

Q&A for FY2019 1Q business results telephone conference
(held on Nov.13, 2019) and Analyst meetings

[1Q Earning Results]

1) FPD 1Q orders were ¥2.7 bn, a significant decrease year-on-year. Was it as planned?

A: Due to the high level of orders for large-scale FPD-related projects in the previous 1Q, orders received in this 1Q decreased significantly year-on-year.

In the initial plan, we have considered the following two factors,

1. Investment negotiations for new G10.5 lines for large-sized TVs will settle down and negotiations will be limited for additional equipment,
2. OLED investment for smartphones will drop significantly since the next investment of the Chinese company from which we received large-scale order for Phase 2 in previous fiscal year is planned in the next fiscal year or later.

As a result, we estimated that FPD orders for the current fiscal year will decline significantly from ¥ 89.4bn to ¥ 62.3bn year-on-year.

Entering this fiscal year,

1. The price of LCD panels for large-sized TVs has further declined, and there has been postpone in some of the additional equipment.
2. The OLED investment for smartphones included in this 1Q was postponed.

In addition to the above,

3. Cancellation of the contract for FPD project occurred (for which the allowance for doubtful accounts was booked in previous 4Q). As a result, the order received amount was lower than expected due to the cancellation of orders of ¥3.4bn.

Excluding the cancellation, the FPD orders received should have been ¥6.1bn, and the consolidated orders of ¥38.6bn.

2) Regarding orders and sales cancellations due to cancellation of the FPD related contract, would you explain in detail the allowance for doubtful accounts booked in the previous fiscal year (FY2018) and the impact of orders and sales cancellations in the current fiscal year(FY2019)? Will there be any additional losses related to this matter? Is this the end of the accounting treatment?

A: In FY2018, it was judged that there was a concern of recovery for a FPD project (orders received: ¥3.4bn). The related sales booked under the percentage of completion method was ¥2.6bn, and the allowance for doubtful account of ¥2.4bn was booked as well as a loss on valuation of inventories of ¥ 400 million(reusable ¥2bn) . In this 1Q, cancellation of the contract resulted in cancellation of orders of ¥3.4 billion and sales of ¥2.6 billion, and the gross profit margin of 25.8%. On the other hand, there is no significant impact on the operating profit margin due to the reversal of allowance for doubtful accounts of ¥2.4bn. The accounting allowance for this issue is now complete and there will be no additional losses in the future.

3) The amount of orders related to logic in Q1 seems to be strong, but is it just ahead of initial plan or is it expected to exceed? How many logic and foundry manufacturers are you receiving orders from?

A: In terms of logic, the entry into two semiconductor manufacturers was realized in the state-of-the-art node process that required further miniaturization with the introduction of EUV. Both companies have announced a policy of investing in cutting-edge nodes, and we expect to increase orders over the mid-to-long term. In particular, the second company's order received in this 1Q has increased the certainty of realizing mid- to-long-term business expansion. Orders for logic in 1Q were as high as about 20% of semiconductor and electronics related orders of ¥13bn, but this is a stage where semiconductor manufacturers themselves are trying to expand their customer base for cutting-edge nodes. That's why we think it's just ahead of receiving orders at this moment.

4) Are PCRAM orders growing as planned?

A: Orders received are almost as planned. At present, the expansion of the customer base that uses PCRAM is relatively steady, so we expect the mid-to-long term business expansion.

5) Which application was strong in the electronic device related business? What is the future growth potential?

A: In this 1Q, orders received were mainly for 5G-related communication devices (mid-10% out of ¥13bn for semiconductor and electronics device) and power semiconductor devices in Japan and China (less than 20%). We will continue to respond to capital investment accompanying the advancement of the smart society, such as communication devices, power semiconductor devices, and sensors.

6) Breakdown of FPD, semiconductor electronics order received, sales results of this 1Q .

A: Out of the ¥6.1bn in FPD-related orders received (before contract cancellation), mid-40% for LCDs (mostly for large-sized panels), more than 50% for OLEDs, and few% for others. Out of the sales of 17.9bn, more than 40% for LCDs and mid-50% for OLEDs and few% for others.

Out of the ¥13.0bn in semiconductor and electronic devices-related orders received, 30% for memory (of which NAND was approximately 20%, DRAM was approximately 40%, nonvolatile memory was approximately 40%), less than 20% for logic, less than 30% for electronic devices (of which communication devices were over 50%), less than 20% for power semiconductors, few% for packaging.

Out of the sales of ¥10.3 billion, over 20% for memory, less than 20% for logic, less than 30% for electronic devices, more than 20% for power semiconductors device, less than 10% for packaging.

【Market environment】

7) Please tell us about the market environment for FPD manufacturing equipment and future investment trends of LCDs for large TVs and OLEDs for smartphones.

A: Regarding investment in LCDs for large-sized TVs, investments for factory operations in China from 2019 to 2021 will continue, but in our initial plan, we estimated that investment negotiations for new factory lines will be settled down and additional investments will be limited. Entering this fiscal year, the price of LCD panels for large-sized TVs has further declined, and there has been a postponement in some of the investment plans for additional equipment.

As for investment in OLEDs for smartphones, we expect that investment will continue as a whole, although some investment plans that we anticipated are postponed. We will improve the yield of the manufacturing equipment currently being installed with the cooperation of the panel manufacturers, and make a recovery by showing good results.

In the mid-to-long term, we believe that OLED equipment investment for medium- and large-sized substrates will be progressing mainly by Korean panel manufacturers, but it will take about two years to contribute to our business because mass production development is necessary.

8) When do you think the memory investment of semiconductor manufacturers will come back? It seems that some memory makers are foreseeing a resumption of investment, but can it be considered as a full-recovery movement?

A: Each semiconductor manufacturer has a large-scale mid- to-long-term investment policy in response to the smart socialization, and we believe there is no doubt in its direction. Since the summer, some memory manufacturers have shown a cautious investment policy for the next year, while others have resumed NAND investment in preparation for data-server demand. There is a sign of recovery, and we are expecting that the capital investment will come back after the beginning of next year.

【Full Year Outlook】

9) Are there no changes in the full year forecast even though the orders for 1Q are declining?

A: FPD orders for 1Q are below initial forecast, but we are focusing to recover. We don't change our initial plan since FPD has an initial order backlog, and the progress rates of this 1Q against the first half forecast are 48% for sales and 58% for operating profit, almost in line with guidance.

10) What are your forecasts for the next fiscal year and your vision for FY2022? Does the decrease in FPD orders affect the next year's sales?

A: The next mid- to-long-term business plan will be announced in next August, taking into account the latest market trends. At this moment, we cannot disclose the next year's forecast. There are no changes in our goals for FY2022, that is, the net sales of ¥ 300bn and the operating profit margin of 16%.