

FAQ on Earnings Presentation for FY2022 2Q

1st. Q1-12, disclosed on October 28, 2021

2nd. Q13-18, disclosed on November 26, 2021

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Q1	SPE	Given the investment plans that customers have already announced, we can expect sales to increase further in the next fiscal year. Then how much sales increase can be expected from current capacity of S ³ -3 plus conversion of FT? Also, can you tell us the scale of the addition to manufacturing capacity and when it will be completed?
A1		<ul style="list-style-type: none"> ● Inquiries are very strong, and we plan to bring S³-3 to full capacity over 3Q and 4Q, with a view to achieving ¥330 billion on a consolidated SPE basis. We are currently examining the figures. We believe that the conversion of FT facilities will add less than 10% to sales. ● New investment plans (for increased production) will be made from the next fiscal year onward, so we are currently deliberating carefully. We are looking to record SPE sales in excess of ¥400 billion. We hope to share this information publicly by the end of 3Q.
Q2	SPE	<p>I am concerned that, according to the SPIE presentation, the number of cleaning steps will decrease in the future. If Hi-NA is going to be used at M0, V1, and V2, how much cleaning will be needed for each layer?</p> <p>Also, how much cleaning is required with quad patterning, block processes, etc.? Are there any processes that require more cleaning, such as GAA?</p>
A2		<ul style="list-style-type: none"> ● We recognize that M0, V1, etc., are areas in which we do not have a market share. The number of steps will be reduced with the introduction of EUV, but we do not expect a dramatic decrease due to opportunities like backside and bevel cleaning. In fact, cutting-edge investments have not negatively affected our cleaning set. ● In quad patterning, if there are 8 etchings, there will be 4 cleanings. However, since cleaning equipment has a higher throughput than etch equipment, we believe that the number of cleanings required is not the same.
Q3	SPE	Why operating profit ended up higher even though the sales for 2Q was flat? The profit margin is high, but what gives you confidence that you will be able to maintain that profit margin in the future?

A3		<ul style="list-style-type: none"> ● Thanks to the customer mix, S³-3 is running at full capacity and is cost effective (contributing to profit). In addition, we did not fully use funds planned for fixed costs in 2Q and intend to use them in 2H, which is expected to have a negative impact on profitability in 2H. ● Regarding the improved profitability of SPE, because S³-3 will keep operating at 100% capacity over both 3Q and 4Q, measures currently under way will bring about a cut in variable costs. The 2H SPE operating income to net sales ratio will be around 18%, and we will strive to continue maintaining that level going forward. We expect to gradually see the results of righting unprofitable businesses in SPE over the next fiscal year and will work to raise that another 1 or 2 points.
Q4	SPE	At the 1Q briefing, because there was not clear visibility of (customer) investment (order details) between January and March of the next year, it was downplayed, but the current forecast was released with an upward revision. What is your opinion of the actual situation, and, in particular, can you explain the investment appetite for memory?
A4		<ul style="list-style-type: none"> ● 3Q orders will likely be a little lower than 2Q because 2Q orders were significantly high. As for memories, we expect orders for both DRAM and NAND to increase in 3Q and offset decreases in other applications. ● In 4Q, we expect slotting to continue and there to be many orders from Taiwan foundry. We think that foundry will be stronger than memories.
Q5	SPE	In the previous quarter, you mentioned that WFE would increase 5% in CY2022, but considering SCREEN's customer mix, will growth exceed the market average?
A5		<ul style="list-style-type: none"> ● Looking at the investment trends among customers, they appear strong, but there has been talk that some investment could be pushed back a little. Ultimately, the timing of investment depends on each customer's position, such as whether results in either 2022 or 2023 are strong, which is still hard to forecast. ● Korean customers will also likely increase investment, but because SCREEN does not have much exposure there, it will take some time to determine what kind of impact it will have.
Q6	SPE	If the market grows over the next two years and the top line increases, will profit margins organically grow around 20%? Or shouldn't we simply calculate it due in part to increases in operating costs and other factors?
A6		<ul style="list-style-type: none"> ● We are currently carefully considering investment plans for the next fiscal year. Depending on the results, depreciation and amortization may increase and we may not be able to respond if we do not raise staffing levels. Therefore, we do not simply think that if sales increase, profit will also increase. ● We will continue analyzing the capital investment plan for the next fiscal year and communicate it when we can.
Q7	SPE	What is the direction of 2H sales over 3Q and 4Q? I would also like hear about this for each application.

A7		<ul style="list-style-type: none"> ● Foundries will account for the main part of 3Q sales, and around the same ratio as 2Q. As we expect sales not to be so different from 2Q, foundries will account for around 45% of sales. NAND will somewhat decrease, and imaging devices will increase. ● Foundries will likely remain strong in 4Q as well.
Q8	SPE	Will capital investment focus on conventional-type facilities or factory automation like at S ³ -3? What direction will investment take in the next fiscal year? How much will the investment be?
A8		<ul style="list-style-type: none"> ● We are not considering factory automation like S³-3. We know where bottlenecks are, so we will invest to supplement that area. ● As mentioned earlier, we are currently carefully considering the investment amount, so please be patient.
Q9	SPE	With capital investment aimed at facilitating SPE sales of ¥400 billion, are you targeting an operating income to net sales ratio of around 20%?
A9		That operating income to net sales ratio was originally set in the medium-term plan, so we strive to exceed that. We are carefully considering details, such as capital investment and increased staffing, and will strive to ensure the ratio does not dip below 20%.
Q10	SPE	SCREEN is becoming a company that does not use working capital, but regarding notes and accounts receivable, will you shorten the term to half a year or a few months? Going forward, about how much do you want to improve it?
A10		<ul style="list-style-type: none"> ● The cash conversion cycle (CCC) has currently been shortened from 80 to 70 days. ● Going forward, because inventory has increased due to the parts shortage, we aim to basically maintain this situation. As for accounts receivable, it is difficult for major customers to improve more, but results with new customers have been achieved with such policies as receiving more advanced payments. The allocation of production slots by sales departments is predicated on receiving PO, and this situation will not likely simply deteriorate.
Q11	SPE	Regarding lead time (LT), there is a trend among customers to place orders well in advance because procurement is difficult for back-end processing manufacturers. Is this the same at SCREEN?
A11		<ul style="list-style-type: none"> ● Manufacturing LT is becoming somewhat longer. We are encouraging early procurement of parts and modules for orders that have strict delivery requirement, but such products do not account for a large share of the overall percentage and will not have a significant impact on LT right now. We are also having customers set longer slotting periods. ● LT that was usually around four months is now around five months. Although some customers do quickly give PO, order processing is being conducted in line with production lead times.

Q12	SPE	Regarding power semiconductor customers, you have disclosed their ratio among overall products from 1Q in presentations. That ratio is growing larger even compared to NAND. Is this an advantage compared to other companies?
A12		<ul style="list-style-type: none"> ● A while ago we launched the Frontier Project internally, and I think one of our advantages is maintaining a close connection with power semiconductor customers. Going forward, we want to watch this field and therefore disclosed the ratio. ● However, as soon as an investment is made in the semiconductor market, the supply and demand balance changes. Therefore, going forward, the market is likely to be erratic. However, with the trend toward switching to 300 mm, we can expect a certain level of investment continuously.
2nd. Q13-18, disclosed on November 26, 2021		
Q13	GA	Orders have recovered and the forecast was revised upward. Could you elaborate on them?
A13		<ul style="list-style-type: none"> ● Demand for POD has recovered in Europe and the United States, maintaining a pace of orders that exceeds ¥10 billion per quarter. The recurring business, especially the ink business, is also robust. ● The sales ratio of CTP, our traditional mainstay product, is hovering around 15%, and we forecast that it will bottom out around there and steadily remain at that level going forward.
Q14	GA	What is the forecast going forward?
A14		We expect to report an increase in sales and income from the previous fiscal year, despite delayed sales due to material shortages and a risk of a surge in transport costs in 2H.
Q15	FT	What are the details of 2Q orders and the forecast for 3Q orders?
A15		<ul style="list-style-type: none"> ● In 2Q, we received additional investment projects for G8 LCDs in China and Taiwan. ● Orders in 3Q will be in the high single-digit billion yen range, mainly for small- and medium-sized OLEDs.
Q16	FT	What is the performance forecast for the next fiscal year?
A16		Since production lead times are long in this segment (8 months to over 1 year), orders currently being received will be included in the sales in the next fiscal year. Considering the current order backlog, we expect that sales in the next fiscal year will be on a par with those in the current fiscal year. We assume that profit will be slightly higher due to an improved product mix.
Q17	PE	What are the factors behind the upward revision of the operating income to net sales ratio to more than 20% for 2Q and the full-year forecast to around 15%?
A17		<ul style="list-style-type: none"> ● Elemental development was transferred to HD two years ago, making PE better suited to profitability. ● After-sales services also remain at high levels, contributing to profits.
Q18	PE	With the market environment looking good, what is the outlook for 2H?

A18		Inquiries are brisk for products related to 5G and packages, and we have been successful in keeping up with the demand. In 2H, despite the risk of material (semiconductor) shortages, we aim to meet the forecasts and plans that have been revised upward.
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Notes:

HD = SCREEN Holdings Co., Ltd.

SPE = Semiconductor production equipment business

GA = Graphic arts equipment business

FT = Display production equipment and coater business

PE = PCB-related equipment business