

Trias Company Memo
2010-Sept-14

(6920 / JASDAQ) Lasertec Corporation
Summary of FY06/10 Business Results Meeting and Follow-Up Interview

Lasertec Corporation (hereinafter Lasertec or the Company) held its FY06/10 Business Results Meeting on August 17, 2010. The following is the summary of the meeting and interview with Lasertec President Osamu Okabayashi.

[Summary of FY06/10 Consolidated Business Results]

Although net sales declined, operating income rebounded from a deficit to a surplus. The improved figures were due to a better sales-to-gross profit ratio, which rose by 9.5%, and SG&A expenses decreasing by 5.9%. Gross margins improved as a result of stricter cost control management of product development projects by the general managers of their respective technology departments, as well as increased accuracy of a system managing department-level costs and expenses. Lasertec succeeded in cutting costs by prioritizing carefully selected development projects, limiting their number, and increasing the speed which products were developed, which was achieved by integrating the development teams into a more efficient organization. Through such initiatives, gross profit and operating income exceeded the Company's original February 1 forecast despite net sales falling short of the projected target.

[Table 1] Consolidated Business Results Summary

Consolidated (¥ million)	FY6/09		FY6/10		YoY change		FY6/10 Feb. 1 Forecast
		Ratio		Ratio	Amount	Ratio	
Net sales	9,266	100.0%	8,931	100.0%	△ 335	-3.6%	9,700
Gross profit	2,654	28.6%	3,404	38.1%	750	28.3%	3,444
SG&A expenses	3,311	35.7%	2,657	29.8%	△ 654	-19.7%	3,014
Operating income	△ 657	-7.1%	746	8.4%	1,403	n.a.	430
Ordinary income	△ 659	-7.1%	714	8.0%	1,373	n.a.	370
Net income	△ 651	-7.0%	361	4.0%	1,012	n.a.	200
R&D Cost	1,242	13.4%	924	10.3%	△ 318	-25.6%	1,085
Depreciation and amortization	471	n.a.	354	n.a.	△ 117	-24.8%	386
Capital expenditure	54	n.a.	27	n.a.	△ 27	-50.0%	44
#Employees (excl. directors)	240	n.a.	229	n.a.	△ 11	-4.6%	230

※Prepared by Trias Corp. with data disclosed by Lasertec Corp.

As can be seen in Table 2, net sales and order volume for semiconductor related devices improved significantly. The improvement may be attributed to greater order volume primarily as a result of a recovery in semiconductor miniaturization investment. Among the products launched in FY06/10 that have performed well are MATRICES X700, the latest in Lasertec's MATRICES series photomask inspection

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system, introduced in September 2009; the MP15 Desktop Type PV Cell Conversion Efficiency Distribution Measurement System, also introduced in September 2009; the PSK380 PC Parts Warpage/3D Profile Inspection System unveiled in November 2009; and the SICA61 SiC Wafer Inspection/Review System rolled out in December 2009. With the exception of the X700, these products are all newly developed, with the MP15 and SICA61 both being developed and unveiled in less than six months, demonstrating the Company's accelerated product development cycle.

In contrast, sales of flat panel display (FPD) related products fell by 50% despite a surge in order volume that resulted in an order backlog. A number of factors can be cited for this occurrence. First, a portion of the sales of LCD color filter inspection systems were not posted because Lasertec's accounting regulations only recognizes sales on an inspection of delivered goods basis. Another reason is that chipmakers in Korea and Taiwan have yet to invest in large-scale mask inspection systems of 10G LCDs.

【Table 2】 Net Sales/Order Information by Product

Consolidated (¥ million)	FY6/09			FY6/10					
	Orders Received	Net Sales	Order Backlog	Orders Received	YoY Change	Net Sales	YoY Change	Order Backlog	YoY Change
Semiconductor related systems	2,638	2,839	1,514	4,821	82.8%	5,142	81.1%	1,192	-21.2%
FPD related systems	1,292	4,919	3,567	2,932	126.9%	2,432	-50.5%	4,067	14.0%
Laser microscopes	467	599	46	333	-28.7%	369	-38.3%	9	-78.8%
Services	935	908	113	1,027	9.8%	986	8.6%	154	36.6%
Total	5,334	9,266	5,240	9,115	70.9%	8,931	-3.6%	5,424	3.5%

【Operating Environment】

Lasertec's core business domain revolves around the inspection system market for semiconductor and LCD panels. The market is expanding, driven by demand for larger TVs with higher picture resolution and 3D viewing, new technologies and applications such as smartphones, as well as from emerging economies such as China. Large-scale investments in LCD production will be seen in China for new plants and in Korea for facility upgrades to produce 8.5G panels. It should be noted, however, that the environment will not remain favorable for such end-product markets as large-screen TVs, due to the ongoing competition over pricing and subsequent pressure to reduce prices.

In the semiconductor market, the trend remains toward increasing device integration and miniaturization in response to escalating demand for lower prices and functional enhancements from the automotive and consumer electronics end-product markets. In addition, following the Lehman Brothers collapse, new applications such as tablet PCs are driving the market toward recovery, leading to increased investment activity among chipmakers in order to develop advanced new technologies and leading-edge devices. At the same time, however, the number of firms that can develop and produce leading-edge devices is being narrowed to only a handful of the top chipmakers. This is due to a variety of reasons: the financial burden to develop and produce advanced chips is enormous, while the technologies themselves are becoming increasingly complex. And the market itself is undergoing a transition, with many Integrated Device Manufacturers farming out production of chips that require fabrication facilities of 45nm or more to chip foundries, thereby creating a structural division of labor. The

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fewer the number of players also spells fiercer competition over a limited market.

Given this operating environment, Lasertec has begun concentrating its business resources on new businesses in the semiconductor domain. By clarifying its market perspectives and examine ways to excel, Lasertec aims to specialize in business fields in which it can apply its core competencies. It has identified that which best provides opportunities for growth as new markets, and that which is best suited to leverage its strengths as existing markets and intends to expand its share in them. The Company is also focusing on niche areas in which its products can be differentiated from the competition.

[Strategy for New Markets]

Lasertec's new market strategy remains the same: to develop products that will set the global standard in their respective categories. In order to do so, the Company believes it is crucial to unify various core technologies and develop them into products as quickly as possible. The following are examples of its recent achievements:

- **Through Silicon Via (TSV) Process Development**

Lasertec has joined SEMATECH's 3D Interconnect Program conducted at the College of Nanoscale Science and Engineering (CNSE) of the University at Albany. It plans to partner with SEMATECH to develop robust, cost-effective process metrology technology solutions for readying high-volume via-mid TSV manufacturing.

- **Photovoltaic (PV) Cell Conversion Efficiency Distribution Measurement System**

Lasertec has developed the MP Series PV cell conversion efficiency distribution measurement system employing computer tomography (CT) technology for the solar cell market, which the Company has identified as a new growth market. Developed as an industry standard, the system measures conversion efficiency for the cell as a whole and for specific areas of the cell.

- **Silicon Carbide (SiC) Wafer Inspection/Review System**

Electric vehicles and air conditioner units depend on power conversion systems, which rely primarily on silicon, to operate. The problem, however, is that they require significant amounts of electricity in the process. The electricity requirement for SiC is far less than silicon and the former's power loss is a fraction of the latter's. For this reason, Lasertec believes SiC systems will generate great demand once practical applications have been developed. Until now, however, an inspection device to detect crystalline micro-flaws on the SiC wafer did not exist. The Company thus developed the WASAVI Series SICA61 SiC Wafer Inspection/Review System, which can detect recessed defects of just a few nanometers using a new inspection system that combines our core technology strength in confocal optics and differential interferometry.

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[Strategy for Existing Markets]

To succeed in existing markets, it is imperative to become innovative leaders in state-of-the-art technology and manufacturing process engineering expertise, while customizing products to meet the respective needs of each client. In the semiconductor photomask inspection system market, for example, increasing emphasis is placed on developing systems with higher cost performance as the market itself continues to grow. Lasertec's MATRICS series systems have differentiated themselves from other systems offered by the competition by meeting demand for ever-greater chip integration and client-makers' needs for increasing complexity. As a result, the MATRICS series has been capturing an ever-growing share of the market since its launch in November 2006. The new MATRICS X700 has been successfully cultivating new customers as a result of an improved ability to inspect defects as well as particle emergence of Haze during the exposure process. Development of the Company's proprietary optical technology led to the improvement.

PROMHAZE, Lasertec's Haze removal system, is already in the evaluation stage at its clients' sites. The plan is to detect Haze, which emerges onto photomasks during the exposure process, with MATRICS and then remove the impurity through PROMHAZE. The Company expects that this will lead to a significant reduction in a semiconductor maker's total cost because the combination of the MATRICS X700 and PROMHAZE encompasses a broad range of processes, from the detection to elimination of Haze at client sites. Lasertec believes some time will be needed before orders for PROMHAZE come in as each client requires different ways of process evaluation. However, the Company remains confident that PROMHAZE is competitively superior in terms of pricing and in total performance.

[FY06/11 Earnings Forecast]

A brief overview of Lasertec's earnings forecast for FY06/11 is shown in Tables 3, 4 and 5. In terms of the Company's semiconductor-related systems, orders for its popular MATRICS X700 and other new products are likely to increase in the first half of fiscal 2011, which should then lead to the posting of higher sales in the second half. In FPD-related systems, Lasertec expects orders will also increase during the first half, particularly for color filter repair systems, and higher sales figures posted in either the second half or later. The Company plans to aggressively increase orders during H1 while shortening the delivery time so that it can maximize sales during Q4, when sales revenues usually peak. Lasertec's sales forecast by quarter are as follows: ¥300 million in Q1; ¥3.5 billion in Q2; ¥2.0 billion in Q3; and ¥6.7 billion for Q4. The majority of orders are believed to come from abroad, with overseas sales accounting for some 74% of total sales.

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【Table 3】 Consolidated Earnings Forecast

Consolidated (¥ million)	FY6/10		FY6/11 Forecast				YoY Change	
	Actual	Ratio	2Q	4Q	Full-year	Ratio	Amount	Ratio
Net sales	8,931	100.0%	3,800	8,700	12,500	100.0%	3,569	40.0%
Operating income	746	8.4%	△ 350	1,750	1,400	11.2%	654	87.5%
Ordinary income	714	8.0%	△ 400	1,700	1,300	10.4%	586	82.0%
Net income	361	4.0%	△ 250	1,100	850	6.8%	489	135.1%
R&D Cost	924	10.3%	n.a.	n.a.	1,423	11.4%	499	54.0%
Depreciation and amortization	354	n.a.	n.a.	n.a.	318	n.a.	△ 36	-10.2%
Capital expenditure	27	n.a.	n.a.	n.a.	80	n.a.	53	196.3%
#Employees (excl. directors)	229	n.a.	n.a.	n.a.	235	n.a.	6	2.6%

【Table 4】 Net Sales Forecast by Product (on a half-on-half basis)

Consolidated (¥million)	FY6/10 Actual				FY6/11 Forecast				
	1H	2H	Full-year	Ratio	1H	2H	Full-year	Ratio	YoY Change
Semiconductor related systems	1,905	3,237	5,142	57.6%	2,560	4,400	6,960	55.7%	35.4%
FPD related systems	1,079	1,353	2,432	27.2%	570	3,580	4,150	33.2%	70.6%
Laser microscopes	154	215	369	4.2%	200	160	360	2.9%	-2.4%
Services	520	466	986	11.0%	470	560	1,030	8.2%	4.5%
Total	3,660	5,271	8,931	100.0%	3,800	8,700	12,500	100.0%	40.0%

【Table 5】 Order Forecast by Product (on a half-on-half basis)

Consolidated (¥million)	FY6/10 Actual				FY6/11 Forecast				
	1H	2H	Full-year	Ratio	1H	2H	Full-year	Ratio	YoY Change
Semiconductor related systems	2,433	2,388	4,821	52.9%	6,380	3,670	10,050	242.2%	108.5%
FPD related systems	704	2,228	2,932	32.2%	2,350	1,210	3,560	85.8%	21.4%
Laser microscopes	211	122	333	3.7%	200	160	360	8.7%	8.1%
Services	551	476	1,027	11.3%	470	560	1,030	24.8%	0.3%
Total	3,900	5,215	9,115	100.0%	9,400	5,600	15,000	361.4%	64.6%


【Q&A】

Q1: Can the order volume for the MATRICS series be sustained in the near-future?

A1: ArF lithography with a wavelength of 193nm is commonly used as the exposure technology to print circuit patterns onto semiconductor devices. However, the problem with ArF lithography is that particles with growth potential such as Haze emerge onto the photomask surface as exposure time increases, which leads to yield deterioration. This is the reason there is growing demand for a Haze inspection system before the yield rate deteriorates. Lasertec's MATRICS X700 series was developed to meet this demand. While the previous MATRICS X600 series succeeded in capturing customer satisfaction in terms of photomask inspection, the development of finer pattern technology, as well as the problem of Haze, led the Company to develop the new X700. The latest series is suited not only for memory devices but also logic semiconductor devices, and series shipment has already begun to large memory makers and foundries. Lasertec is confident that the level of order interest is high and sustainable as additional investment to upgrade production lines is made and new customers developed.

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Q2: Why is Lasertec's FY06/11 sales forecast for maskblanks inspection systems relatively low compared to its past performance?

A2: In addition to MATRICS, Lasertec investment in MAGICS (its maskblanks inspection system) was another major driver of semiconductor-related sales increases in FY06/09 and FY06/10. But the Company is not investing heavily in MAGICS at this time due to its customers' investment cycles, and it thus taking a conservation position with regards to sales of existing products with the exception of MATRICS. Incidentally, the Company is preparing for volume production of microchips fabricated through EUVL, the next generation in exposure technology, to commence by FY2013 and expects renewed investment in the latest EUVL lines to start by FY06/12. 

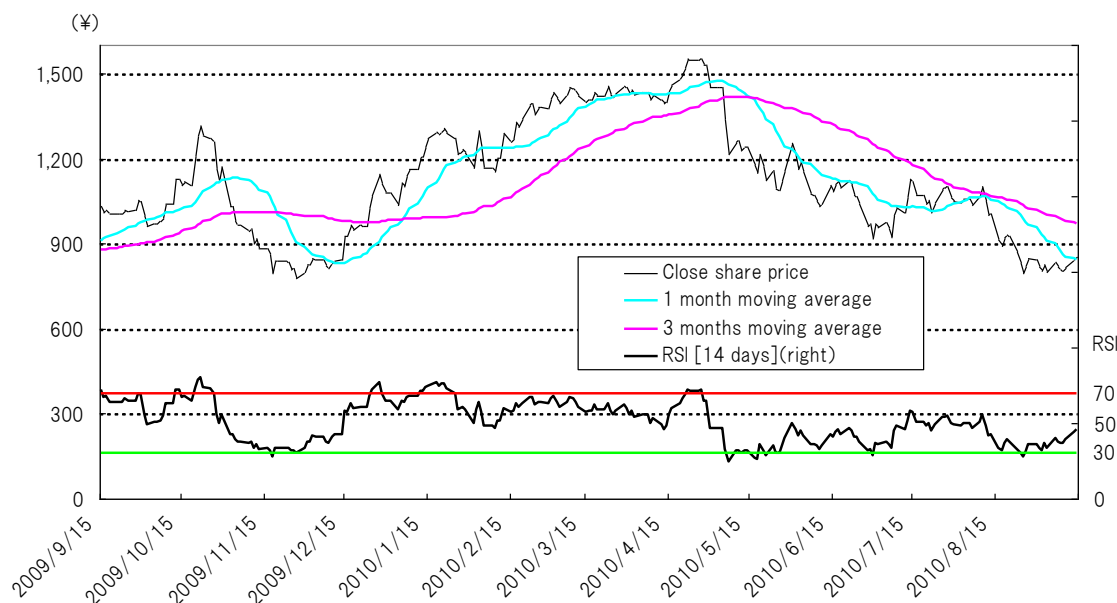
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[Reference] Lasertec Corporation (Securities Code: 6920)
Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)			Key Financial Data (Consolidated)		
No. of Shares Issued	Jun.10	11,785,800	Total Assets (¥million)	Jun.10	18,885
No. of Treasury Stock	Jun.10	522,727	Shareholders' Equity (¥million)	Jun.10	12,113
Market Value (¥million)	Sep.14, 2010	10,077	Interest-Bearing Debt (¥million)	Jun.10	4,000
BPS (¥)	Jun.10	1,075.5	Equity Ratio (%)	Jun.10	64.1
ROE (%) ※1	Jun.10	3.0	Ratio of Interest-Bearing Debt (%) ※5	Jun.10	33.0
ROA (%) ※2	Jun.10	1.9	Free Cash Flows (¥million) ※6	Jun.10	△ 2,213
PER (times)	FY6/10 est.	11.3	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end		
PCFR (times) ※3	Jun.10	14.1	※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end		
PBR (times)	Jun.10	0.8	※3 PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Sep.14, 2010	855	※4 Average Daily Volume=Average Daily Volume for previous 12months		
Unit Share (shares)	Jun.10	100	※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (shares) ※4	Sep.14, 2010	34,400	※6 Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Diluted EPS (¥)	Dividend per Share (¥)
FY6/07	15,874	3,895	3,895	2,375	203.8	n.a.	60.00
FY6/08	14,136	3,100	3,156	1,888	165.2	n.a.	50.00
FY6/09	9,266	△ 657	△ 659	△ 651	△ 57.8	n.a.	15.00
FY6/10	8,931	746	714	361	32.1	26.31	15.00
Q2 FY6/11 fcst.	3,800	△ 350	△ 400	△ 250	△ 22.2	-	-
FY6/11 fcst.	12,500	1,400	1,300	850	75.5	-	23.00

Note: FY6/11 forecasts announced on Aug. 13, 2010.

Stock Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg L.P. data

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.

In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days)

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