July 2019

SCREEN Holdings Co., Ltd.

FAQ on Earnings Presentation for FY2020 1Q

Q. I would like to confirm what the current downward revision means for the Company. If full-year operating income is revised downward ¥1.5bn, was it necessary to do so at the very beginning of the fiscal year? Or does that imply there are still risks in 2H?

A. Due to the operating loss in 1Q, we had to review operating income for 1H. This led to a change of over 30% from the May forecasts, a level that falls under the timely disclosure rules for the Tokyo Stock Exchange. After incurring a considerable 1Q loss, we decided to revise the full-year forecasts in light of the potential risks to investors. We also took into consideration the uncertainty emerging in the macro situation worldwide, which has already affected the Graphic Arts Equipment (GA) business.

Q. From the investors' perspective, it is difficult to foresee how the Company's performance could rise or fall so much over a three-month period. Is there some measure that could help stabilize this? I'd like to ask the president Mr. Hiroe for his opinion.

A. Thank you for your frank and harsh opinion. To ensure stability going forward, we are comprehensively reviewing the Semiconductor Production Equipment (SPE) business's supply chain management (SCM). For the Display Production Equipment and Coater (FT) business as well, we are taking various measures to keep profitability from fluctuating. We will continue to implement structural reforms on a yearly basis to present a more stable picture.

Q. In the SPE business, although expectations of a recovery in memory investment have dimmed, it seems like investment conditions in logic and foundries as well as in China have been improving. What is SCREEN's view?

A. 1Q consolidated orders exceeded expectations, and we anticipate a similar level (¥60.0bn) for 2Q as well. Considering the Company's client composition, we feel conditions are getting relatively good.

Q. In the SPE business, it has been explained that profitability is improving. In 2H, the improvement in operating income is supposed to be especially large, but is that really achievable? The emphasis on profit in 2H piqued my interest, so I'd like to confirm this.

A. Considering the large decrease in sales between FY2019 4Q and FY2020 1Q, it would not have been unexpected to record a 1Q loss of around ¥5.0bn in terms of average marginal income; however, we managed to catch it slightly below ¥0.0bn. We'd like you to interpret this as proof of the improvement in profitability. Although 2H is still difficult to forecast, we aim to further improve profitability by, among other things, controlling fixed costs.

Q. Were 1Q sales low in the SPE business because the construction of the new plant in Hikone is not going so well?

A. That has not had an effect.

- Note: The new plant is undergoing test runs (and is mostly not being used for production yet).

Q. Although 1Q orders were good in the SPE business, how do you think orders will change going forward for each application?

A. Foundries will rise, and logic will stay flat at a firm level. Given the rise in DRAMs in China in 1Q, we expect a decrease in 2Q. We think it will take more time for NANDs to recover.

Q. In the SPE business, although we expect investment in foundries to pull in schedule, how much is included in the budget?

A. As for foundries, we now predict results to exceed the forecasts we made at the beginning of the year. Conversely, we think a part of memory sales could be pushed back, which could mean that the full-year forecast is basically on course. As a result, we expect the product composition to be reliable than initial sales forecasts indicated.

Q. Although the scale of loss in the FT business was significant, low profitability large-sized equipment for G10.5 began selling for the first time. Besides, when sales of G6 (for OLEDs) begin, is it possible that profitability will improve with the better product mix? What is the profit outlook going forward?

A. Because the main provisions have ended already, going forward, we think that profits will be able to improve.

Q. In the FT business, what was the situation behind the worsening of the variable cost ratio for large-sized equipment for G10.5? In this fiscal year, although sales just began, will provisions be allocated to the second project for G10.5?

A. The factor behind the worsening was that handling costs were higher than expected. Including the second project, we allocated provisions in this 1Q, so going forward profitability is heading toward improvement.

Q. In the GA and the PCB-Related Equipment (PE) businesses, results have continued to decline, what was the situation behind? What will be done going forward?

A. In the GA business, 1Q was lower than planned due in part to U.S.-China trade friction and weak outlooks for the U.S. and Chinese economies. However, the business is currently on a path toward recovery, and we expect a 2Q recovery.

As for the PE business, although 1H is still harsh, we foresee a recovery in 2H.