SCREEN

February 2020

SCREEN Holdings Co., Ltd.

FAQ on Earnings Presentation for FY2020 3Q

1st. Q1-9, disclosed on January 30, 2020
2nd. Q10-14, disclosed on February 7, 2020

About HD

Q1. What is the policy toward the business plan, including the repeated revisions to the full-year forecast (especially the most recent significant downward revision to operating income)?

A1. We are very sorry for any inconvenience we may have caused investors and shareholders. There was a string of unfortunate events this quarter, including later order placement for SPE, a delay in the sales period for FT, and sales of evaluation equipment ahead of schedule.

Q2. What is the policy on the Company’s operating income to net sales ratio going forward?

A2. Under the new three-year mid-term management plan (the details of which are currently being ironed out) that will launch next fiscal year, we are aiming for a ratio in at least the low double digits, especially with regard to SPE. (We assume FT will also be in the double digits.)

About SPE

Q3. I have a question about the operating income analysis on page 24 of the presentation materials. I can see that the sales of unprofitable projects, especially those involving evaluation equipment, accounted for more than half of the ¥7.5 bn decline in profitability, but what accounts for the remainder? Something feels off with this large deterioration in profitability in just three months. Is there any equipment whose sales are below costs?

A3. This was due to the operational capacity of the new factory (so-called S^3-3) in Hikone. The original assumption regarding capacity was around 60% in 4Q as of the end of October; however, this forecast was later amended to under 30%. (The forecast has been pushed back into next fiscal year.)

Q4. Are projects with multiple customers among the unprofitable projects? Is this situation temporary? Is it related to logic chips or memories?

A4. We cannot say which customers this refers to, but there are a number.

Q5. There have been stern opinions voiced regarding the upward revision in 2Q being followed by a downward revision three months later. Is this, at core, a management issue?

A5. We realize, as you’ve rightfully pointed out, that these events bring the ability of management into question. The inaccuracy of our 3Q order assumptions had a larger impact than predicted.

Q6. Why was the forecast revised downward in the face of an improving market over the last three months?
A6. It’s due to conditions among our customers, not due to anything you may be worried about like lost or canceled orders.

Q7. I have a question about the operating income to net sales ratio. In a previous answer, you said the situation is improving, but there doesn’t seem to be any improvement compared with last fiscal year. If the performance seen thus far this year is sustained, don’t you think that the target of at least 10% is a little too high?
A7. If evaluation equipment had been excluded from the figures, the ratio would have reached at least 10%, and we are still on an improving trend.

Q8. If sales are flat next fiscal year, how much can you expect profitability to improve?
A8. We can probably be assured of a continuation of the current situation of an operating income to net sales ratio in the double digits.

About FT

Q9. Can we feel secure going into FY2021 (April 2020 – March 2021)? What is your view on China and exports?
A9. Heading into the next fiscal year, we think things will move in a positive direction (an end to delayed projects, rises in sales, etc.). Currently, we have not felt any direct effects from the trade tensions between China and the United States. However, financing has become more difficult and we could be affected by that.

Q&As from here below are disclosed on February 7, 2020

About HD

Q10. The tax rate for FY2020 is expected to decline year on year, by how much? And, what is the background of this decline?
A10. The estimated tax rate is just under 30%. The lower rate reflects the calculation of profit and loss for domestic group companies and the fact that SCREEN can utilize net operating loss carryforwards it has held since the adoption of consolidated tax payment from FY2020.

About SPE

Q11. What is the operational capacity of the entire Hikone Factory (including both the old and new factory S3-3)?
A11. It fluctuates by month, but we expect that to be around 60%-70% in 4Q.

Q12. At ¥45.3 bn, 3Q orders are expected to fall short of estimates. What is the forecast for 4Q orders?
A12. We currently expect around ¥50 bn to ¥55 bn.

Q13. I have a question regarding your view on WFE in CY2020. On page 10 of the presentation, you estimate a 5% increase compared with CY2019; how does this increase break down by application?

A13. Our view is that the increase is attributable to memories, where we see signs of recovery. (Foundries, logics, imaging devices, and other applications all performed well in CY2019.)

About FT

Q14. 3Q orders were strong at ¥11.5 bn, what is the 4Q forecast? What is the main factor?

A14. We currently forecast orders in the mid single-digit billions of yen (less than half the amount recorded in 3Q), mainly attributable to OLEDs.

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