

FAQ on Earnings Presentation for FY2019 2Q

- Q. Could you explain in more detail the impact that natural disasters had on the Semiconductor Production Equipment (SE) business in 1H and the flooding of Kansai International Airport?
- A. Compared with the forecast announced in July, 1H sales were ¥12.0 bn lower than expected, which will have shifted to 2H. Over half of the shortfall was due to the flooding of Kansai International Airport, and the rest was due to effects of torrential rain in western Japan. As for operating income, as shown on slide p.4 of the presentation materials, the approximately ¥8.0 bn decline in profit was mainly due to 1) decreased sales (around ¥5.0 bn) and 2) a worsening variable cost ratio because of a temporary rise in procurement costs (nearly ¥3.0 bn). However, fixed costs were held down lower than forecast, helping lift profits.
- Q. Regarding the SE business, I understand about the natural disasters, but isn't the rise in procurement costs too high compared to sales?
- A. I think that can be explained by the fact that we were unable to reduce base costs as expected. However, this should not be considered a bad sign, rather it reflects cost entailed in revising our supply chain and transferring to a new building (the new plant in Hikone, Shiga Prefecture is slated to be completed in December). We are certainly making progress toward achieving the 2H forecast for the SE segment of over 18% in the operating income ratio.
- Q. Will fixed costs in the SE segment continue to rise in 2H?
- A. As explained previously in July regarding the 1Q results, the personnel costs that accompanied the rise in sales and the depreciation costs associated with the construction of a new plant will affect results for the current fiscal year. In terms of manufacturing costs, the delay in cost improvements due to natural disasters in 1H will linger into 3Q.
- Q. Orders in the SE business increased in 2Q (from ¥50.6 bn in 1Q to ¥58.0 bn), do you think it's possible to return to record-setting levels as seen in the previous year? And how does next year look?
- A. Due to the unique characteristics of the equipment SCREEN handles, I don't think we can comment on the Wafer Fab Equipment (WFE) of other Semiconductor Production Equipment (SPE) manufacturers, but we have not changed our July forecast and still project orders totaling over \$50.0 bn in CY2019. In addition, having just entered 2H, we now have a clearer picture of orders up to the year-end and are expecting net orders to remain firm into the next fiscal year.

Q. In the SE business, the results for memories remain firm (slide p.10 of the presentation). Will SCREEN be benefiting from, as expected, the investment in mass production being taken off its current holding pattern or will investment shift to DRAM miniaturization in the near future? And, which would be preferable for SCREEN?

A. We will benefit from additional investment in both miniaturization and mass production.

Q. What effect will the export restrictions that the U.S. government has placed on China's JHICC Co., Ltd. have on the SE business?

A. Because this news broke today, I cannot say how it will impact the business. Currently, we can only continue to do business as usual.

Q. Regarding the full-year forecast for the SE business (announced in July), could you break down the factors behind the ¥6.0 bn drop in operating income presented on slide p.4?

A. I can't give specific numbers, but the majority is due to the temporary rise in cost attributable to aforementioned natural disasters. In addition, we anticipate higher costs for the new Hikone plant due to changes in the production method at the time of the transfer.

Q. In the SE business, slide p.10 of the presentation mentioned a partial adjustment in memory production, will this have an impact on sales?

A. The memories business is subject to the vagaries of customers, who have a history of delaying or advancing investments, so a bit of customer-driven fluctuation is to be expected, and the overall situation has not gotten to a point of concern.

Q. In the SE business, on slide p.10 of the presentation it is stated that investment is ramping up, but how will that affect the growth curve from the next fiscal year?

A. I can't talk about each company, but for foundries, we expect orders to increase more in 3Q. For logic chip manufacturers, we expect overall orders to remain firm into the next fiscal year.

Q. In the SE business, there is a lot of talk about a shortage of linear guides and other components. Based on your previous explanation, does this mean component companies were affected by the natural disasters? What is their current condition?

A. The shortage in some components has been ongoing since last fall, but we have made various requests to our procurers and are ready to increase production. In 1H, although natural disasters had a large impact, in order to respond to the high level of orders continuing from last fiscal year (during last 3Q and 4Q, net orders per quarter were close to ¥70.0–¥90.0 bn), we cannot deny that we prioritized meeting delivery deadlines over cost cutting measures.

Q. In the Graphic Arts Equipment (GA) business, did the structural reforms of original equipment manufacturers (OEMs) affect the decreased sales in the OEM field?

A. It's not our place to comment on other companies, so I will refrain from doing so. Nevertheless, the sales subsidiary handling our main POD equipment saw sales expand 60%–70% YoY and we expect results to recover sooner or later.

Q. In the Display Production Equipment and Coater (FT) business, why did you lower the 2H forecast for operating income? What about next year?

A. We did not mean to imply that results in the FT business are expected to be poor in 2H. The FT business encompasses new businesses and, while sales in new areas will increase, we do not see economies of scale contributing to profits as yet, so we lowered the forecast. Specifically, as for large displays (G10.5) and new areas, we expect that new product launch costs cannot be lowered, but we think these costs are temporary.

Q. In other businesses, why are losses worsening?

A. This is because new HD businesses have yet to get off the ground.