

FAQ on Earnings Presentation for FY2022 3Q

1st. Q1-18, disclosed on January 31, 2022

2nd. Q19-25, disclosed on February 22, 2022

1st. Q1-18, disclosed on January 31, 2022		
Q1	SPE	SPE's operating income to net sales ratio finally exceeded 20% in 3Q. This was a 1.3 point-improvement from 2Q. What factors, such as sales volume effects and the product mix, might have contributed to this result? Also, is there room for further improvement in productivity in the next fiscal year?
A1		With regard to productivity improvement, although there was an effect from the increase in capacity utilization (at the mainstay S ³ -3 factory) during the year, the biggest factor was, of course, the increase in volume. In addition, the product mix was good, and the manufacturing variable rate was good. From the perspective of improving productivity, because S ³ -3 has increased to full capacity, we need to further raise its capacity to more effectively utilize its merits as an automated factory. We will be shifting our focus for the next fiscal year onward to restructuring unprofitable businesses.
Q2	SPE	SPE's operating income to net sales ratio is forecast to fall to around 18% in 4Q. What kind of risks are you anticipating?
A2		We expect changes in the product mix as well as longer delivery times and higher costs for parts and materials, but we think we will be able to manage them. The figures in the revised plan, which was announced in October, are the lowest baseline we need to achieve.
Q3	SPE	I want to ask about the direction in orders going forward. You explained that they will stay at around ¥90.0 bn per quarter from 4Q into FY2023 2Q, but will the numbers for any particular application change? Are there any applications that will see a decrease in orders?
A3		Despite some unevenness, we think orders in 4Q will stay on roughly the same trajectory as in 3Q in terms of percentages. We expect foundries to be strong in 1Q, but, because the timing of the final delivery of equipment for FY2023's planned 1Q orders can still change, we do not currently know the definitive breakdown of orders. While some categories will surely see a drop, orders overall will likely be very strong.
Q4	SPE	I would like to ask about the newly announced S ³ -4 factory. Given that it will be a ¥10.0 bn investment in total, how will capital expenditure, depreciation and amortization be affected in the next fiscal year? The start of operations in January 2023 will contribute to sales only in 4Q, but how great a change in production capacity can be expected to increase from the start of the year to the end? Will (depreciation) amortization not increase much in the next fiscal year? Could you give us a general overview?

A4		While a detailed analysis of next fiscal year's plan is still forthcoming, we think we will likely account for the ¥10.0 bn investment as an addition to normal (capital) investment expenditures. The actual use of funds will be spaced out throughout the year, and construction is slated to finish in 4Q. The increase in depreciation and amortization investment will likely be recorded then. Sales are likely to hold steady at the current 4Q level for the next full year.
Q5	SPE	What is the forecast for profitability improvement in the next fiscal year, including with regard to restructuring unprofitable businesses and S ³⁻⁴ contributions?
A5		It seems like things are going according to the medium-term plan with the aim of reaching 20% or more as operating income to net sales ratio (in fact achieving the goal of the plan one year in advance). Going forward, we will continue striving to stably achieve 20% or more.
Q6	SPE	It seems like the share of cleaning equipment is changing, but have there been any changes in the competitive environment? I'd like you to explain in as much detail as possible.
A6		Although SCREEN has acquired new POR (process of record), so have its competitors. Our impression is that our market share has not changed much.
Q7	SPE	What effect will the parts shortage have on 4Q (January to March)? It appears that it will have an impact on results for some U.S. SPE suppliers.
A7		Regarding sales between January and March, there will be shortages for various parts. The shortages in semiconductors and plastic materials are especially notable. While we are currently carefully studying the situation, we are also working to ensure we see the sales plan through. It seems like the next fiscal year will be more impacted.
Q8	SPE	On page 14 of presentation material under "trends by application," it says that in foundry, cleaning needs due to miniaturization are increasing as well. Could you elaborate on that? In CY2022, you see that WFE is forecast to increase more than 10%. Will SCREEN's sales outperform WFE?
A8		Amid an increase in processes that use EUV in line with miniaturization, cleaning has become more important to prevent defocusing and thus enhance yields, and attention is being paid to backside and bevel cleaning. We see this as an opportunity. Regarding the 10% increase for WFE, we think foundry will grow significantly, logic will also increase, and memory, image devices, and power device will rise slightly. Considering that SCREEN is strong in foundry and logic, there is possibility we may outperform WFE.
Q9	SPE	Can you disclose the ratio of legacy and leading-edge nodes in SCREEN's sales and orders?
A9		Although detailed ratios are not disclosed, looking at applications, "other" and "power" are mostly legacy nodes. By region, China is a large portion. Foundry and logic also have legacy nodes but not that many in total volume compared to leading-edge nodes.

Q10	SPE	SCREEN's sales in legacy nodes look strong, but some people think that investment in legacy nodes will slow down in 2023. Do you expect a decrease or slowdown? If it decreases, will there be an impact on SCREEN?
A10		There is talk about a slowdown in legacy nodes, which is a different thing with that China represents legacy nodes. Because we think the level of investment in the Chinese market will continue, the impact will be small (as explained in the presentation). Investment in legacy nodes could gradually recede when the demand-supply balance is restored.
Q11	SPE	When S ³⁻⁴ is completed and operating at full capacity, how will profit margins be affected? Could you explain the profit-boosting effect and increase in profit margin limits? How much could they increase, including the restructuring of unprofitable businesses?
A11		I think it's too soon to talk about the effects of S ³⁻⁴ . Going forward, we will continue manufacturing while increasing our personnel and carefully assessing the allocation of fixed costs. We plan to study the contribution to profit made by increases in efficiency over the next fiscal year. It may be obvious, but efficiency will increase our profit margins.
Q12	SPE	Going forward, do you think the ratio of cleaning will increase for WFE? And how will SCREEN's share of cleaning change?
A12		In CY2022 and CY2023, as miniaturization continues, there will be more opportunities for cleaning. However, some process step will decrease with the introduction of EUV, and it will probably stay about the same as WFE. If miniaturization continues further, cleaning will become even more important to yield enhancement, and cleaning steps will increase.
Q13	SPE	In the next fiscal year, will the increase in fixed costs stop at around ¥5.0 to ¥10.0 bn? What is the general estimate?
A13		It has always been our intent to focus on investment in R&D expenses (among fixed costs). The new S ³⁻⁴ factory we plan to build will increase sales, so we need to set up proportionate infrastructure. Please be patient as we conduct a detailed study.
Q14	SPE	The Company-wide gross profit margin was a little under 33% for 3Q, should we consider this increase a fluke or indicative of a steady rise? Going forward, while the gross profit margin might vary across the Company, can you maintain the overall current level of around 33%?
A14		I would like to avoid discussing specific figures for gross margin. GA, FT, and PE will face challenges in purchasing materials, but SPE will likely be strong enough and able to offset the other business segments.
Q15	SPE	In CY2022, there were many investments in logic and foundry, and SCREEN expects them to grow larger than WFE. I think in CY2022 there will be a lot of investment in fab by semiconductor device manufacturers and the equipment market will likely be strong in CY2023. What is your forecast for CY2023? Some think that adjustments will come in CY2023, but what is your take?

A15		We expect WFE to increase more than 10% in CY2022, but the impact of the parts shortage is rippling throughout the industry and extending delivery times, and the 10% figure does not include this impact. Accordingly, CY2023 results will depend on the impact. Everyone was surprised when I previously mentioned that we will probably not see much of decrease in CY2023, and that feeling has become stronger. Considering new fabs construction plans for CY2023, I think WFE will be quite strong.
Q16	SPE	You have put out MOL, backside, and bevel cleaning products. How will this affect profit going forward? Amid intense competition, do you expect to lose profit?
A16		We are not attacking the places where our competitors already have POR. We are offering niche solutions where processes are changing. We do not think profit will struggle. We are currently conducting evaluations through our pipeline with customers, and we will open a dialogue when results come out.
Q17	SPE	You explained that 4Q net sales levels are likely to continue for the next full year, and that would mean that sales will grow at around 25% on a CY basis. Compared to the 10% increase forecasted for WFE in CY2022, this figure is more than double. Does that seem right? And you made a comment the other day in an industry paper, saying that the semiconductor shortage must be taken into account when projecting sales for the next fiscal year. Considering that, can you maintain 4Q sales levels?
A17		We agree with that overview. We will create next fiscal year's business plan and raise its certainty while assessing our lineup of customers. We mentioned that there is possibility that we will outperform WFE but do not know if it will be over 20%. We will need to more carefully study the parts shortage because there are some areas where the shortage has become clear, some where it is not yet clear, and even some where the shortage has become protracted. The previous figures did not take the studied portion into account, so there is the possibility they will be lower than that.
Q18	SPE	The plan for the current full year's R&D expenses is ¥24.0 bn, but it's progress up to 3Q has appeared slow. Can all of the remaining amount be used in 4Q?
A18		We have received requests from each department reflecting their intentions to use up the remainder by the end of the fiscal year, so R&D investment will proceed even as we carefully assess the content of their efforts. There may be some cases where we cannot use all the funds, though.
2nd. Q19-25, disclosed on February 22, 2022		
Q19	GA	What are the current market trends?
A19		POD demand is recovering mainly in the U.S. and Europe. Taking into account rising logistics costs and parts shortages, we are conservatively forecasting a decrease in 2H of this fiscal year compared to 1H.
Q20	GA	What is your outlook for the next fiscal year?
A20		Although the shortage of parts will continue to be a concern in the next fiscal year, we aim to increase profit, especially in RB (recurring business) that has stabilized.

Q21	FT	Please explain the status of orders and inquiries.
A21		The 3Q was higher than expected, but the 4Q might be in billions of yen in the lower single digits. We expect the shift to small- and medium-sized OLED investment appears to be slightly delayed, while LCD investment (high resolution) is expected to continue.
Q22	FT	What is your outlook for the next fiscal year?
A22		Considering the backlog of orders, we expect sales for the next fiscal year to be on par with the current fiscal year. In terms of profit, we believe that we can increase profitability somewhat by improving the mix of products, mainly in small- and medium-sized OLEDs.
Q23	PE	What is behind that strong performance?
A23		Sales for 5G mobile and PCB packages used for data center applications are strong. Although we are struggling to adjust shipment timing due to shortages of parts, we aim to achieve the full-year forecast.
Q24	PE	What is your outlook for the next fiscal year?
A24		Demand remains strong, but we expect the impact of parts shortages to continue, and we are currently examining the impact on earnings.
Q25	PE	Please tell us what devices are selling well.
A25		Ledia, a direct imaging system. Ledia Twin, a new model, has been also well adopted by customers, and we expect sales to increase in the next fiscal year.

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