Aug 1, 2025

To whom it may concern

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Q&A for the Financial Results Briefing for the Fiscal Year Ending May 31st 2025 and Mid-Term Business Plan (Excerpts)

We held our FY2025 Financial Results and Mid-Term Business Plan Briefing via online streaming on July 11, 2025. This document provides a summary of key questions and answers from the session. For clarity, certain responses have been edited or supplmented.

Q1: You have presented your earnings forecast for the fiscal year ending May 2026 in a range format. However, the spread between the upper and lower ends of the range appears quite large. Even if performance exceeds your expectations, is it unlikely that results will surpass the upper end of the range? Or is there potential for upside beyond that level? Additionally, could you explain how this approach to forecasting differs from your previous methods?

A1: While current market conditions are not favorable in terms of immediate figures, we are beginning to see positive signs that point to a recovery in the longer term. Should orders materialize, we expect them to come in no earlier than the second half of the fiscal year; however, visibility remains limited at this stage. On a more structural level, the sensor market for robotics—including automotive applications—is projected to grow approximately sevenfold between 2019 and 2030 (in volume terms). In addition, we are seeing a trend toward larger-sized components in the mobile sector, which may support positive momentum over the medium term. Looking ahead, we aim to capture this growth by building a stronger foundation of recurring sales. With regard to our forecasting approach, we have revised our methodology to incorporate not only discussions with frontline teams but also a comprehensive analysis of historical performance and other relevant factors.

Q2: Given the fluctuating capital investment plans of your major customers, which region—domestic or overseas—offers greater order visibility at this point? Additionally, could you provide an indicative timeline for when those orders are expected to materialize?

A2: We currently see a higher degree of order certainty among our domestic customers, who are expected to move forward with capital investment over a longer time horizon. In contrast, overseas customers tend to operate on shorter cycles. Capital investment from domestic customers appears highly likely, particularly as the trend toward larger image sensors leads to lower yield per wafer—necessitating additional investment in production capacity. Meanwhile, our overseas customers have seen strong sales of the Pupil Lens Module® in the second half of FY2025, which we take as a positive sign that our initiatives are gaining traction.

Q3: Since the announcement of third-quarter results for FY2025, has there been any change in the market outlook for Internet of things related works for the fiscal year ending May 2026?

A3: Since the time of our third-quarter earnings announcement for FY2025, we believe short-term expectations for capital investment have softened slightly. That said, we remain optimistic about the medium- to long-term outlook for the IoT-related business.

Q4: As part of the new medium-term business plan, are you also reassessing the strategic direction of each business area—for example, R&D on the Pupil Lens Module®, expansion of illuminator lineup, the laser processing equipment business, the AI image processing equipment business, and vibration monitoring application?

A4: Among these, the laser business is currently under the most active review. While we had previously anticipated growth driven by SiC power semiconductors, the current outlook remains uncertain. As a result, we are in the process of reassessing our business strategy in this area.

Q5: The Pupil Lens Module® has experienced a decline in market share in the past, and modifications to illuminators appear to be tied to capital investment trends. Meanwhile, the base sales revenue figure referenced by the company does not seem particularly stable. How should we interpret this?

A5: We view base sales revenue as a target that can be achieved through ongoing effort and strategic execution. While we may hold a strong market share in illuminators, sales revenue will decline in the absence of customer capital investment demand. Regarding the Pupil Lens Module®, we expect sales to grow as our competitiveness improves. With rising potential demand in overseas markets, we estimate there is room for market expansion exceeding ¥1 billion.

As for modifications to illuminators, these involve products previously delivered and are not necessarily linked to new capital investment. We estimate the market size for these modifications to be approximately ¥3 billion.

Q6: Environmental Energy-Related Business will be discontinued as of the fiscal year ending May 2026. How will selling, general, and administrative (SG&A) expenses compare with the previous year?

A6 : While SG&A expenses related to the Environmental Energy Business are expected to decline, total SG&A expenses on a consolidated basis may not necessarily decrease. This is primarily due to ongoing costs associated with new product development by the VG (Value Generation) Strategy Office, as well as expenses related to governance reform initiatives. In light of this, we are actively promoting cost-reduction projects across the organization to enhance overall profitability.

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