

# Q1 FY2019 (April 1, 2018 – June 30, 2018) Financial Announcement

July 26, 2018

Agenda:

- Q1 FY2019 Consolidated Financial Summary  
Ken Sasagawa, Vice President, Accounting Dept.
- Business Environment and Financial Estimates  
Toshiki Kawai, Representative Director, President & CEO



# Forward Looking Statements

- Disclaimer regarding forward-looking statement

Forecast of TEL's performance and future prospects and other sort of information published are made based on information available at the time of publication. Actual performance and results may differ significantly from the forecast described here due to changes in various external and internal factors, including the economic situation, semiconductor/FPD market conditions, intensification of sales competition, safety and product quality management, and intellectual property-related risks.

- Processing of numbers

For the amount listed, because fractions are rounded down, there may be the cases where the total for certain account titles does not correspond to the sum of the respective figures for account titles. Percentages are calculated using full amounts, before rounding.

- Exchange risk

In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking. Accordingly, the effect of exchange rates on profits is negligible.

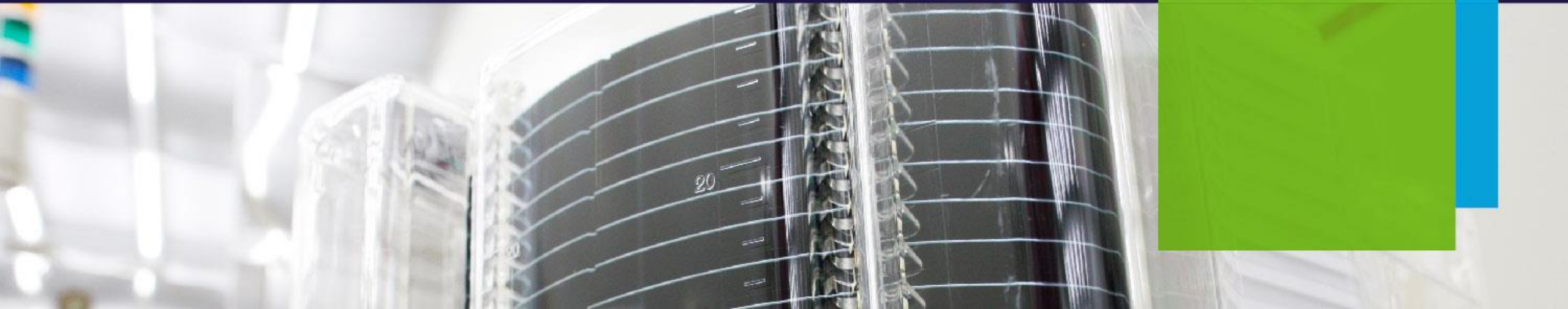
FPD: Flat panel display



# Q1 FY2019 Consolidated Financial Summary

July 26, 2018

Ken Sasagawa  
Vice President, Accounting Dept.



## FY2019 Q1 (April – June 2018) Highlights

- Q1 financial results showed good progress in line with plan for H1
  - Shipped more than 60% of SPE and 100% of FPD Q2 new equipment sales targets
- High level of SPE\* sales driven by increase in demand for data centers
- In FPD\*\*, investment for G10.5 continued

\* SPE: Semiconductor production equipment, \*\* FPD: Flat panel display production equipment

# Financial Summary

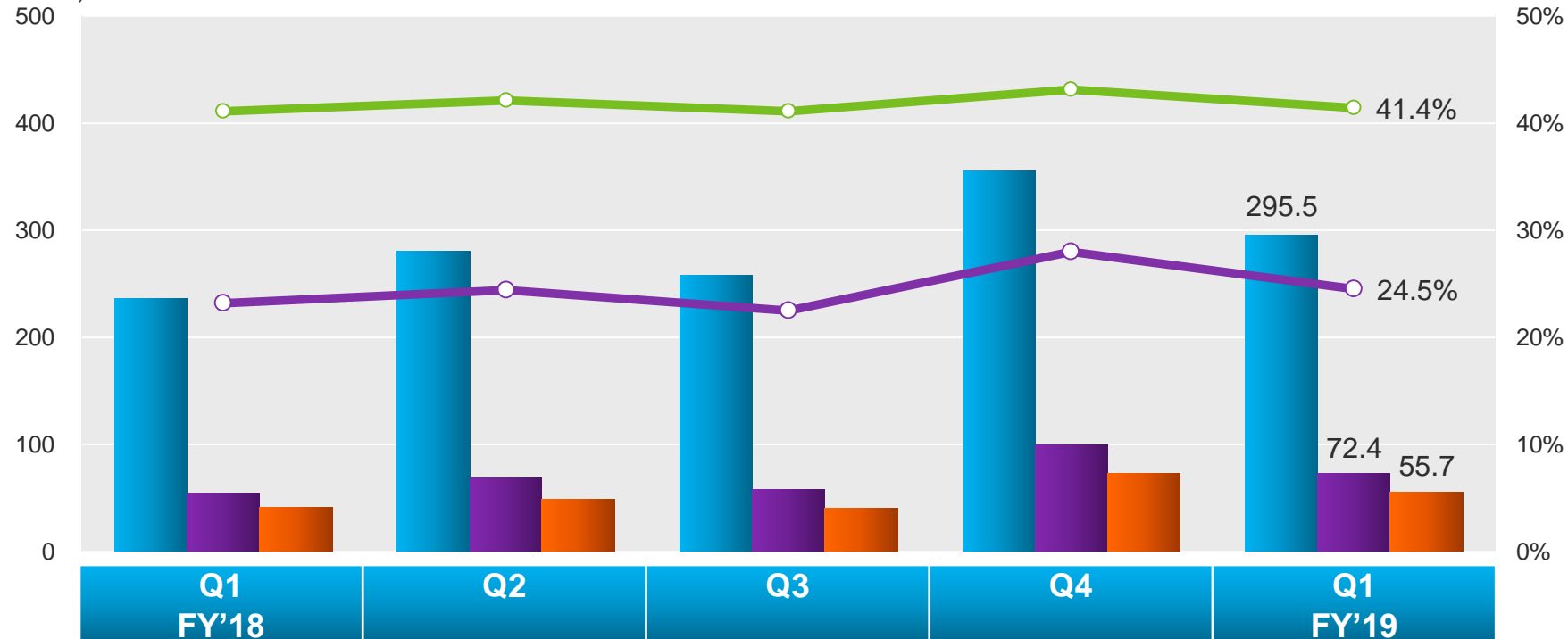
(Billion yen)

	FY2018				FY2019	vs. Q4 FY2018
	Q1	Q2	Q3	Q4	Q1	
Net sales	236.3	280.5	257.7	355.9	295.5	-17.0%
SPE	221.9	265.7	241.4	326.0	280.4	-14.0%
FPD	14.3	14.7	16.2	29.7	15.1	-49.2%
Gross profit	97.1	118.2	106.0	153.5	122.4	-20.2%
Gross profit margin	41.1%	42.1%	41.1%	43.1%	41.4%	-1.7pts
SG&A expenses	42.3	49.7	47.9	53.7	50.0	-6.9%
Operating income	54.7	68.5	58.0	99.7	72.4	-27.4%
Operating margin	23.2%	24.4%	22.5%	28.0%	24.5%	-3.5pts
Income before income taxes	55.1	67.1	57.3	95.6	75.2	-21.3%
Net income attributable to owners of parent	41.2	49.4	40.7	72.9	55.7	-23.6%
R&D expenses	21.1	24.8	23.9	27.0	26.1	-3.5%
Capital expenditures	8.1	11.7	13.7	12.0	9.6	-19.3%
Depreciation and amortization	4.2	4.7	5.5	6.0	5.0	-16.6%

1. In principle, export sales of Tokyo Electron's mainstay semiconductor and FPD production equipment are denominated in yen. While some settlements are denominated in dollars, exchange risk is hedged as forward exchange contracts are made individually at the time of booking.
2. Profit ratios are calculated using full amounts, before rounding.

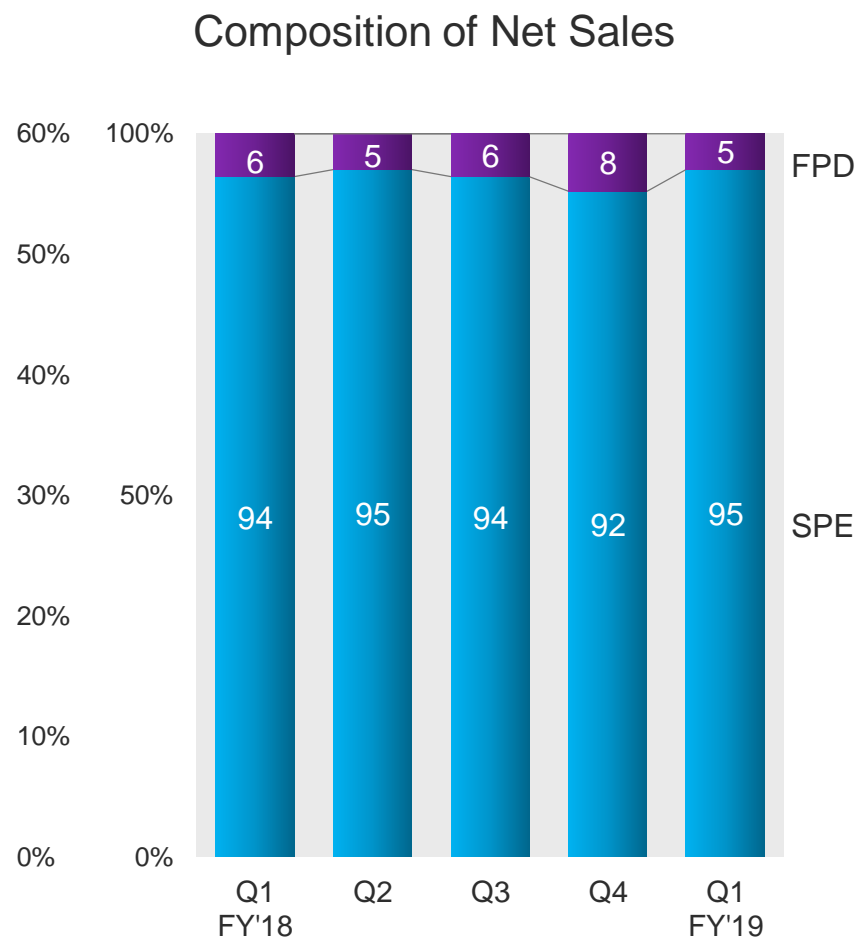
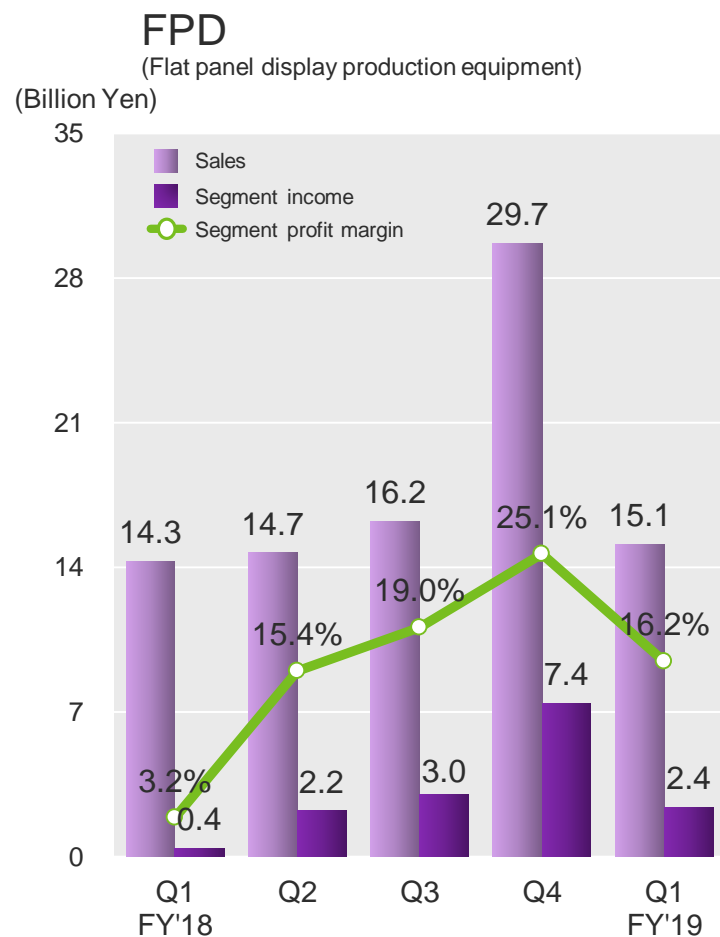
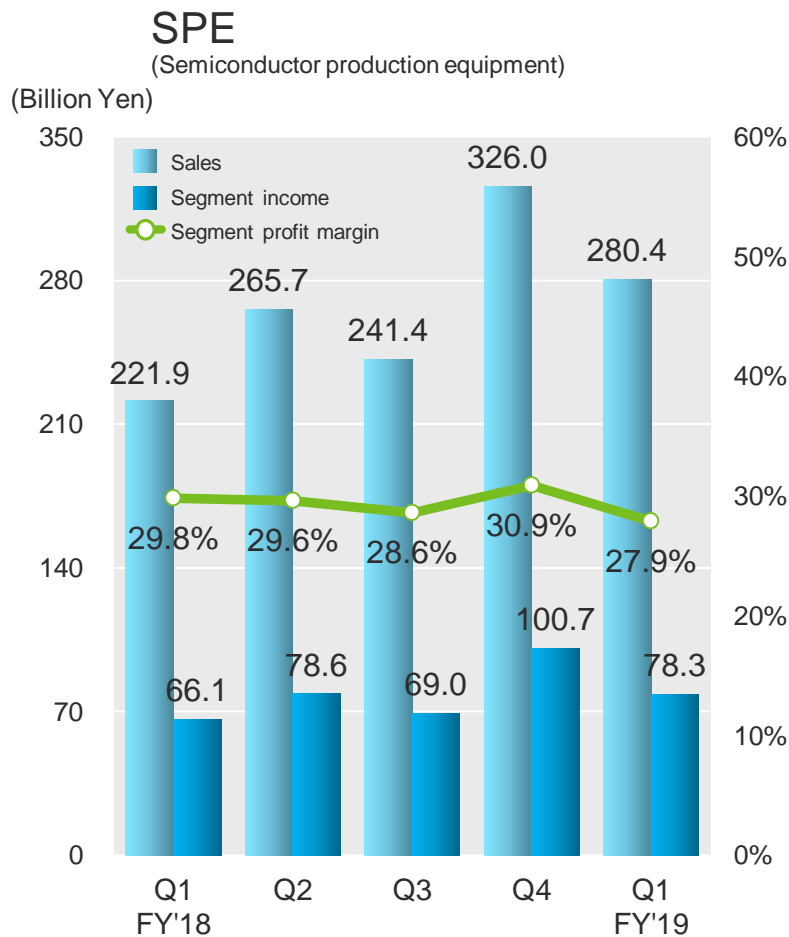
# Financial Performance

(Billion Yen)



Net sales	236.3	280.5	257.7	355.9	295.5
Operating income	54.7	68.5	58.0	99.7	72.4
Net income attributable to owners of parent	41.2	49.4	40.7	72.9	55.7
Gross profit margin	41.1%	42.1%	41.1%	43.1%	41.4%
Operating margin	23.2%	24.4%	22.5%	28.0%	24.5%

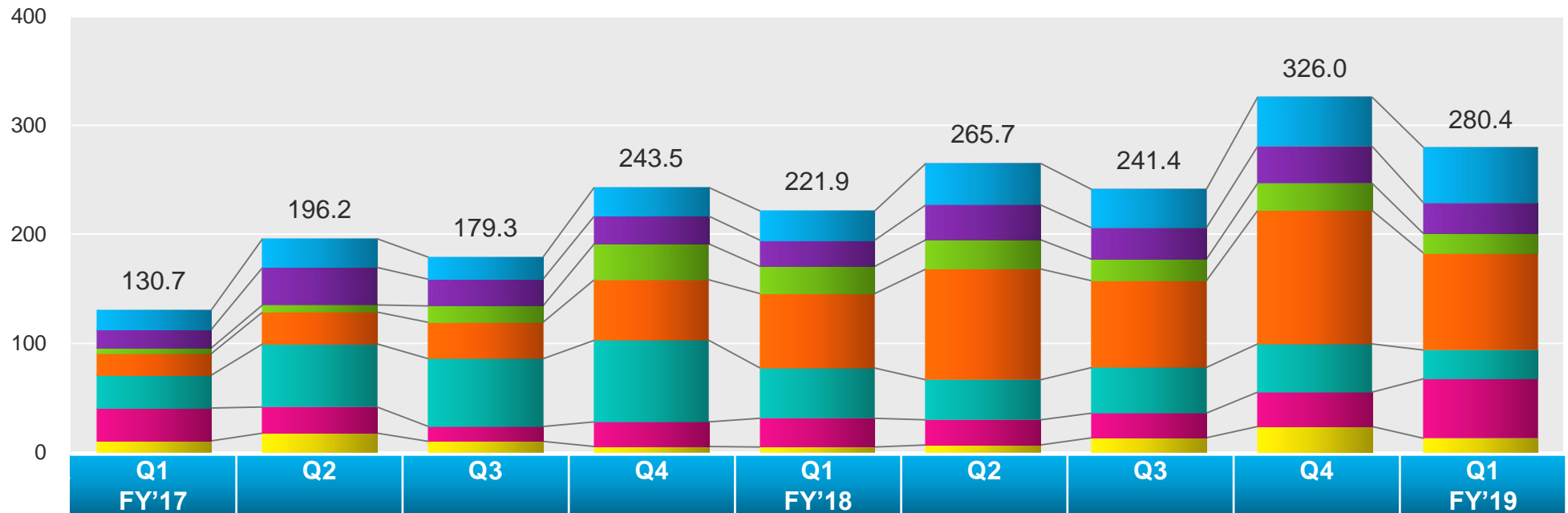
# Segment Information



1. Segment income is based on income before income taxes.
2. R&D expenses such as fundamental research and element research, etc. and other general and administrative expenses are not included in the above reportable segments.
3. Composition of net sales figures is based on the sales to customers.

# SPE Division: Sales by Region

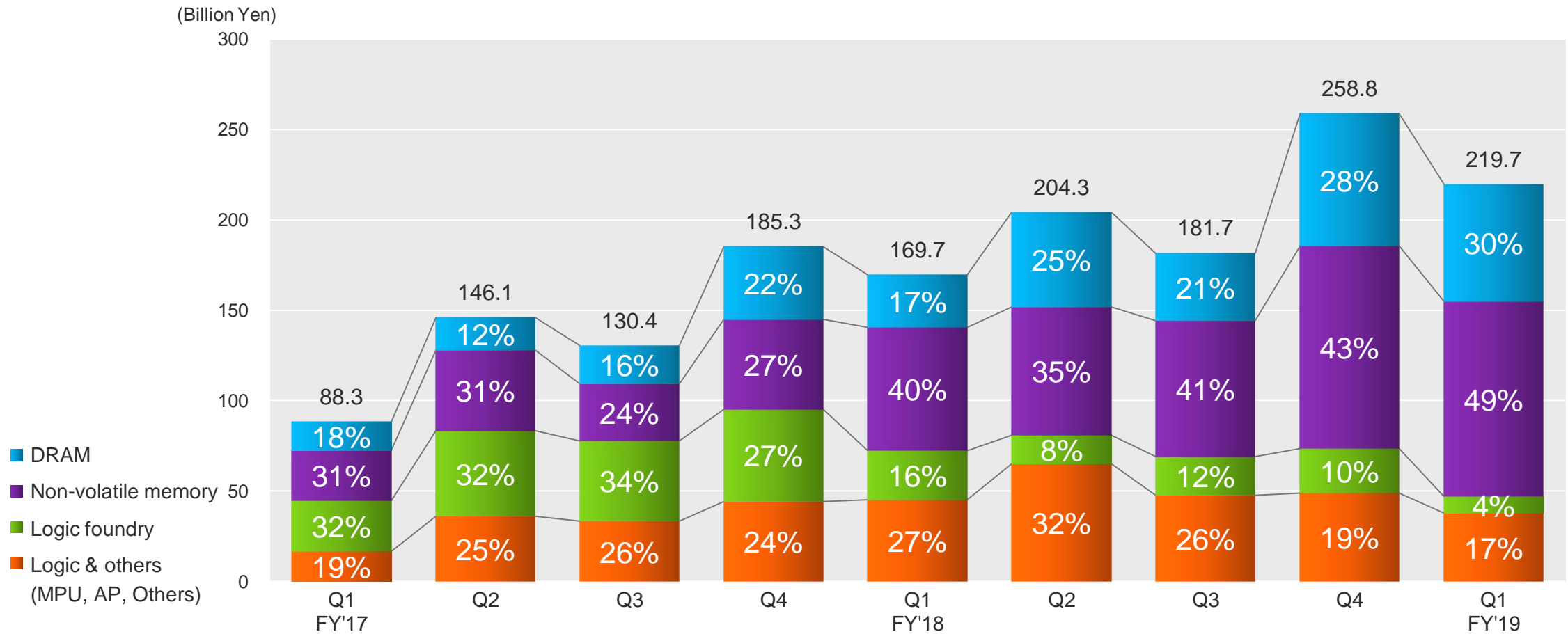
(Billion Yen)



	Q1 FY'17	Q2	Q3	Q4	Q1 FY'18	Q2	Q3	Q4	Q1 FY'19
Japan	17.8	26.4	20.3	26.6	26.7	38.4	35.1	45.1	51.1
North America	17.0	34.4	24.6	25.4	24.0	32.0	29.1	33.9	28.4
Europe	5.2	6.6	15.0	32.9	25.3	26.9	19.6	25.0	17.7
South Korea	19.8	29.0	33.3	55.5	68.3	101.7	79.4	122.3	88.9
Taiwan	30.5	58.2	62.3	74.7	45.8	36.6	42.1	44.3	26.3
China	30.0	24.0	13.7	22.7	26.7	23.0	22.6	31.8	54.9
S. E. Asia, Others	10.3	17.3	9.8	5.3	4.6	6.7	13.2	23.4	12.7

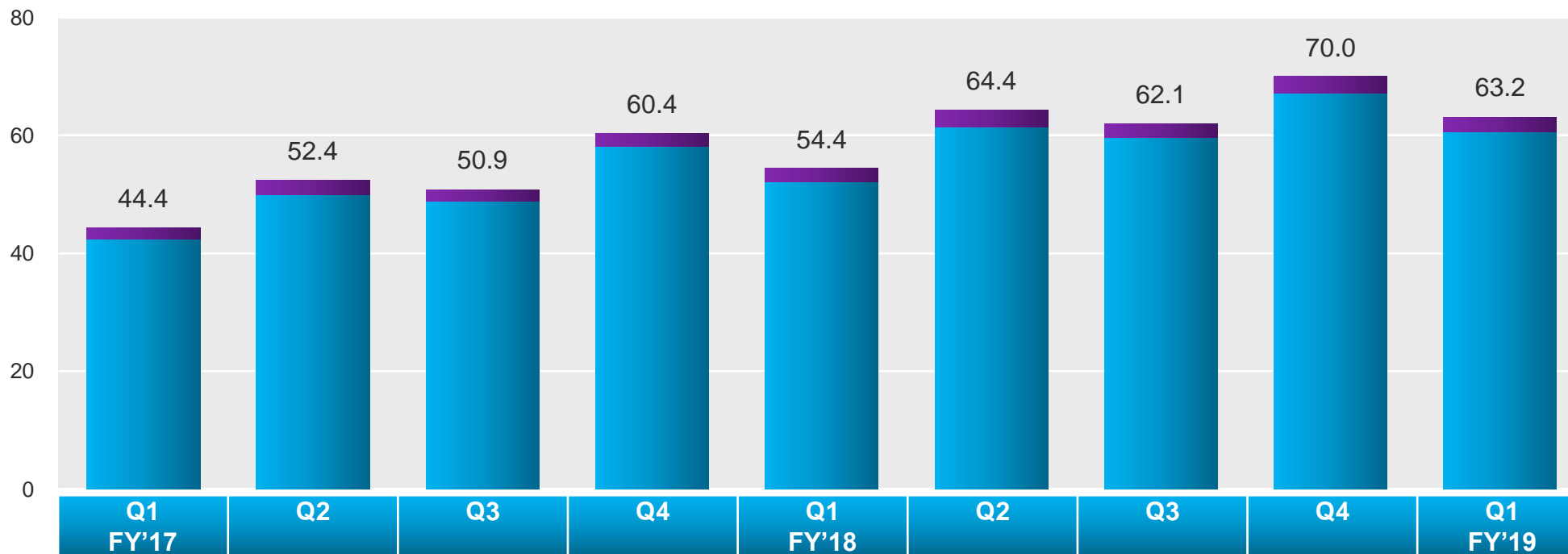


# SPE Division: New Equipment Sales by Application



# Field Solutions Sales

(Billion Yen)

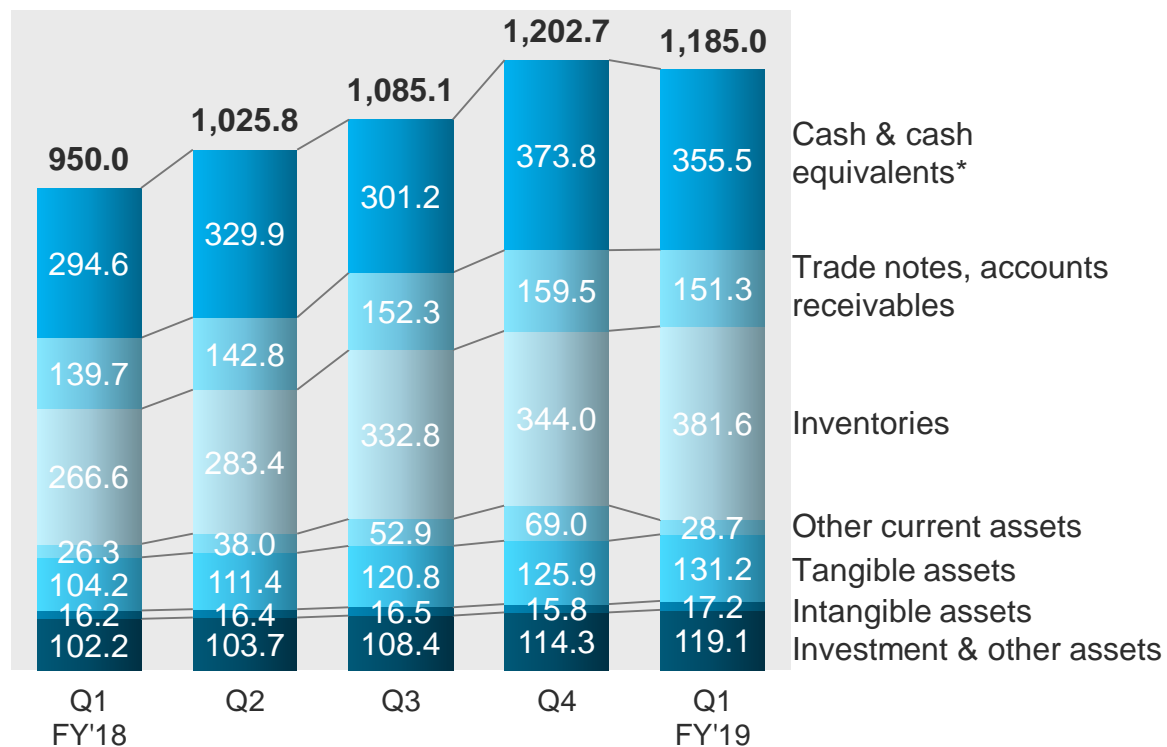


<span style="color: blue;">■</span> SPE Sales	42.4	50.0	48.8	58.1	52.2	61.4	59.7	67.2	60.6
<span style="color: purple;">■</span> FPD Sales	2.0	2.4	2.0	2.2	2.2	2.9	2.4	2.8	2.5

# Balance Sheet

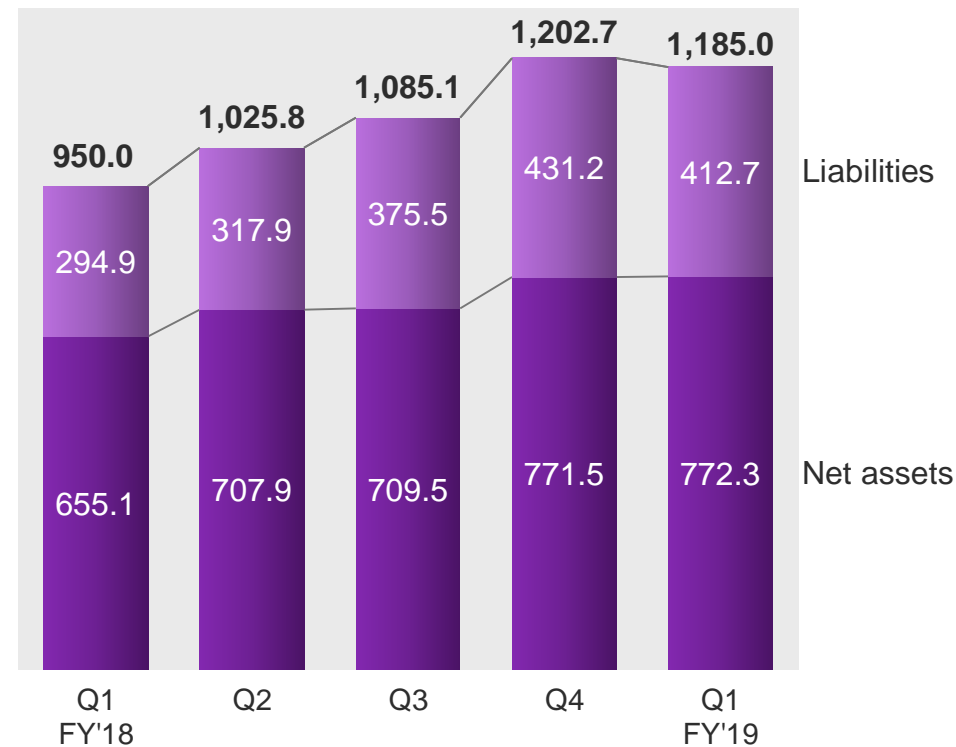
## Assets

(Billion Yen)



## Liabilities & Net Assets

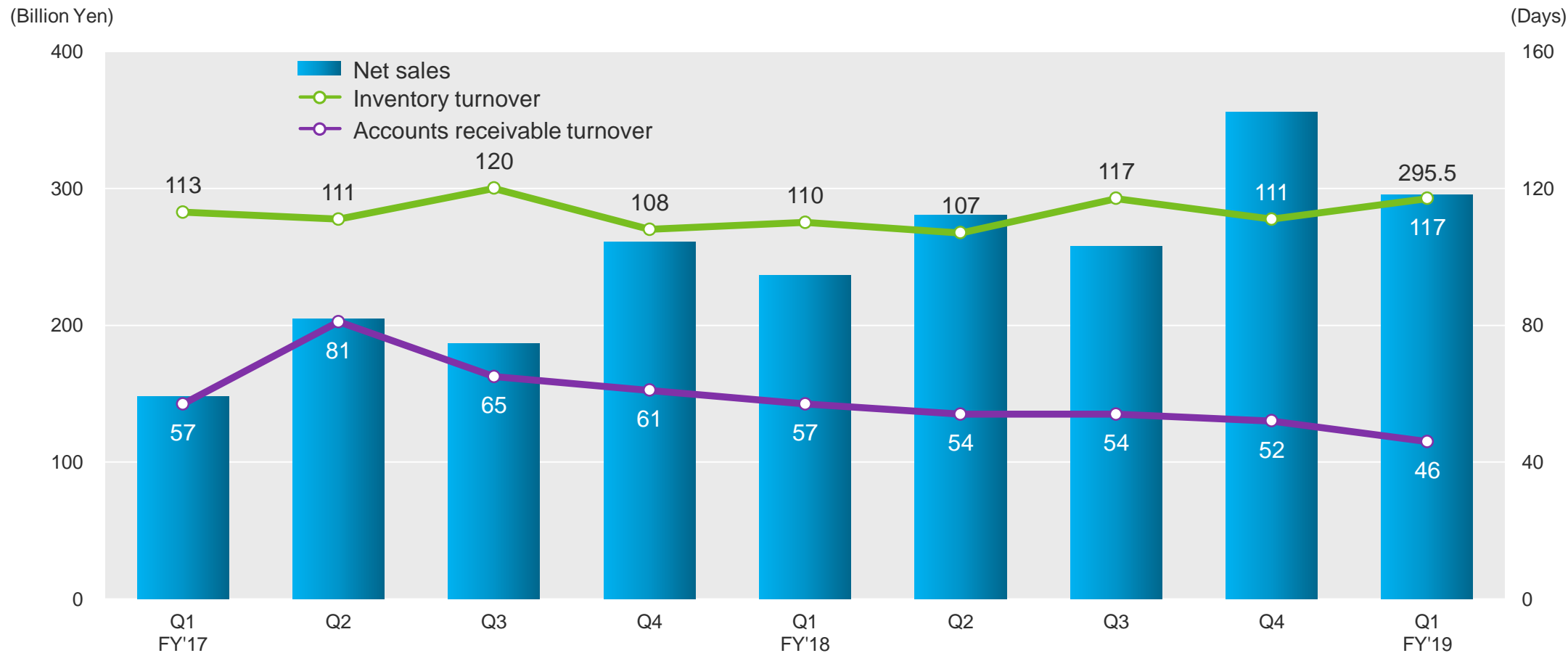
(Billion Yen)



\* Cash and cash equivalents: Cash and deposits + Short-term investments, etc. (Securities in B/S).

From the beginning of the FY2019 Q1 accounting period the Accounting Standards Board of Japan's "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, revision on February 16, 2018) has been applied. FY2018 results have been restated in the graphs in accordance with the revised accounting standards.

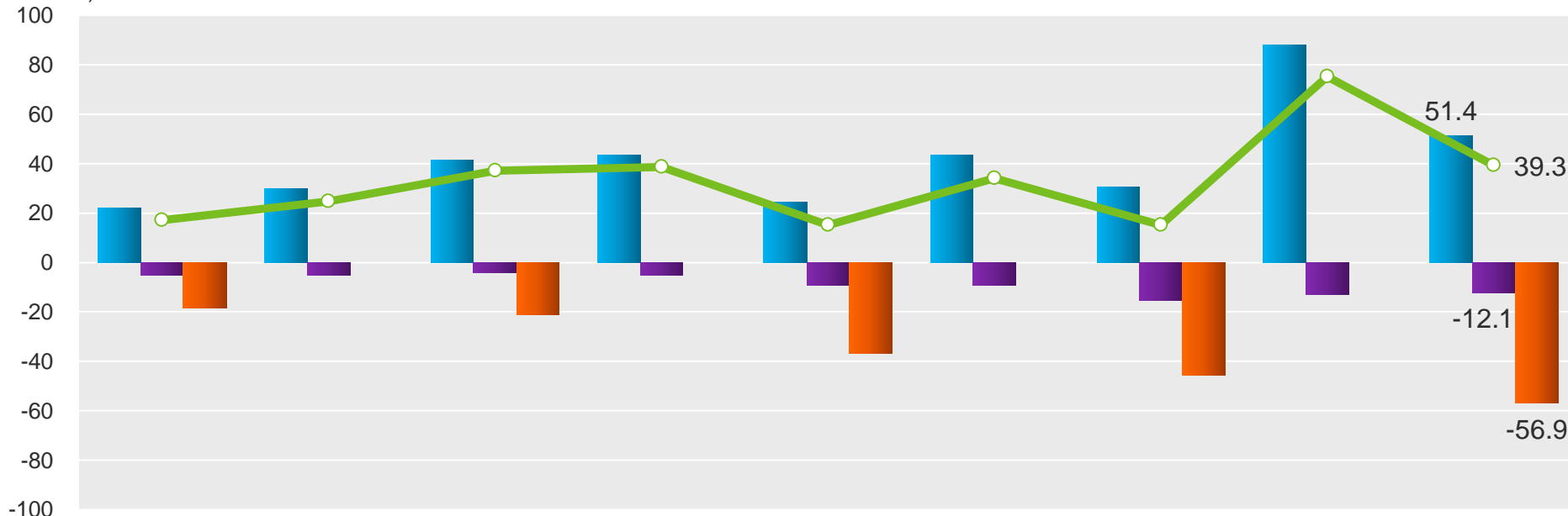
# Inventory Turnover and Accounts Receivable Turnover



Turnover days = inventory or accounts receivable at the end of each quarter / last 12 months sales x 365

# Cash Flow

(Billion Yen)



	Q1 FY'17	Q2	Q3	Q4	Q1 FY'18	Q2	Q3	Q4	Q1 FY'19
Cash flow from operating activities	22.1	29.8	41.3	43.6	24.4	43.4	30.4	88.1	51.4
Cash flow from investing activities*	-4.9	-4.9	-4.1	-4.9	-9.3	-9.4	-15.2	-12.8	-12.1
Cash flow from financing activities	-18.3	0.0	-21.0	-0.0	-36.8	-0.0	-45.7	-0.0	-56.9
Free cash flow**	17.2	24.8	37.1	38.7	15.1	34.0	15.1	75.3	39.3
Cash on hand***	230.9	255.6	277.2	315.3	294.6	329.9	301.2	373.8	355.5

\* Cash flow from investing activities excludes changes in deposits with periods to maturity of over 3 months.

\*\* Free cash flow = cash flow from operating activities + cash flow from investing activities excluding changes in deposits with periods to maturity of over 3 months.

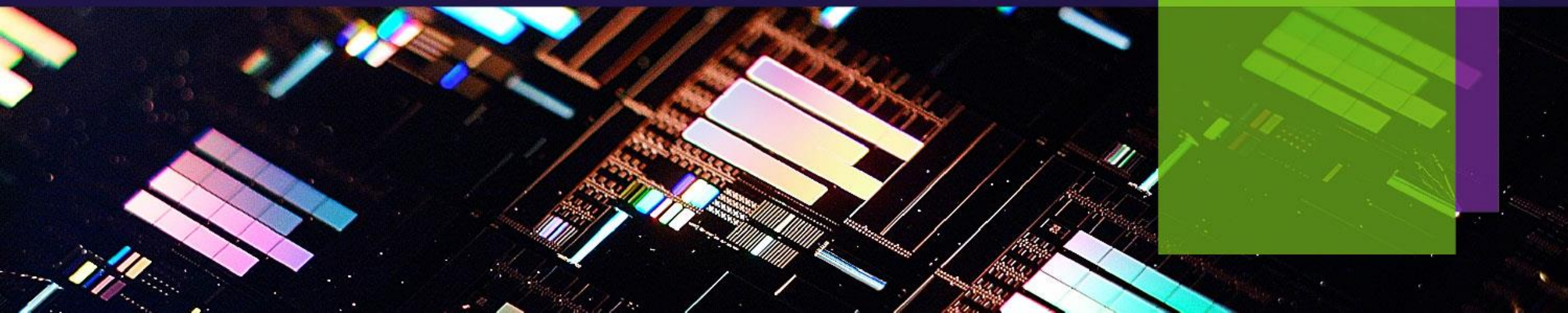
\*\*\* Cash on hand includes the total of cash + deposits with periods to maturity of over 3 months.



# Business Environment and Financial Estimates

July 26, 2018

Toshiki Kawai  
Representative Director, President & CEO



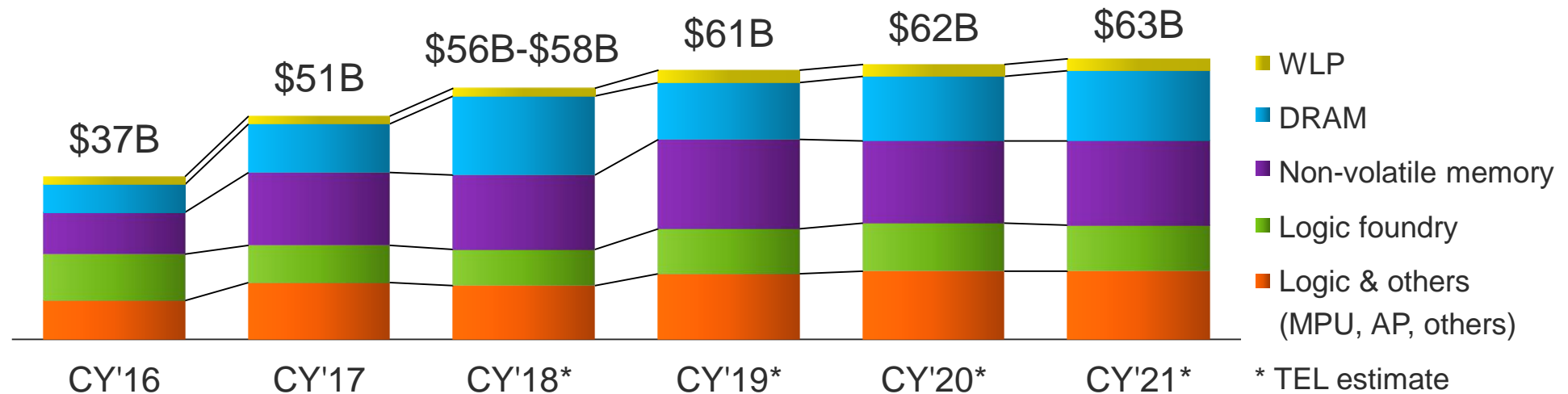
# Wafer Fab Equipment (WFE) Market Outlook

## Future growth drivers

PC, internet, mobile  
+  
VR/AR/MR\*, IoT, AI, RPA\*\*,  
machine learning, big data,  
autonomous driving, blockchain

WFE market growth accelerating.  
Investment expanding to  
**\$60B+**

\* VR/AR/MR: Virtual reality/Augmented reality/Mixed reality \*\* RPA: Robotic process automation



Equipment market is moving to the next phase amid  
expanding applications for semiconductors

## Business Environment (Outlook as of July 2018)

### ▶ WFE\* capex

CY2018 investment driven by buoyant demand for memory, expect YoY growth of approx. 10-15%

### ▶ FPD production equipment capex for TFT array process\*\*

We expect CY2018 demand for investment in production equipment to continue at a high level comparable with CY2017 despite adjustment in investment in small/medium panels for mobile, and significantly expanded investment in G10.5

**Accelerating growth in the equipment market on active investment in IoT and next generation technologies**

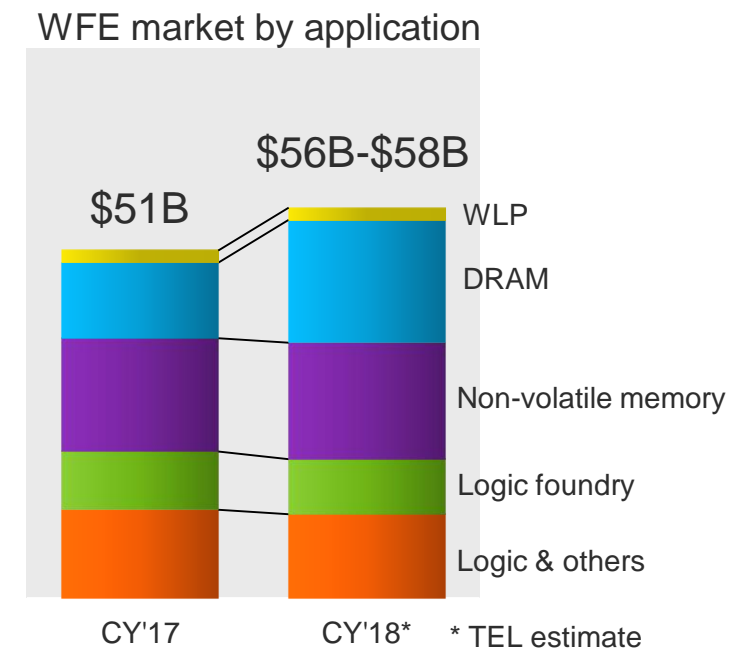
\* WFE (Wafer fab equipment): The semiconductor production process is divided into front-end production, in which circuits are formed on wafers and inspected, and back-end production, in which wafers are cut into chips, assembled and inspected again. Wafer fab equipment refers to the production equipment used in front-end production and in wafer-level packaging production.

\*\* TFT array process: The processes of manufacturing the substrates with the electric circuit functions that drive displays



# CY'18 WFE Market Growth and Business Opportunities by Application

- **DRAM: Market growth of 60-65% YoY forecast**
  - Capex: 70% of investment amount to be for new factories, and 1X/1Ynm generation to comprise 80%
  - Driving force: Average server capacity up 35%
  - Opportunities: Differentiation through combined patterning and our strength in interconnects
- **Non-volatile memory: Unchanged to 5% increase YoY**
  - Capex: 9X generations to comprise 50%
  - Driving force: Growth in SSD demand for data centers and PCs
  - Opportunities: Differentiation through high value-added etch and clean
- **Logic/Foundry: 10% decrease to unchanged YoY**
  - Capex: 10nm and beyond generation to comprise 50%
  - Driving force: Demand for higher performance, lower power consumption
  - Opportunities: Business expansion in more complex patterning processes



# FY2019 Business Progress

- SPE business strategy progress continues as planned
  - Advancing capture of POR\* in key fields (etch, deposition, cleaning systems)
  - FS business doing well too due to expansion of IoT applications and increase in installed equipment base
- Raising profitability of FPD production equipment as planned
  - Expansion of PICP™ etch system for G8.5
  - Sales for G10.5 increasing
- Miyagi Plant (etch system) expansion
  - Began operation of automatic warehouse system at new logistics building (June)
  - Plan to complete new development building in September
  - Plan to begin operation of new production line in November



Tokyo Electron Miyagi

# FY2019 Financial Estimates

# FY2019 Financial Estimates (no change from Apr. 25, 2018 announcement)

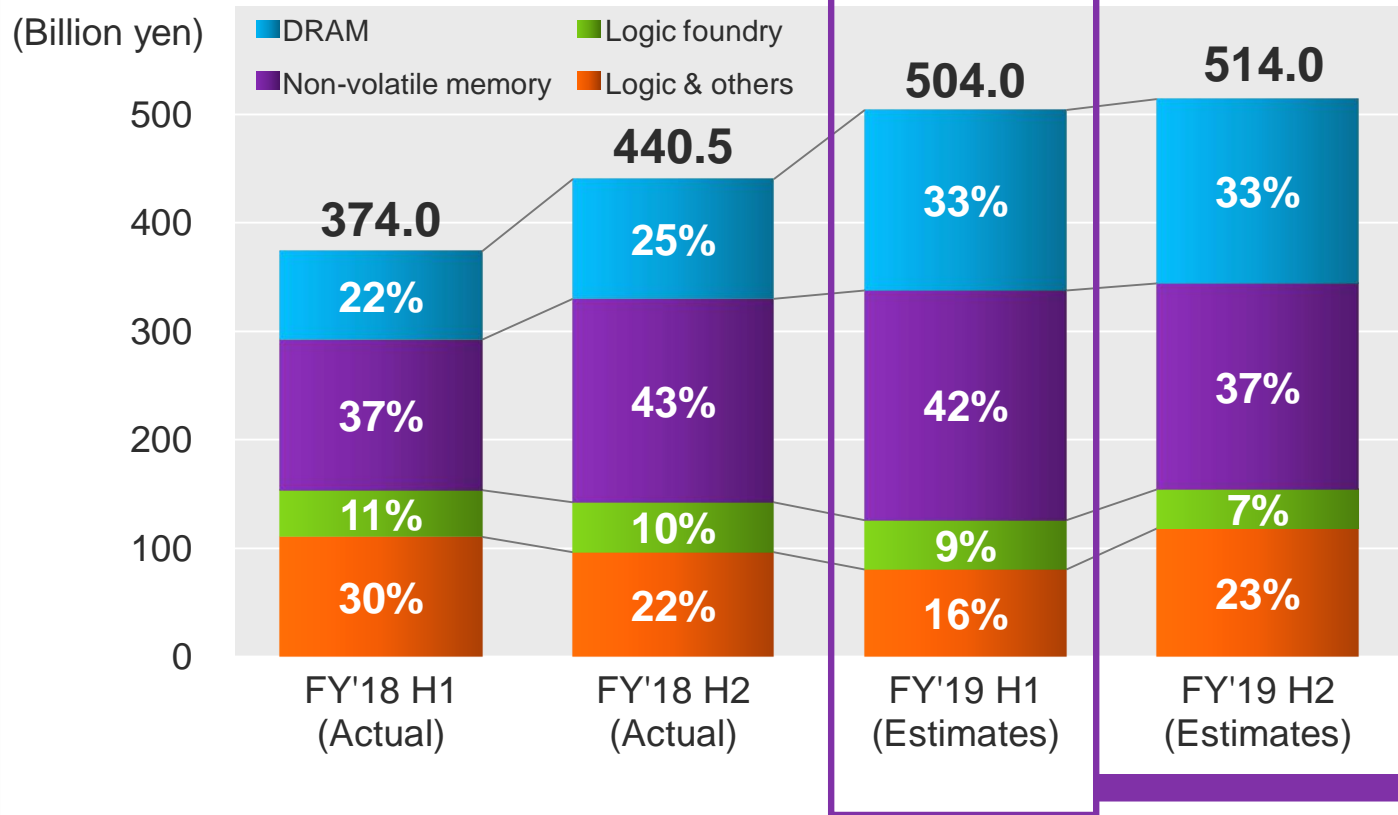
(Billion yen)

	FY2018 (Actual)	FY2019 (Estimates)			
		H1	H2	Full year	Full year YoY change
Net sales	1,130.7	690.0	710.0	1,400.0	+23.8%
SPE	1,055.2	634.0	654.0	1,288.0	+22.1%
FPD	75.0	56.0	56.0	112.0	+49.2%
Gross profit	475.0	288.0	310.0	598.0	+122.9
Gross profit margin	42.0%	41.7%	43.7%	42.7%	+0.7pts
SG&A expenses	193.8	115.0	117.0	232.0	+38.1
Operating income	281.1	173.0	193.0	366.0	+84.8
Operating margin	24.9%	25.1%	27.2%	26.1%	+1.2pts
Income before income taxes	275.2	173.0	193.0	366.0	+90.7
Net income attributable to owners of parent	204.3	128.0	142.0	270.0	+65.6
Net income per share (Yen)	1,245.48	779.95	-	1,645.20	+399.72

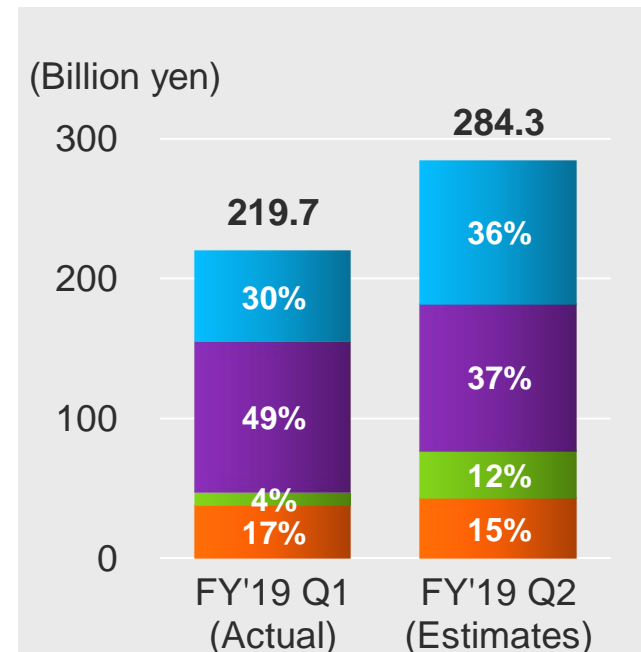
Expect sales growth to exceed market growth,  
generating record high profit\* for third consecutive year

# FY2019 SPE Division New Equipment Sales Forecast

Sales by application



Percentages on the graph show the composition ratio of new equipment sales. Field solutions sales are not included.



Q1 sales were in-line with plan, and more than 60% of Q2 sales target has been shipped. High level of memory investment to continue

# FY2019 R&D Expenses, Capex Plan (no change from Apr. 25, 2018 announcement)

- R&D Expenses ¥120.0B
  - Continue investing based on focus areas and sustainable growth
- Capex ¥51.0B
  - Actively invest in advanced technologies R&D and to meet increasing production
- Depreciation ¥26.0B

New production buildings

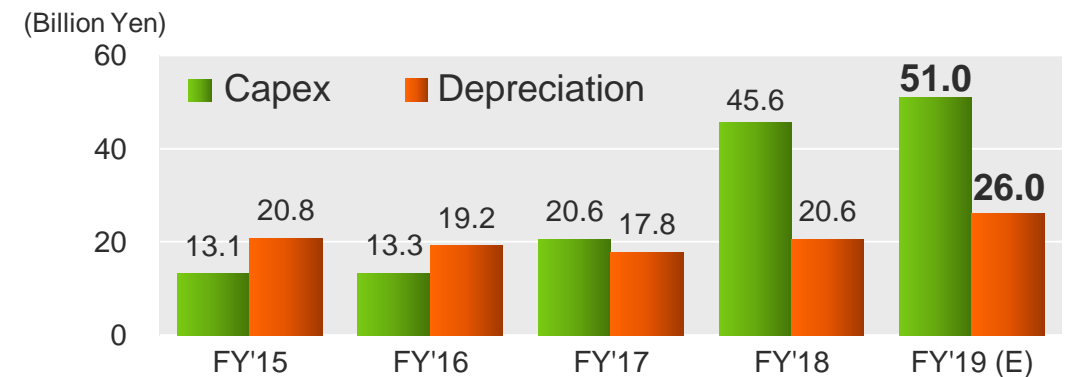
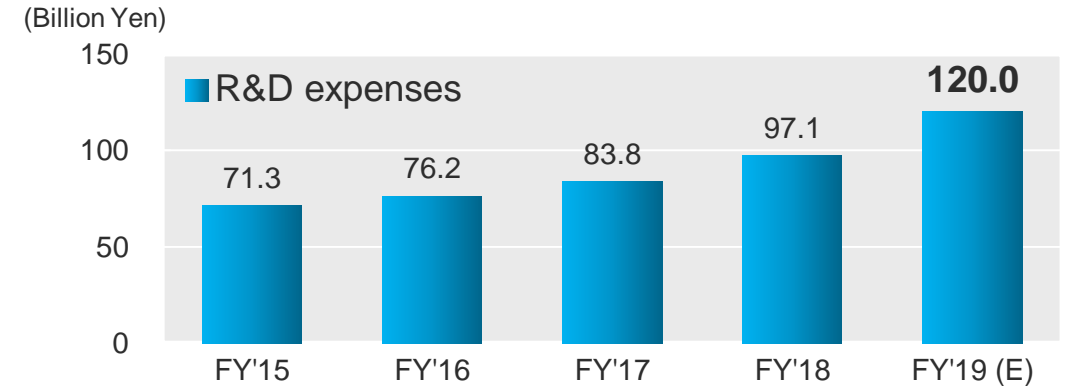
(deposition systems, gas chemical etch systems, test systems)



Nirasaki City, Yamanashi Prefecture:  
approx. ¥13.0B construction cost  
(Begin construction in January 2019,  
completion scheduled for April 2020)

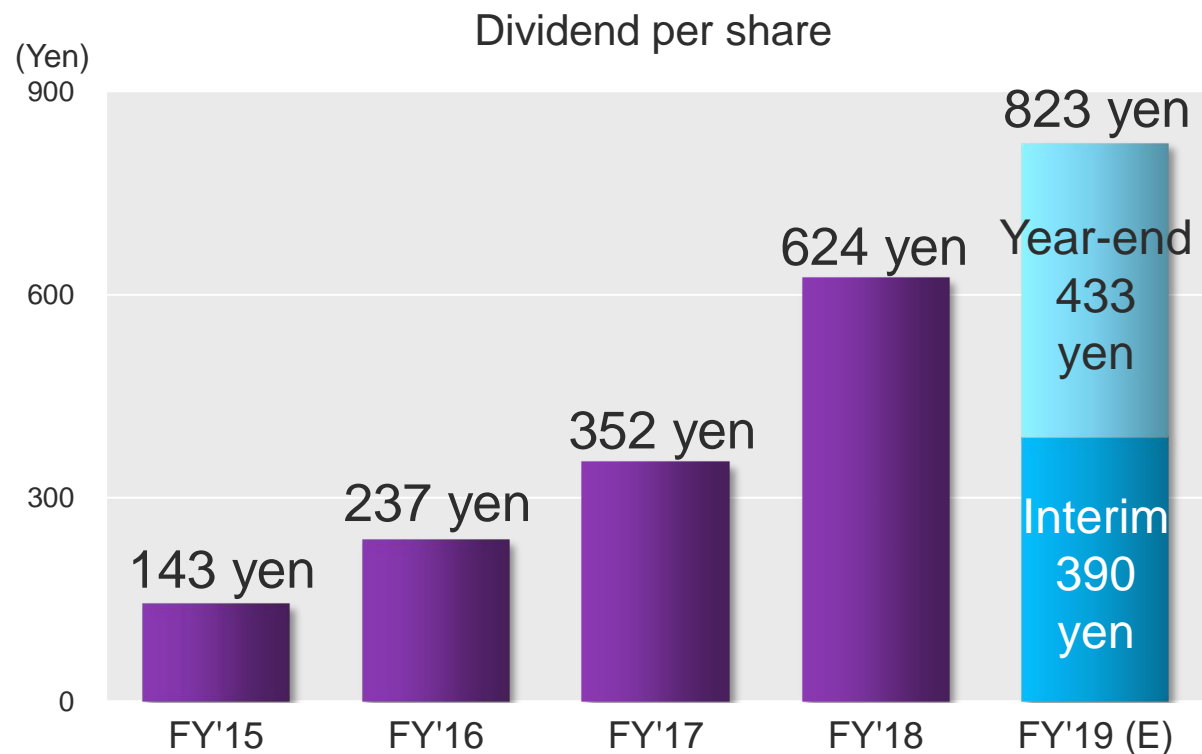


Oshu City, Iwate Prefecture:  
approx. ¥13.0B construction cost  
(Begin construction in October 2018,  
completion scheduled for September 2019)



Maximize business opportunities while equipment market is  
in a growth phase

# FY2019 Dividend Forecast (no change from Apr. 25, 2018 announcement)



## TEL shareholder return policy

**Dividend payout ratio: 50%**

**Annual DPS of not less than 150 yen**

We will review our dividend policy if the company does not generate net income for two consecutive fiscal years

**We will flexibly consider share buybacks**

Expect to raise DPS 32% YoY

**TEL**™

**TOKYO ELECTRON**