SCREEN

September 2022

SCREEN Holdings Co., Ltd.

FAQ on Earnings Presentation for FY2023 1Q

First session: Q1-14, disclosed on July 28, 2022

Second session (Additional FAQs): Q15-20, disclosed on September 9, 2022

First session: Q1-14, disclosed on July 28, 2022		
Q1	HD/SPE GA/FT	Can you disclose the target net sales figures by segment for the final fiscal year of the medium-term management plan? If that is difficult, what is the general direction from the guidance for this fiscal year?
A1		The figures have not been disclosed by segment, but the general idea for the SPE segment is likely to be a target of around ¥420.0 billion in net sales when S^3-4 reaches full capacity utilization. We revised the FY2023/03 full year sales forecast of GA upward, so that will be on a plus-alpha level. Because customer's investments in each project have been pushed out, we expect a relatively challenging situation to continue in FT.
Q2	SPE	What is your forecast for WFE next calendar year? What is it for each application?
A2		Regarding WFE next calendar year, although various discussions may be held in the next two or three months, right now there is no change in our stance that performance will not decline much in CY2023. Deliveries delayed from CY2022 will likely be carried over as is to CY2023, so although there may be a slight dip, WFE will probably not decline as much. Regardless of the WFE situation, we expect to achieve our sales targets for the next fiscal year.
Q3	SPE	At SEMICON West, people were talking about cancellations and requests for delayed delivery from major memory manufacturers. What is SCREEN's situation like?
A3		I have heard such rumors, but the forecasts we have received from our customers have not been affected much. We still expect a high level of orders to continue for 2Q and 3Q. And at meetings at SEMICON West, there was still a strong desire for trade with us from customers.
Q4	SPE	Regarding market share, people are saying that SCREEN's sublimation drying with liquid phase deposition has been beaten out in various application. Has there been any traction toward a recovery moving forward?
A4		As previously explained, we recognize that new drying technologies from competitors have been adopted in some of the processes of memory customers. We are also aware that we provide various drying technologies in line with the device structures of customers and there is no significant fluctuation in the share in other parts.

Q5	SPE	At present, amid the rapidly changing business environment, how certain is the forecast of higher revenue and profit in the next fiscal year?
A5		We are paying attention to the changes in the situation during the last month or two. We need to monitor these effects in 2Q, but with just the information we gathered from customers at SEMICON West, we have not heard of a slowdown in major investments. Because exposure is low in memories, we might even benefit.
Q6	SPE	The OP margin has held steady at a high level in 1Q, but was this impacted by temporary factors? And what is the direction from 2Q onward?
A6		1Q sales of modification and parts were higher than expected. As for the product mix, profitable projects have come in ahead of schedule. Considering current sales mix, the 2Q OP margin is unlikely to reach 1Q levels.
Q7	HD/SPE	Regarding the ¥500.0 billion or more sales target in the final year of the medium-term management plan, is the possibility of exceeding the target dependent on capacity or on the external environment?
A7		First, an important task is to launch S^3-4 and establish production capacity. Customers who form the core of our sales will be the key to how much will actually be invested.
Q8	HD	Regarding sensitivity to foreign exchange rates, which segments have been positively affected?
A8		Our foreign exchange rate sensitivity for a ¥1 change in the US$ rate is ¥170 million and in the euro between ¥30 to ¥40 million. SPE is fundamentally denominated in yen, so the foreign exchange rate sensitivity is low. But modification and other foreign-denominated business has increased, and, with it, so has exchange rate sensitivity. However, the business that is highly sensitive to foreign exchange rates in absolute amounts is GA, which mainly has foreign-denominated sales.
Q9	HD/SPE	From 1H to 2H, prices for parts and materials will jump, but what kind of parts and materials are expected to see a further jump?
A9		Prices are soaring for various parts and materials, but plastic parts have had the biggest impact on costs. Because cleaning equipment uses a lot of plastic, we are reaching a level where they cannot be offset by cost reduction activities.
Q10	SPE	I would like to know more about the specifics of the ¥1.8 billion year-on-year improvement in profitability compared to 1Q.
A10		It was partly due to an increase in sales, but major contributors were cost reduction activities and value engineering (VE) at factories. The scale of improvement is not as much as before, but we expect effects to steadily emerge going forward.
Q11	SPE	Can you disclose the breakdown of orders in 1Q?
A11		Our policy is not to disclose the percentage of orders for each application from this quarter on. Overall, though, the orders coming in are in line with previously released forecasts. (Logic and foundry are still strong, and memory has held relatively steady.)

Q12	SPE	Since completing S^3-5, will sales reach ¥500.0 billion just with SPE? Do those figures take into consideration the medium- and long-term investment trends of major customers? Will the investment slowdown from memory customers have any impact?
A12		Our sales forecast is just as you stated. It reflected not only customer investment trends but also the broad adoption of the cleaning solutions we offer due to miniaturization. Regarding memory customer investment scale revisions and slowdowns, when announcing 2Q results, I would like to discuss this with greater focus on the situation. No matter what, though, we are not considering the suspension of investment plans.
Q13	HD/SPE	Regarding the ¥500.0 billion sales target in the final year of the plan, was this figure set in a top-down way based on the forecast for this fiscal year? Or do you assume there will an increase in cleaning TAM due to miniaturization? It seems a strong revised target was released when the market was said to have reached its peak, but will it be possible to change this later on?
A13		Looking at long-term forecasts from customers too, this level of sales target seems necessary, and we are confident in an increase in cleaning needs and applications. Some adjustments may be made going forward, but WFE will likely increase again over the long term, and we plan to conduct forward-looking capital investment to support demand and established sales targets for the final fiscal year. We did not set the target as ¥460.0 billion, then simply jump to ¥500.0 billion. We steadily raised the target figure after carefully assessing each business operating company.
Q14	SPE	The 2Q forecast ratio by application is the same as the full-year forecast, but does it seem like it will be a bit higher or lower? If possible, will you put out a full-year forecast by region?
A14		The ratio is in 5% increments, so the difference with the full-year forecast is not visible, but the figures are based on actual inquiry data. Regarding sales forecasts by region, we intend to consider disclosing such a full-year forecast from the next quarter.
Second session (Additional FAQs): Q15-20, disclosed on September 9, 2022		
Q15	GA	Could you tell us about current market trends?
A15		Appetite for investment in POD is strong, mainly in North America. However, we will pay close attention to movements in the economy going forward.
Q16	GA	Have you made progress with structural reforms?
A16		The sale of a consolidated subsidiary (completed at the end of May) will cause a decrease in net sales but also lower the break-even point, and we expect it to improve our financial standing . Our recurring businesses have also been steadily performing well, contributing to improving the operating income to net sales ratio. We are starting to see indications of growth.

Q17	FT	What led to the decision to revise the sales forecast downward?
A17		The lockdown in Shanghai and tumbling display prices were the initiating factors, and some customers shifted the timing of their investment. Factoring in these impacts, we revised the sales plan downward.
Q18	FT	What is your outlook going forward?
A18		We expect the display market to be slow this fiscal year and next, but we expect large-size OLED TVs to start up in CY2024-CY2025. Conditions may remain harsh until then, but we are focusing on cultivating new businesses with future growth potential, namely the energy business.
Q19	PE	Could you tell us about market trends in this area?
A19		The market is basically in sync with the semiconductor market cycle, and sales remain strong, especially for packaging. Demand is solid.
Q20	PE	What is your outlook going forward?
A20		Thanks to efforts to sell equipment bundled with service contracts, the ratio of sales from after-sales services has been steady. We can reliably achieve an operating income ratio of 10%. While the scale of sales is still small, this is a business with an exciting future.

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