A. We are currently facing challenges in management control from the perspective of capital efficiency, specifically in managing ROE (Return on Equity) and ROIC (Return on Invested Capital). AP has extensive expertise and a strong track record in this area, including capital efficiency. Through the alliance, we aim to further enhance our management control framework.

**Q. The 10 billion yen fundraising could have been done through internal funds or borrowing. Why did you choose to issue stock subscription rights and convertible bonds instead?**

A. This 10 billion yen fundraising is not just for securing funds, but is positioned as a resource to jointly drive growth strategies with AP. The funds will be used strategically, based on collaboration between the two companies.

**Q. The goals you aim to achieve with AP could also be pursued with other industry-experienced firms. Why was AP selected as the partner?**

A. AP is a pioneer in the private equity investment field and has extensive experience investing in listed manufacturing companies. Moreover, AP is committed to supporting its portfolio companies not just as sources of fund returns, but as businesses that can continue to grow competitively even after exit.
We highly value this philosophy, which led to our decision to partner with AP.

**Q. If the convertible bonds are not exercised and need to be redeemed, will there be any cash flow issues?**

A. There will be no cash flow issues. We have a proven track record of preparing repayment funds for the redemption of 8 billion yen in convertible bonds in the past. Currently, we have an unused commitment line in place, allowing us to secure funds flexibly as needed.

**Q. Regarding "Global expansion" which is listed as priority measures, we understand this to mean strengthening your presence in Europe and the US. Are you aiming to pioneer the expansion of the market for EDMs itself? Please explain in detail whether you are aiming to shift from the mold-focused market to parts processing.**

A. The mold and die market offers limited growth potential. Therefore, to expand our EDM business, a shift to the parts processing field is essential. The market for parts processing in high-value fields such as aerospace and medical devices is large, and we view this as a significant opportunity. We will continue to provide dedicated solutions for this sector, including our small-hole drilling EDMs.

**Q. What specific measures are included under “Enhanced management control" which is listed as one of initiatives for business growth?**

A. There are challenges in promoting ROIC within the company. We will continue to implement measures to ensure that it is understood throughout the entire organization.

## Others

**Q. What is the competitive landscape for your EDM business in China? Furthermore, has your sales competitiveness been weakened by the consolidation of production?**

A. China is a large market with many competitors. Our market share is over 30%. While the Chinese market has shrunk compared to its peak, our production consolidation has allowed us to maintain optimal production levels. As a result, our competitiveness has not diminished.

**Q. It appears that the structural reforms are progressing well. What is the internal assessment of this progress?**

A. The structural reforms are progressing well. However, we believe there is still a need for further productivity improvements. Therefore, we will continue to press forward with the structural reforms.