

FAQ on Earnings Presentation for FY2020 2Q

1st. Q1-13, disclosed on October 31, 2019

2nd. Q14-17, disclosed on November 29, 2019

About HD

Q1. Under operating income, "Other" for 1H came to a loss of only ¥0.9 bn, less than the July forecast of negative ¥1.5 bn, but the forecast for the full year is unchanged, at negative ¥3.0 bn, and that for 2H worsened. Are you factoring in a buffer, or is there some other reasons for this?

A1. R&D expenses are somewhat concentrated in 2H, and there is a small buffer.

Q2. Could you tell us any of the focus points of the next medium-term management plan?

A2. We are still formulating the plan, so I cannot go into detail, but in addition to continuing to focus on new businesses, we aim to put greater emphasis on cash generation (profitability, return on invested capital, etc.).

About SPE

Q3. Investment in foundries is strong, so why was operating income below the initial forecast?

A3. Because of product mix factors.

Q4. The CY2019 forecast of 5%–10% growth in wafer fab equipment (WFE) seems to reflect the business structure (the product mix), but what are your expectations by application?

A4. Inquiries from foundries are currently strong and expected to remain so in the coming fiscal year. We expect to be able to benefit from the establishment of new forms of memory in FY2021, compared with the current fiscal year. Logic are also forecast to remain firm in FY2021.

Q5. When do you expect to set a new record high in operating income?

A5. The forecast operating income to net sales ratio SPE two years ago, when we recorded our highest ever operating income, was more than 13%. The forecast for 2H this year is about 15%, and the ratio is improving. From FY2021 onward, under the next medium-term management plan, we hope to target 20% at the quarter and half-year levels. Once we have accomplished that, reaching a new full-year high will be within sight.

Q6. You've said that orders from foundries are strong and expected to remain so in the coming fiscal year. What level of orders do you expect in 2H?

A6. It is difficult to foresee for specific quarters, but in 3Q and 4Q we expect orders approximately on par with those of 1Q.

Q7. Looking at business in South Korea, you said that, particularly with regard to NAND, you will set the industry standard for specific processes. When do you expect to receive orders for this?

A7. We have a POR, but the timing and other specific details are yet to be determined.

Q8. Capital investments by all but the very largest memory manufacturers are expected to decrease. Given this, why do you have such high expectations for FY2021?

A8. While the so-called major manufacturers harbor considerable uncertainty, investment by emerging manufacturers in China is expected to be firm.

Q9. In light of strong investment by foundries, we had expectations for an upward revision in forecasts, but the actual revision seems rather small. Why is that?

A9. We plan to deliver orders received in 2Q (for cutting edge investment) within the current fiscal year. Orders may increase again going forward.

Q10. Could you tell us about your share of the capital investment of specific customers in China? Specifically, how does your share among established companies compare with that among emerging companies?

A10. I think our share is higher among emerging manufacturers. However, our customers sometimes opt to use local manufacturers despite other factors, so our share of their investment is not 100%. On the other hand, we have so far not lost any orders.

Q11. Going forward, where do you plan to make improvements to profitability in 3Q, 4Q, and FY2021?

A11. The main area of improvement will be the variable cost ratio (profitability is expected to vary somewhat due to top-line factors, namely the product mix). We are currently receiving more orders than anticipated, and we factored in certain allowances at the forecast stage. The forecast is not directly comparable to actual results, so it may appear somewhat conservative.

Q12. What are your expectations for orders by application in 3Q and 4Q?

A12. We expect orders from foundries and orders logic and image devices to be strong.

About FT

Q13. The display industry currently has both dark and bright spots, such as challenging conditions for G10.5 displays contrasting with growing demand for G6 OLED displays. Given this, what do you expect for FY2021?

A13. We anticipate that sales related to large (G10.5) displays will continue in FY2021, and we anticipate some (highly profitable) orders to be pushed back from the current fiscal year into the next, so we anticipate an increase in profit.

Q&As from here below are disclosed on November 29, 2019

About SPE

Q14. How confident are you that you will achieve the 2H forecast of an around 15% operating income to net sales ratio? When do you expect to reach the standing target of 20% on a full-year basis?

A14. Regarding the 2H forecast of 15%, compared with 1Q, the level of uncertainty has dropped as we gained a clearer picture of the likely content of orders. We hope to achieve the target of 20% within the period of the next medium-term management plan, which will kick off next year. The expected top-line will then be lower than previously planned, making this profitability improvement target more ambitious than before.

About GA

Q15. Why did results in 2Q improve so much compared with 1Q? What do you expect going forward?

A15. Some sales negotiations that we could not wrap up in 1Q were finalized in 2Q, boosting net sales. In particular, domestic sales of print on demand (POD) equipment were higher than expected in 2Q. The increase in sales helped boost operating income. Business structure improvement expenses recorded in the previous fiscal year also contributed. In 2H, we will monitor the market environment while seeking to improve profitability, mainly in the area of after-sales services, particularly ink, which is seeing firm sales.

About FT

Q16. Even though 2Q profitability improved significantly compared with 1Q, you revised the 2H forecast announced in July downward. Where do things stand now?

A16. As we explained when the 1Q results were announced, we do not plan to allocate further provisions, mainly for large-sized equipment for G10.5, from 2Q onward. On the other hand, it is increasingly likely that certain orders will be pushed back (not cancelled) into the next fiscal year, so we revised the 2H forecasts for sales and operating income to reflect the negative impact that such delays will cause.

About PE

Q17. Conditions in the PCB market seem challenging. What do you expect in this area going forward?

A17. Smartphone-related investment, which was strong until 1H of the previous fiscal year, remains stagnant. In 2H, while conditions for smartphone-related products are improving slightly, it will not be enough for performance to bounce back. However, we expect an increase in sales due to investment related to products used in automotive devices and 5G-related devices.

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