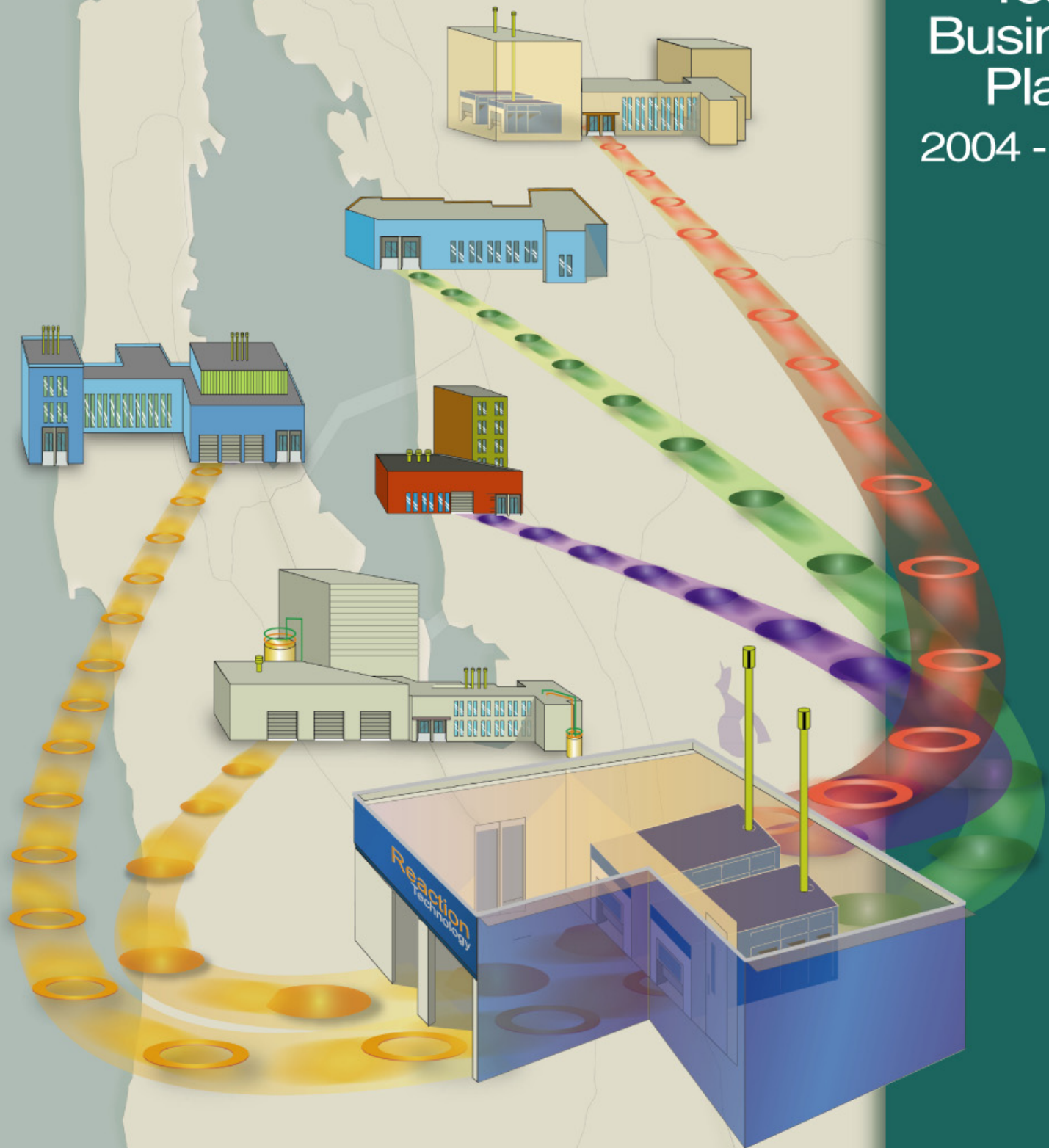


# Reaction Technology



Five  
Year  
Business  
Plan  
2004 - 2008



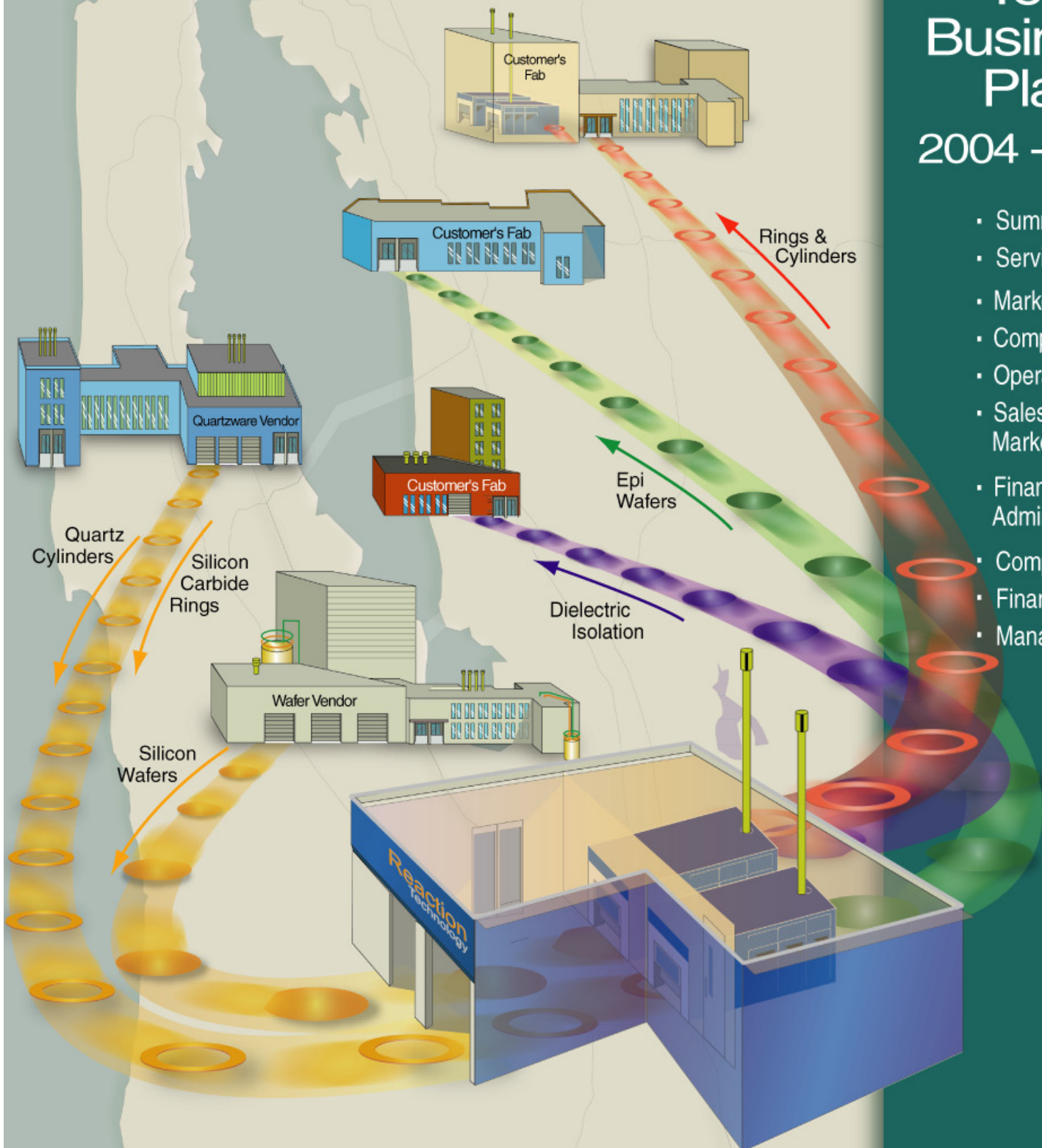
The largest Silicon Valley based Epi processing services provider

# Reaction Technology



## Five Year Business Plan 2004 - 2008

- Summary
- Services
- Markets
- Competition
- Operations
- Sales and Marketing
- Finance and Administration
- Company History
- Financial History
- Management



The largest Silicon Valley based Epi processing services provider



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# Summary

# 1

Reaction Technology is the largest Epi outsourcing services provider in the Silicon Valley. The company focuses primarily on the \$300M "Specialty Epi Wafer" market segment that is approximately 20% of the total \$1.5B silicon wafer market. In addition to Epi processing, Reaction Technology diversified in 2003 into two new technologies that utilize existing equipment:

- 1.) Poly coatings for quartz cylinders and SiC edge rings for Applied Material, who supplies these consumables to Intel, AMD and others
- 2.) DI wafers utilizing Polysilicon deposition

Specialty Epi wafers are used to manufacture semiconductor devices for applications such as automotive electronics, sensors, silicon based low power telecommunications circuits, analog power controls and robust application-specific integrated circuits. As a result of capacity expansion in Y2000, the worldwide recession, and Operation Iraqi Freedom, the company is currently operating at only 60% to 70% of plant capacity. However, the company is well poised for explosive profit growth and increased cash flow when the economy recovers as is currently expected by most industry analysts and Wall Street firms as well.

Applied Material gave guidance going forward as flat. In spite of estimated book to bill ratio of 1.0, NASDAQ stocks held onto their gains of recent months. This is auspicious for Reaction Technology, since positive future outlooks of both semiconductor vendors such as Intel and semiconductor consumers such as Dell Computer have driven technology stocks higher and the SOX index higher. The Market therefore expects stronger sales of semiconductors going forward.

The weapons replenishment cycle following Operation Iraqi Freedom will drive demand for many of Reaction Technology's customers. The Reaction Technology factory will soon move to a seven day production week, as a 30+% revenue growth for 2004 is projected. This growth projection is based on strong new orders from China, growth in Applied Materials' polycrystalline silicon coatings and the addition of Texas Instruments (TI) as a major new customer. The polysilicon deposition capability was acquired in February 2003 from Sipex and is currently promising to be about \$1.0 - 2.0M per year in revenues.

Reaction Technology believes an equity investment is necessary to bring online the next generation manufacturing processes by Y2004 and to support working capital increases for aggressive revenue growth. Discussed in detail in Chapter 7, the investment will result in reduced costs, increased yield, increased capacity and competitive leadership in silicon epitaxy.

Reaction Technology's Y2003 market share was approximately 7.1% of the "Outsourced Specialty Epi" Wafer market segment in which it competes [See also Table 1 page 11]. As shown in Figure 1, the goal for 2004 is to increase revenues from \$4.9M to \$6.9M and to increase market share to 8.4% (See also Table 1). The sales growth assumes an economic recovery beginning in early-2004 and the continued industry trend to outsourcing as discussed in Chapters 3 and 6. Reaction Technology is implementing six business strategies discussed in this plan including 1) increasing capacity 2) horizontally diversifying into new technology areas, 3) penetrating new market segments such as Reduced Pressure Epi, 4) increasing sales efforts by differentiated incentives for new and existing accounts, 5) developing a strategic partnership with a silicon wafer manufacturer and 6) raising \$4.2M through a private equity placement.

*A gradual economic recovery will unfold throughout 2003 and into 2004.*

*A private placement is sought for 1H 2004.*

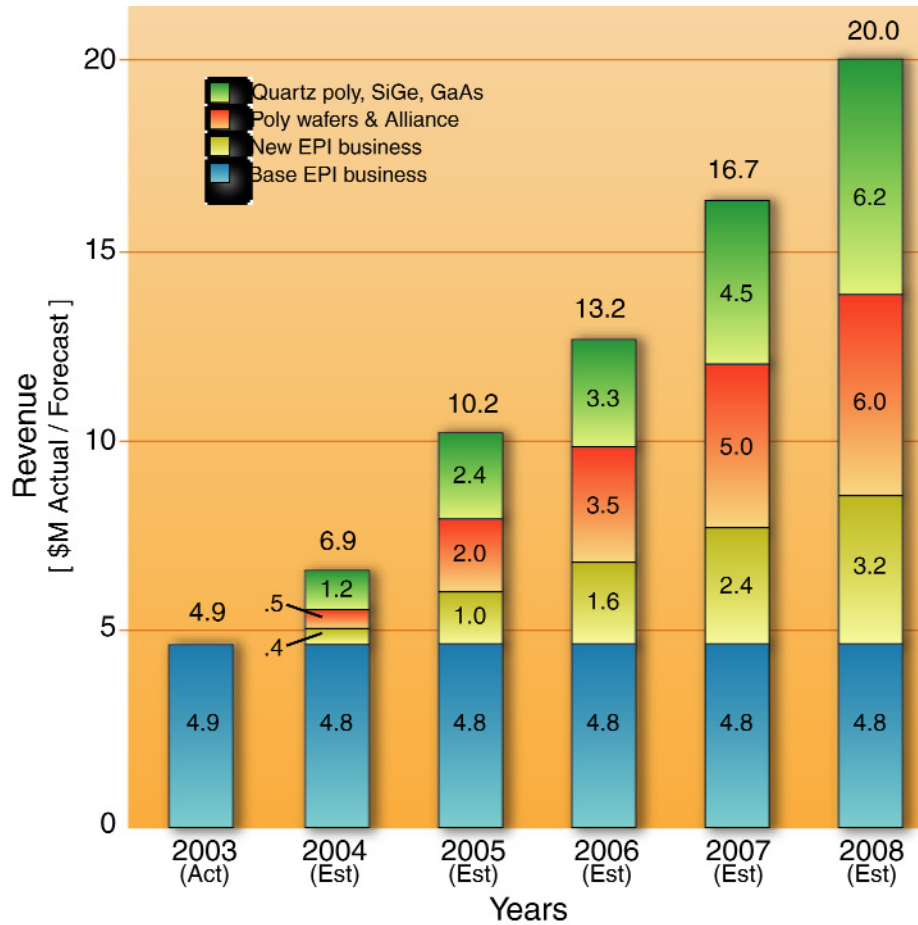
*Strategies assume an early-2004 recovery.*

*Superfast turnaround and ISO9002 quality are THE competitive keys*





Figure 1 - Reaction Technology revenue trends [2002 to 2007] \* see also Table 5



A major advantage for Reaction Technology is its location in the Silicon Valley. Reaction Technology's manufacturing occurs at three locations. The headquarters facility and primary manufacturing site is located at 3400 Bassett Street, Santa Clara, CA. A second manufacturing site is leased at 1225 Bordeaux Avenue in Sunnyvale, CA., and now a third site (acquired from Sipex in February 2003) is leased at 2036 Concourse Drive in San Jose, CA. This allows the company to offer a "Superfast 24x7 Epi Turnaround Service". Using this service customers have experienced wafer turnaround between 1AM and 6AM on the same day. Although infrequently used this service provides customers with a strong reason for doing business with Reaction Technology as opposed to non-silicon Valley competitors such as ATMI/Epitronics who can in no way match this rapid turnaround time.