

# 1Q FY2015 (April 1, 2014 – June 30, 2014)

## Financial Announcement

Agenda:

- 1Q FY2015 Consolidated Financial Summary  
Yoshiteru Harada, Corporate Director, Executive Officer
- FY2015 Market Environment and Revision of 1<sup>st</sup> Half Financial Estimates  
Tetsuro Higashi, Chairman, President & CEO

July 29, 2014

# 1Q FY2015 Consolidated Financial Summary

---

1Q FY2015: April 1, 2014 - June 30, 2014  
FY2015: April 1, 2014 - March 31, 2015

Yoshiteru Harada  
Corporate Director, Executive Officer

July 29, 2014

# Financial Summary

(Billion Yen)

	FY2014				FY2015	YoY change
	1Q	2Q	3Q	4Q	1Q	
Net sales	<b>103.4</b>	<b>151.0</b>	<b>138.4</b>	<b>219.2</b>	<b>151.3</b>	+46%
Gross profit	<b>29.9</b>	<b>50.1</b>	<b>50.3</b>	<b>71.5</b>	<b>55.3</b>	+85%
<i>Gross profit margin</i>	<b>28.9%</b>	<b>33.2%</b>	<b>36.4%</b>	<b>32.6%</b>	<b>36.6%</b>	
SG&A expenses	39.5	42.3	41.2	46.5	38.3	-3%
Operating income	<b>-9.6</b>	<b>7.8</b>	<b>9.0</b>	<b>24.9</b>	<b>17.0</b>	—
<i>Operating margin</i>	<b>-9.3%</b>	<b>5.2%</b>	<b>6.6%</b>	<b>11.4%</b>	<b>11.3%</b>	
Income before income taxes	<b>-9.8</b>	<b>9.5</b>	<b>-37.2</b>	<b>25.7</b>	<b>15.0</b>	—
Net income	<b>-2.9</b>	<b>5.4</b>	<b>-38.0</b>	<b>16.2</b>	<b>11.8</b>	—
R&D expenses	17.9	20.4	18.9	21.2	16.7	-7%
Capital expenditures	4.7	1.9	1.4	4.5	3.7	-22%
Depreciation and amortization	6.3	6.4	5.8	6.2	4.7	-25%

Tokyo Electron Device became an equity-method affiliate, and from this period the EC/CN business was excluded from the scope of consolidation

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.

2

# Sales by Division

(Billion Yen)

	FY2014								FY2015	
	1Q		2Q		3Q		4Q		1Q	
	Sales	Compo- sition	Sales	Compo- sition	Sales	Compo- sition	Sales	Compo- sition	Sales	Compo- sition
SPE	<b>74.9</b>	72%	<b>119.8</b>	79%	<b>102.2</b>	74%	<b>181.7</b>	83%	<b>136.1</b>	90%
FPD	<b>4.9</b>	5%	<b>4.4</b>	3%	<b>8.8</b>	6%	<b>10.1</b>	4%	<b>13.9</b>	9%
PVE	<b>2.0</b>	2%	<b>1.2</b>	1%	<b>1.1</b>	1%	<b>-0.6</b>	---	<b>1.1</b>	1%
EC/CN	<b>21.4</b>	21%	<b>25.3</b>	17%	<b>26.0</b>	19%	<b>27.9</b>	13%		
Others	<b>0.1</b>	0%	<b>0.1</b>	0%	<b>0.0</b>	0%	<b>0.1</b>	0%	<b>0.1</b>	0%
<b>Total</b>	<b>103.4</b>	100%	<b>151.0</b>	100%	<b>138.4</b>	100%	<b>219.2</b>	100%	<b>151.3</b>	100%

**SPE**  
(Semiconductor Production Equipment)

Solid recovery driven by memory customers, particularly for DRAM.

**FPD**  
(Flat Panel Display Production Equipment)

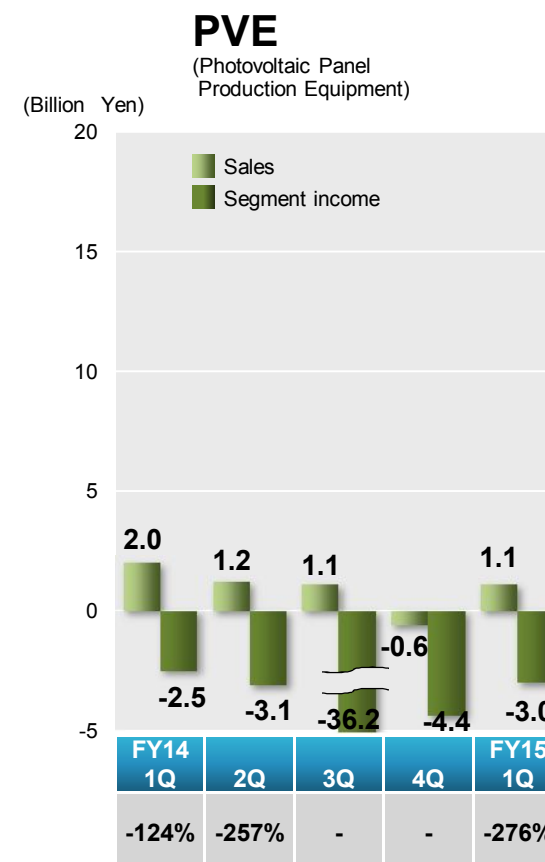
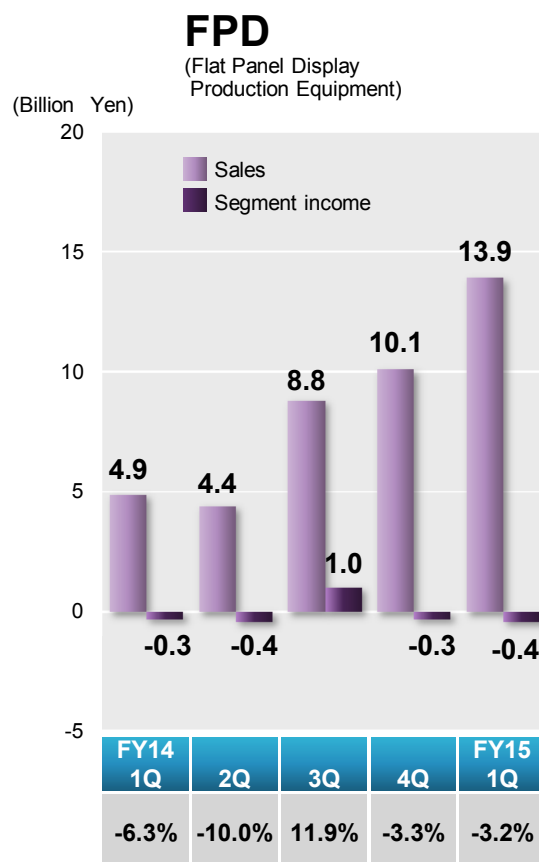
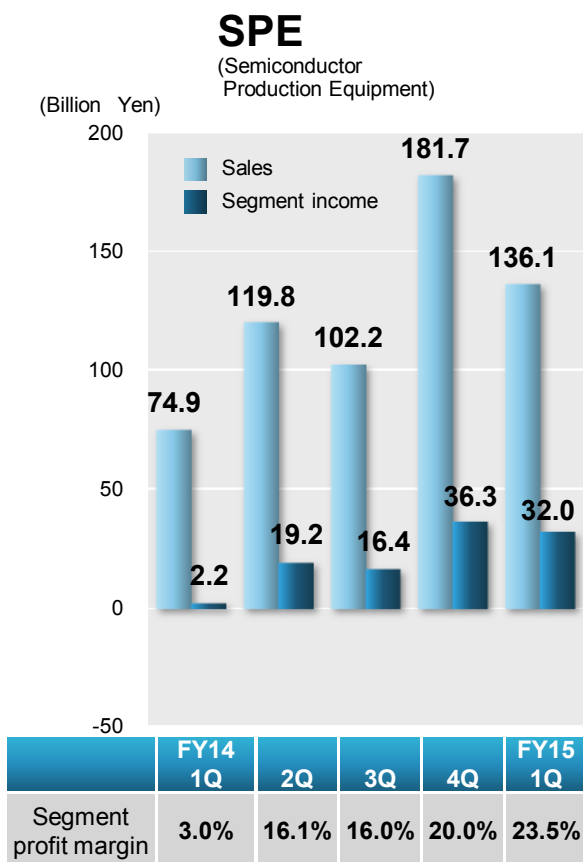
Continued steady sales to China.

**PVE**  
(Photovoltaic Panel Production Equipment)

Ceased development, production and sales as of end March 2014.  
Maintaining support for delivered equipment.

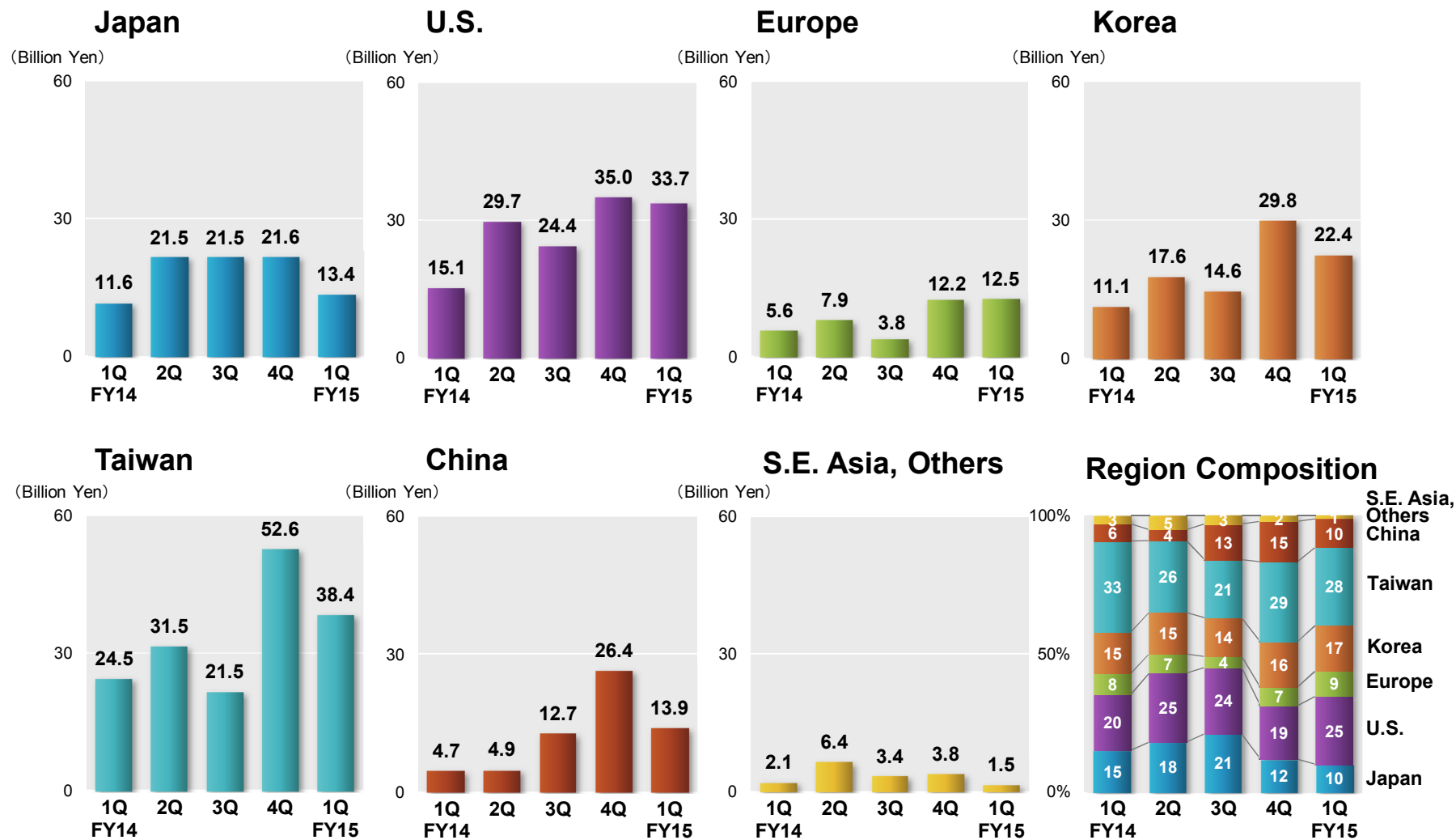
3

# Segment Information



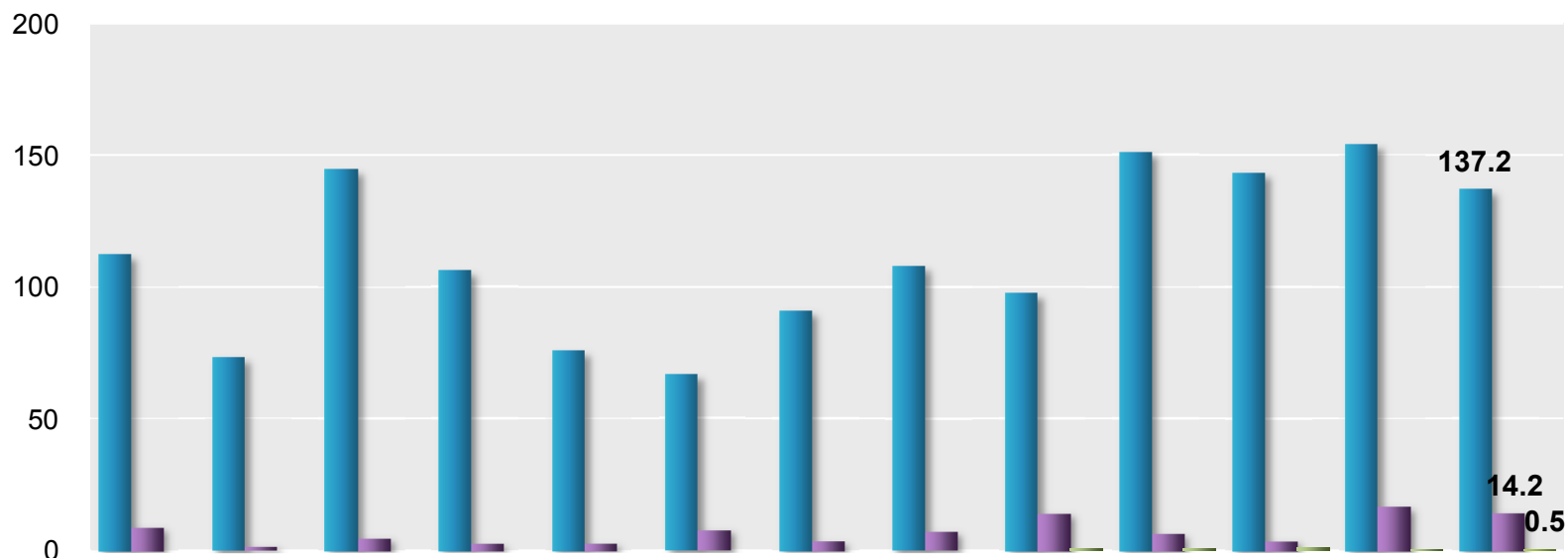
1. Formerly the FPD/PVE segment, FPD and PVE are disclosed separately from FY14/1Q.
2. Segment income is based on income before income taxes.
3. There are expenses that are not allocated to above reportable segments.
4. For the PVE segment, FY14/4Q sales were reassessed according to degree of progress on a percentage of completion basis.

# SPE Sales by Region



# Orders, Order Backlog

(Billion Yen)

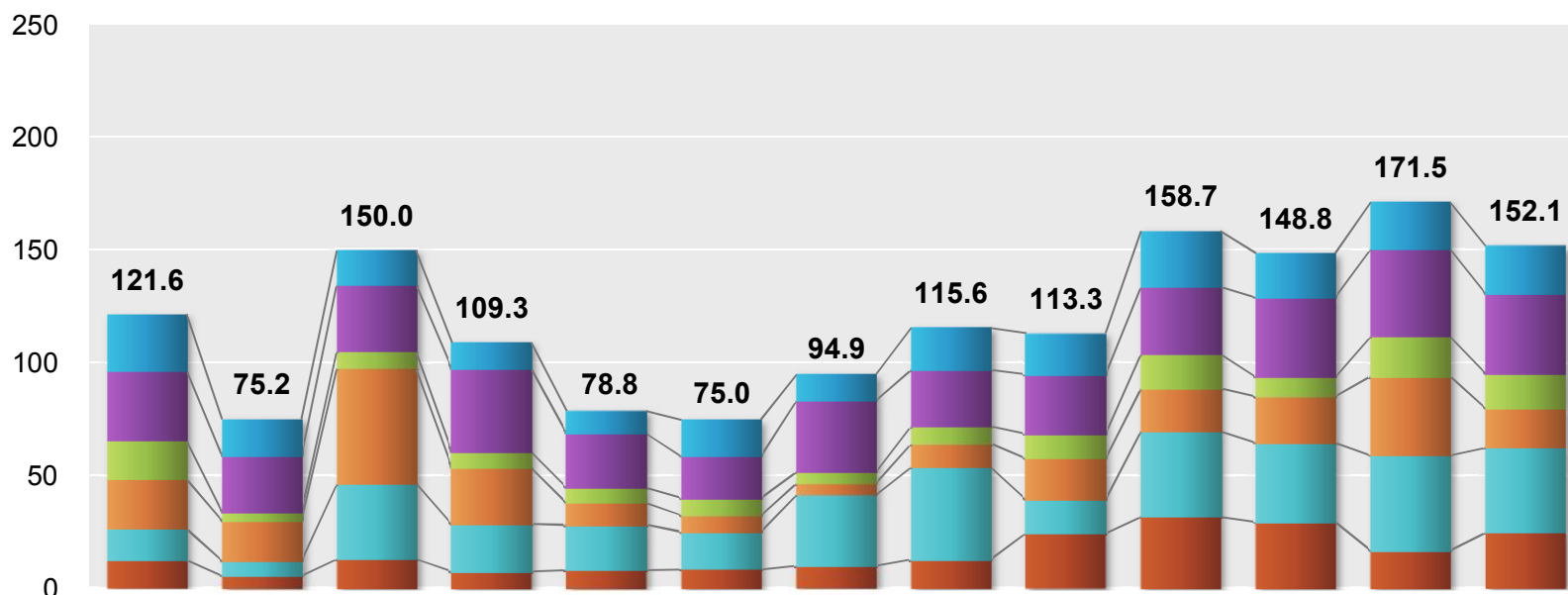


	FY12 1Q	2Q	3Q	4Q	FY13 1Q	2Q	3Q	4Q	FY14 1Q	2Q	3Q	4Q	FY15 1Q
SPE Orders	112.6	73.5	144.9	106.4	76.0	66.9	91.3	108.2	97.7	151.3	143.4	154.4	137.2
FPD Orders	8.9	1.7	5.0	2.8	2.7	8.0	3.6	7.3	14.4	6.3	3.8	16.6	14.2
PVE Orders					0.0	0.0	0.0	0.0	1.1	1.1	1.4	0.5	0.5
SPE Order backlog	220.7	166.7	220.1	188.6	157.7	118.7	142.6	141.6	164.5	196.0	237.2	209.9	211.0
FPD Order backlog	61.8	39.4	27.8	14.2	12.2	15.8	14.8	16.0	25.5	27.4	22.5	29.0	29.3
PVE Order backlog					0.0	-	8.4	8.4	7.6	7.4	7.7	8.9	8.4

PVE orders and order backlog for and before FY12/4Q are shown together with FPD.

# Orders by Region: SPE+FPD+PVE

(Billion Yen)



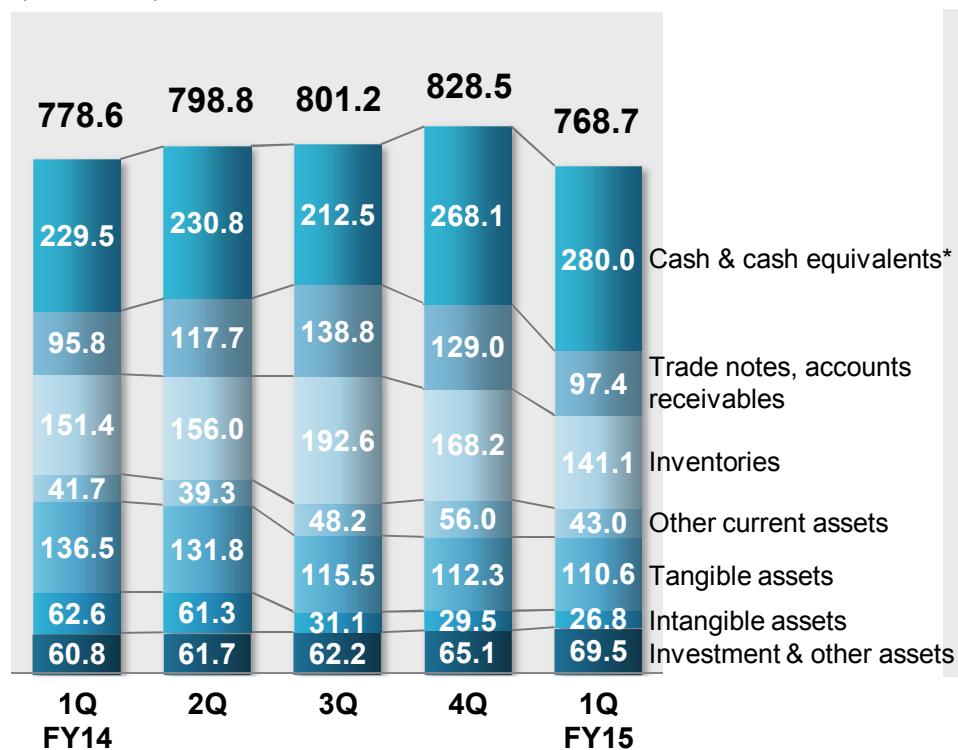
	FY12 1Q	2Q	3Q	4Q	FY13 1Q	2Q	3Q	4Q	FY14 1Q	2Q	3Q	4Q	FY15 1Q
Japan	25.0	16.3	14.9	11.7	10.0	16.3	11.5	18.7	18.3	24.7	19.6	20.9	21.2
U.S.	31.1	24.8	29.7	36.8	24.0	18.4	31.7	24.9	26.4	29.8	35.3	38.9	35.2
Europe	17.2	3.9	7.6	7.0	6.8	7.7	5.0	7.7	10.9	15.3	8.5	17.5	15.5
Korea	21.9	17.9	51.1	25.1	9.7	7.3	5.2	10.5	18.2	19.1	20.6	35.0	17.6
Taiwan	13.7	6.6	33.5	21.0	20.0	16.7	31.3	41.0	14.9	37.8	35.2	42.3	37.7
China, S.E. Asia, Others	12.5	5.4	12.9	7.4	8.1	8.3	10.0	12.7	24.4	31.7	29.3	16.7	24.6



# Balance Sheet

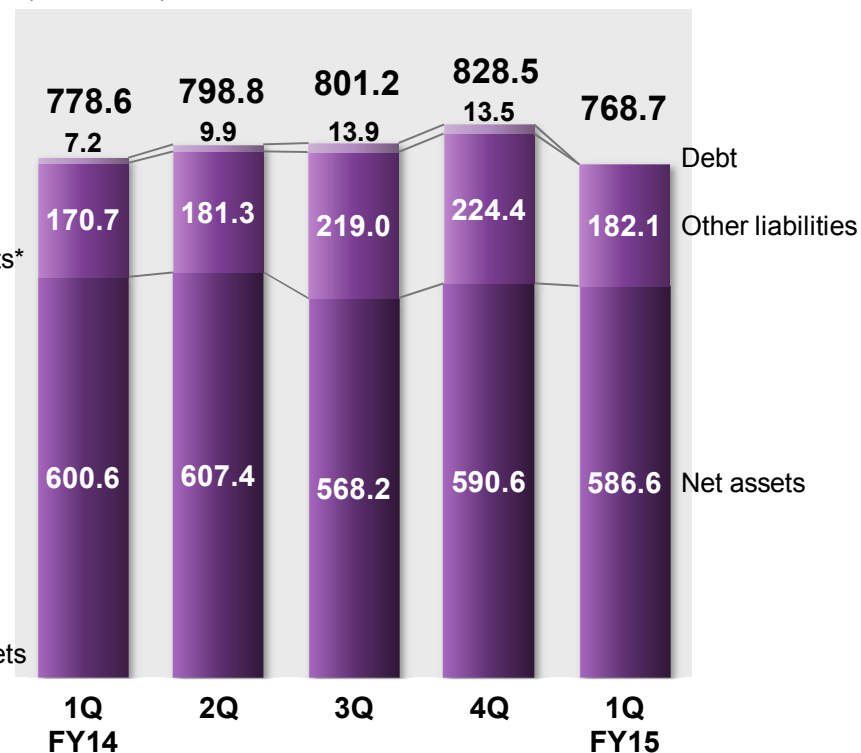
## Assets

(Billion Yen)



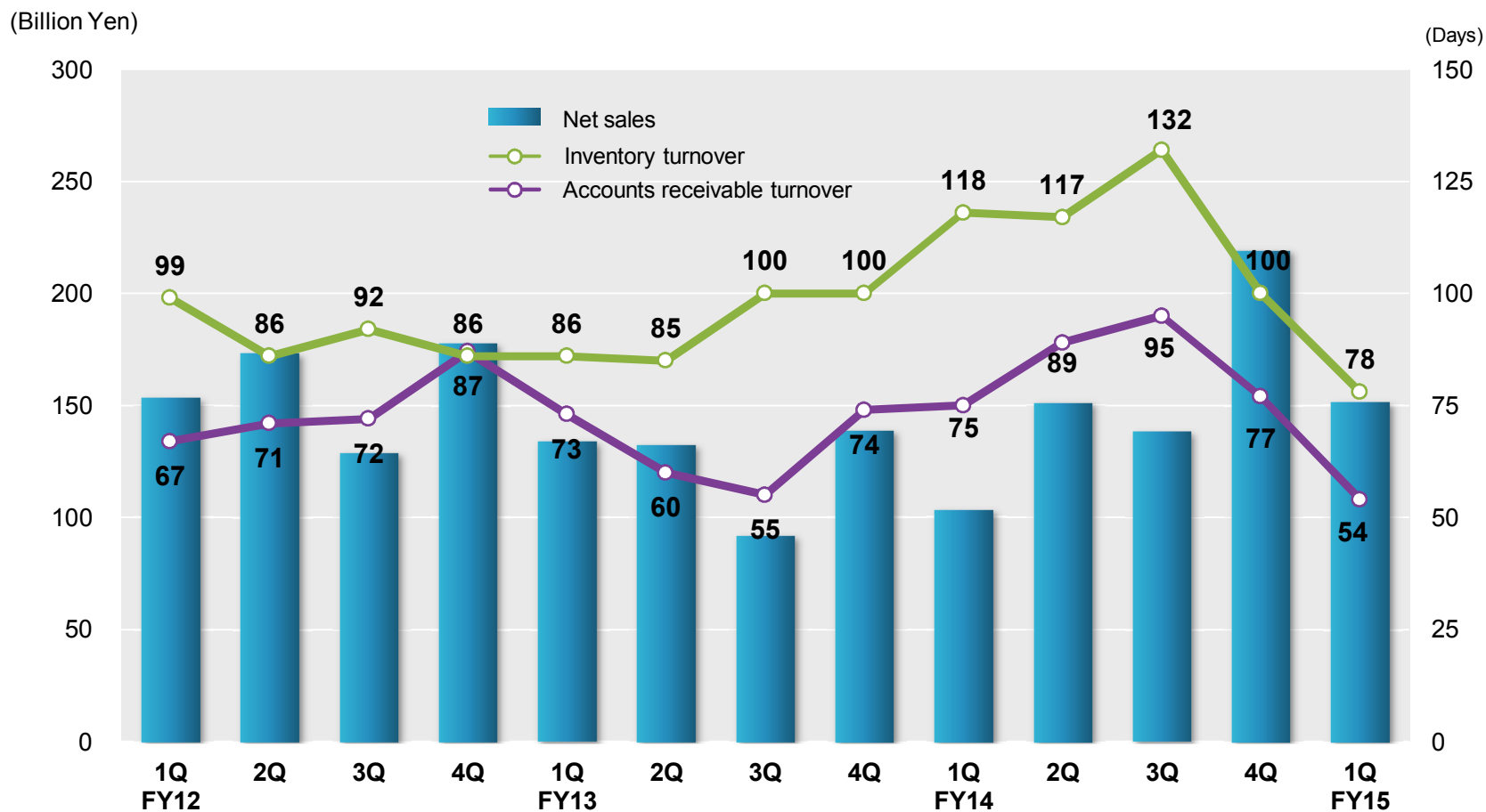
## Liabilities & Net Assets

(Billion Yen)



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

# Inventory Turnover and AR Turnover



Turnover days = Inventory or AR at the end of each quarter / last 12 months sales x 365

# Cash Flow

	FY2014 1Q	FY2015 1Q	(Billion Yen)
<b>Cash flow from operating activities</b>	<b>-1.3</b>	<b>16.4</b>	
Income before income taxes	-9.8	15.0	
Depreciation and amortization	6.3	4.7	
Increase/decrease in accounts receivable	5.1	8.2	
Increase/decrease in inventories	-15.7	4.9	
Increase/decrease in accounts payable	0.7	-4.0	
Income taxes paid	-1.7	-12.5	
Others	13.8	0.1	
<b>Cash flow from investing activities</b>	<b>13.2</b>	<b>21.0</b>	
Capital expenditures	-3.2	-3.0	
Term deposits over 3 months	17.6	22.3	
Others	-1.2	1.8	
<b>Cash flow from financing activities</b>	<b>-1.4</b>	<b>-4.6</b>	
Dividends paid	-4.6	-4.4	
Others	3.2	-0.1	
<b>Cash and cash equivalents at end of term</b>	<b>92.3</b>	<b>138.9</b>	
<b>Term deposits over 3 months at end of term (short-term investments, etc. included)</b>	<b>137.1</b>	<b>141.0</b>	
<b>Cash and deposits at end of term (short-term investments, etc. included)</b>	<b>229.5</b>	<b>280.0</b>	



# FY2015 Market Environment and Revision of 1<sup>st</sup> Half Financial Estimates

---

Tetsuro Higashi  
Chairman, President & CEO

July 29, 2014

---

# FY2015 Market Environment and Business Strategy

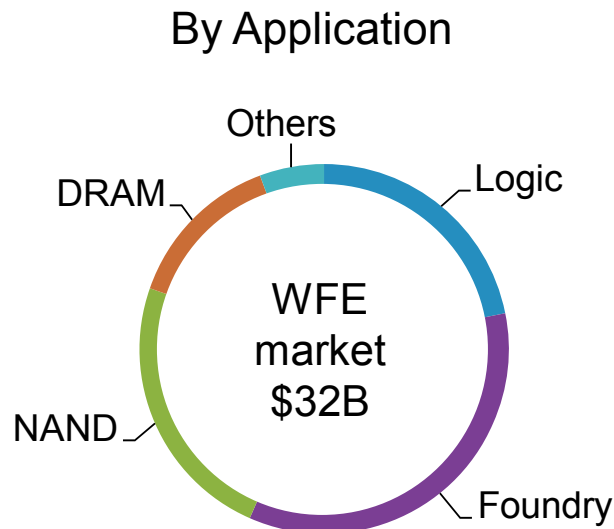
# SPE Market Environment

## ▶ WFE in 2014: Expected to be +15% YoY (\$32B)

Mobile device volume expected to be +20% YoY

Capex expansion expected, particularly for memory

- DRAM/NAND: Mobile devices continue to drive demand, capex expanding
- Foundry: Capex for mobile devices to rise YoY
- Logic: PC market is firm, capex expected to be flattish YoY



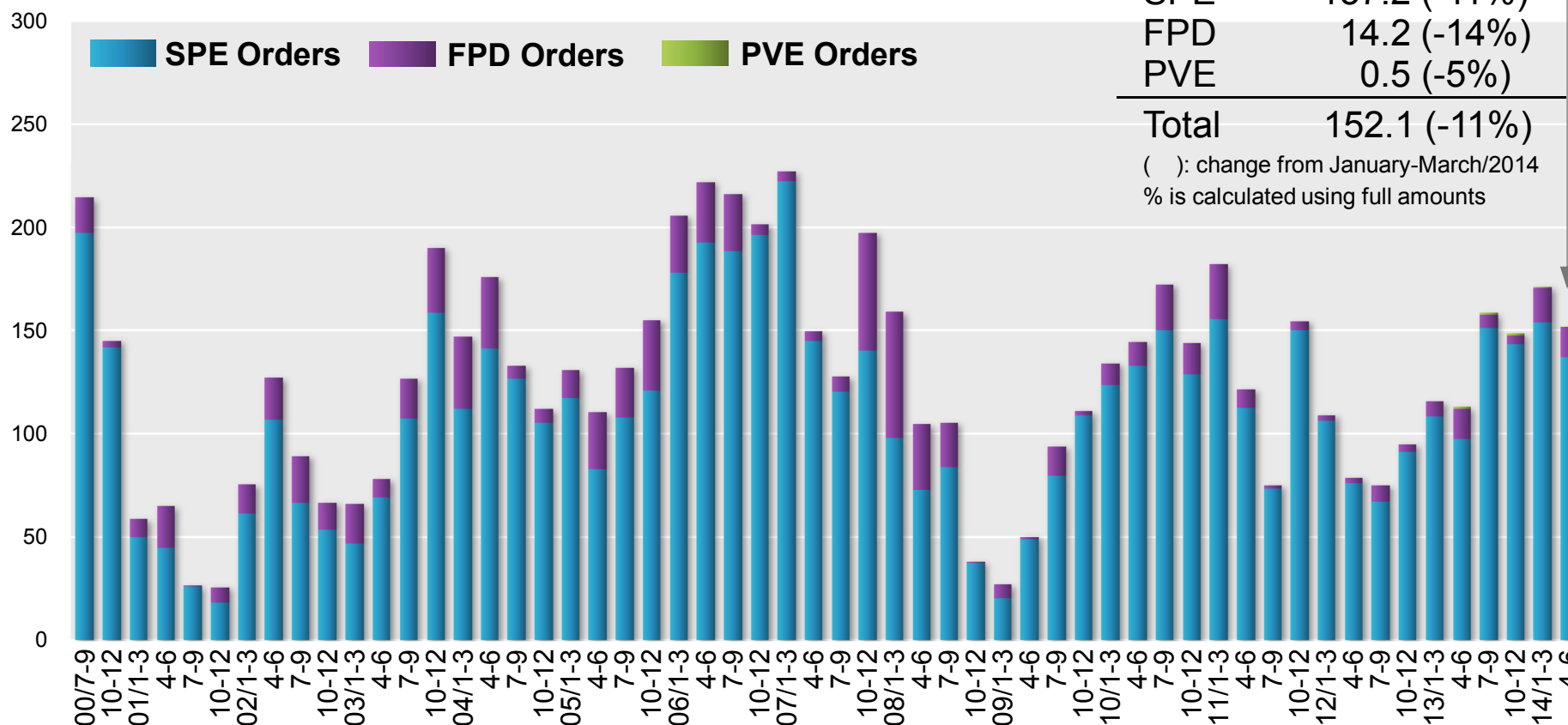
Memory 40% and Logic/Foundry 60%

(Outlook as of July 2014)

14

# Quarterly Orders

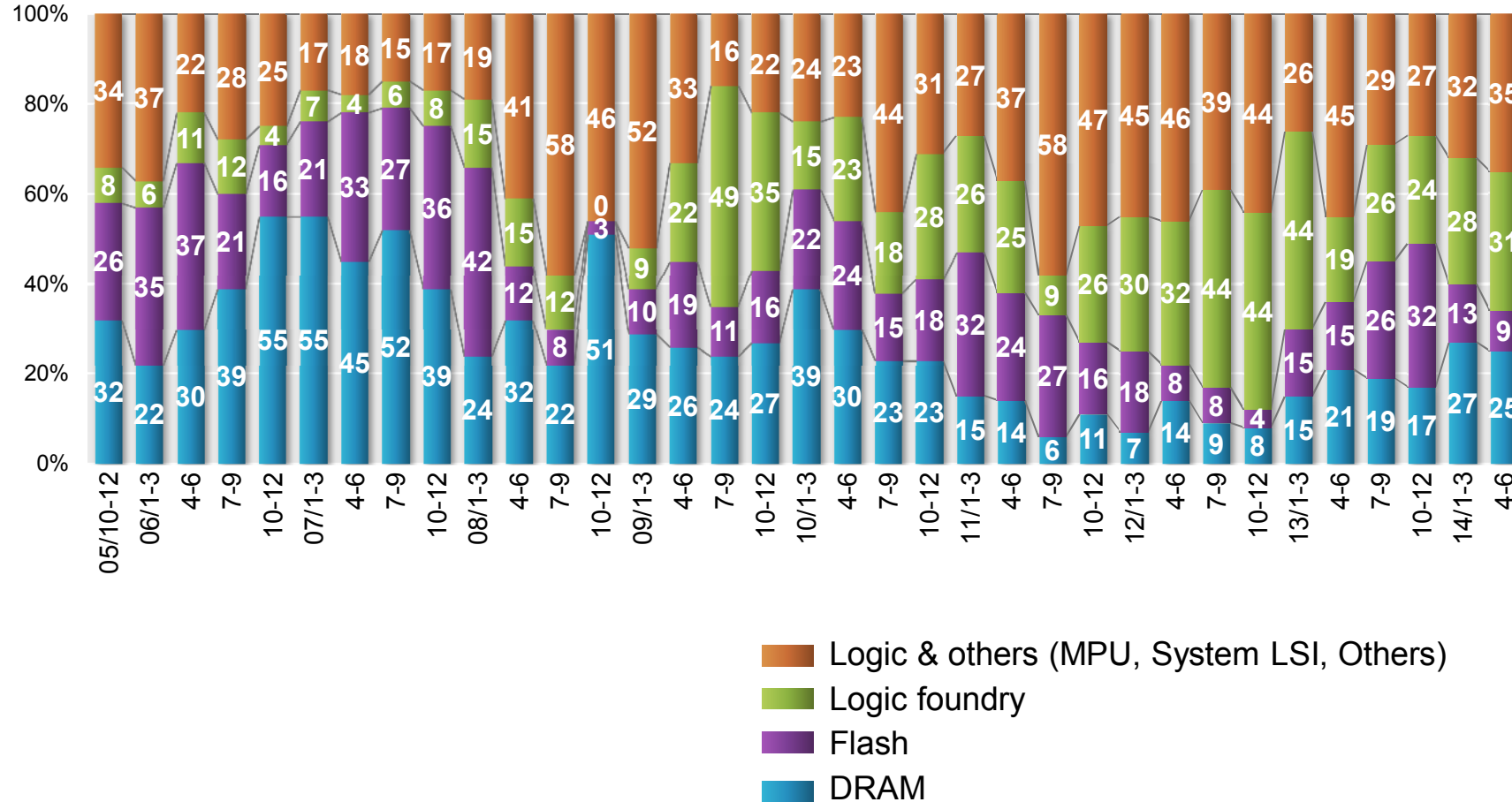
(Billion Yen)



PVE orders for or before 2012/1-3 are included in FPD orders.



# SPE Orders by Application: Equipment only



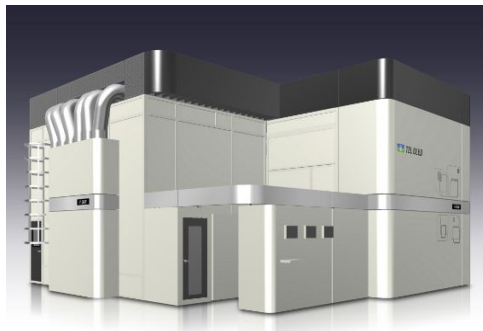
# FPD Market Environment and Business Strategy

## ▶ FPD capex

- CY2014 demand for LCD panel production equipment to remain firm, mainly driven by capex for large panels in China. CY2015 demand for small and medium panels to increase, continued active investment expected. The OLED TV market will become established from 2016.

## ▶ Business strategy

- Customer penetration with latest model ICP etch system. Pursue earnings growth through differentiated products that meet new technological needs, such as IGZO and OLED
- Introduced inkjet printing system for manufacturing OLED panels

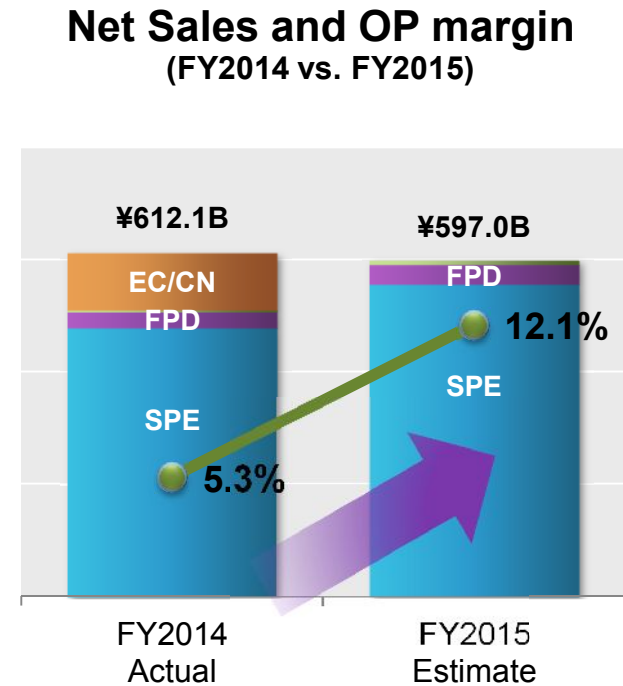
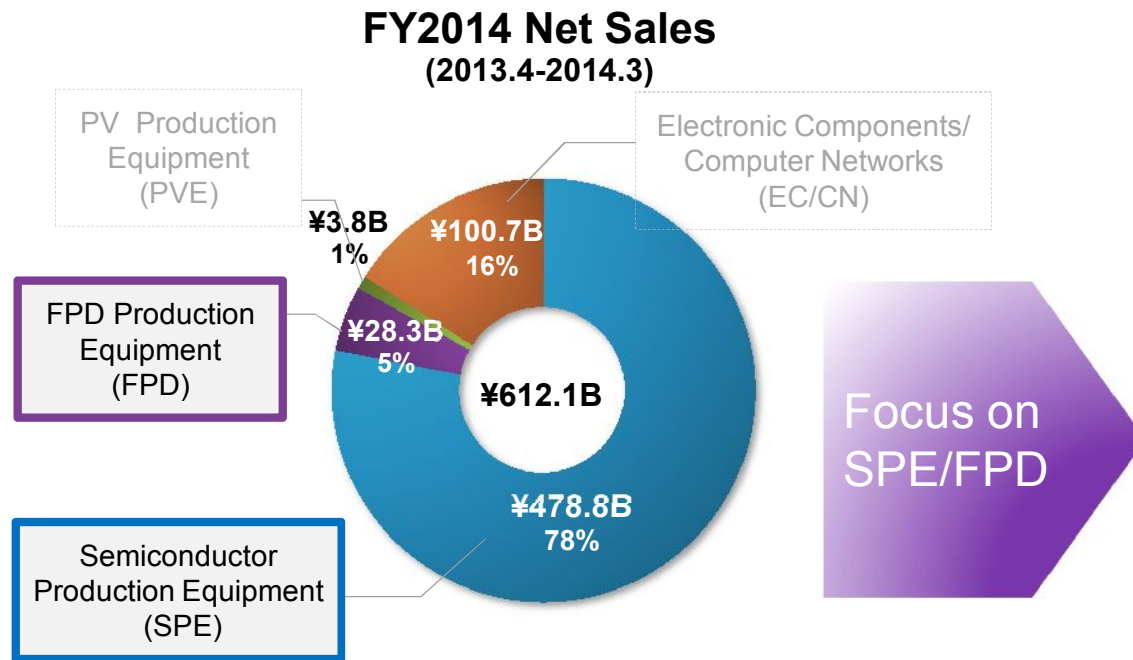


Inkjet printing system for manufacturing OLED panels  
*Elius™ 2500*

- Highly efficient usage of materials
- Atmosphere environment process

# Focus on Core Business and Profit Improvement

- ▶ Focus resources in core business, SPE and FPD
- ▶ Restructured R&D facilities
- ▶ Improve OP% from 5.3% to 12.1%



---

# Revision of FY2015 1<sup>st</sup> Half Financial Estimates

# Revision of FY2015 1<sup>st</sup> Half Financial Estimates

- ▶ Upward revision to 1<sup>st</sup> half financial estimates due to strong memory investment

(Billion Yen)

	FY2014	FY2015				
		1 <sup>st</sup> Half (Estimate)		2 <sup>nd</sup> Half	Full year	YoY Change
		New Estimates	Adjustments*	(Reference)	(Reference)	
Net Sales	612.1	290.0	+12.0	307.0	597.0	-2%
SPE	478.8	270.0	+10.0	285.0	555.0	+16%
FPD	28.3	18.0	+2.0	16.0	34.0	+20%
PVE	3.8	2.0	-	6.0	8.0	-
EC/CN**	100.7					
Others	0.4	0.0	-	-	-	-
Operating income	32.2	24.5	+6.5	48.0	72.5	+40.3
Lower line; OP margin	5.3%	8.4%	+1.9pts	15.6%	12.1%	+6.8pts
Income before income taxes	-11.7	22.0	+6.5	-	-	-
Net income	-19.4	15.5	+4.5	-	-	-

As the merger with Applied Materials is expected in the 2<sup>nd</sup> half of 2014, only 1<sup>st</sup> half financial estimates are disclosed. 2<sup>nd</sup> half and full year forecasts are not formal financial estimates and are included for reference.

\* Adjustments: changes from the figures announced on April 28, 2014.

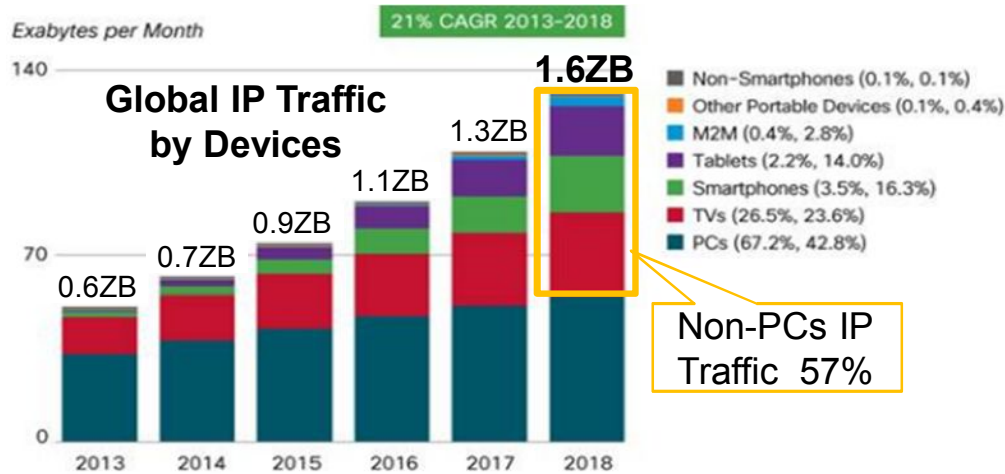
\*\* Tokyo Electron Device, which operates the EC/CN business, changed from consolidated subsidiary to equity method affiliate as of April 2014.

20

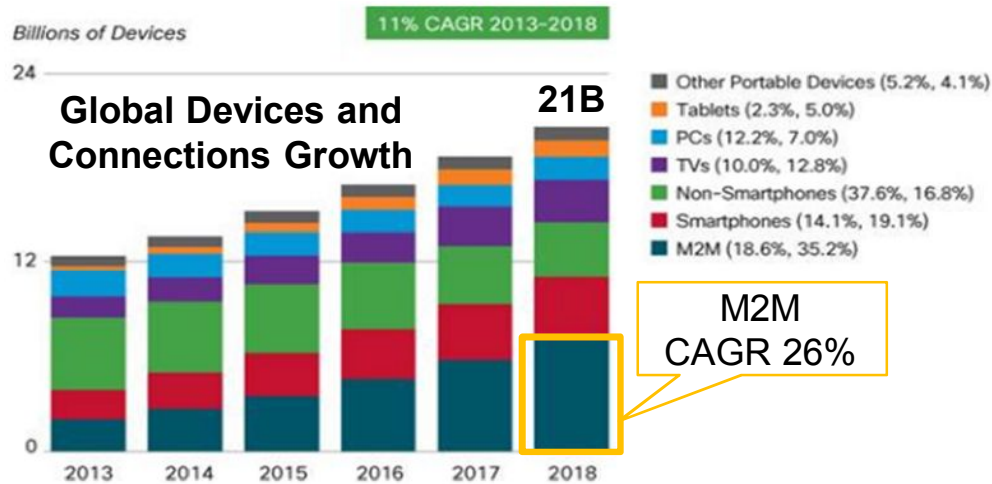
---

# Medium Term Market Outlook and Growth Strategies

# Explosive Global IP Traffic



- ▶ IP traffic will pass the zettabyte threshold by end of 2016, and reach 1.6ZB by 2018. (CAGR 21%)
- ▶ Non-PC share of IP traffic will grow to 57% in 2018 from 33% in 2013.

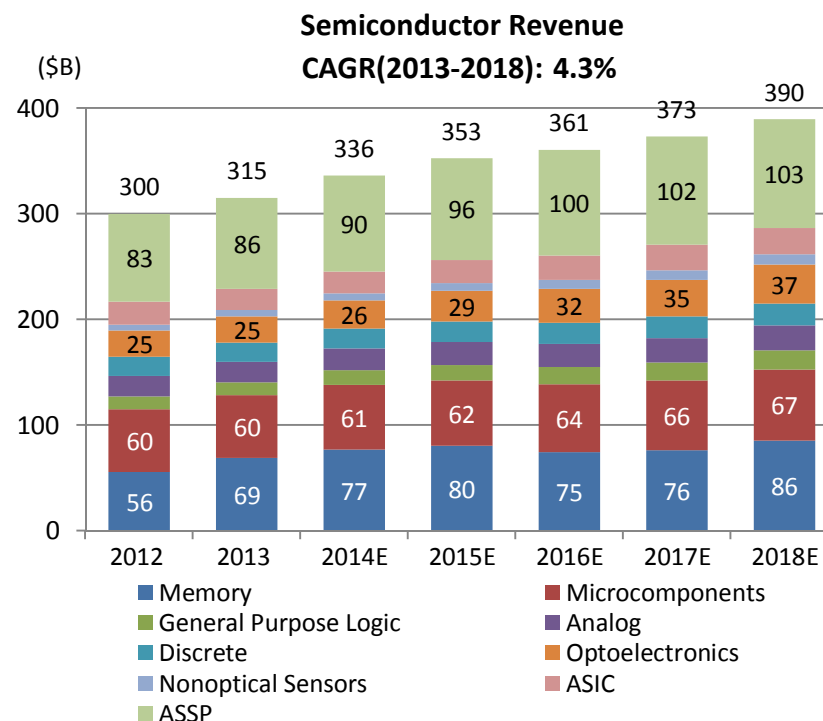
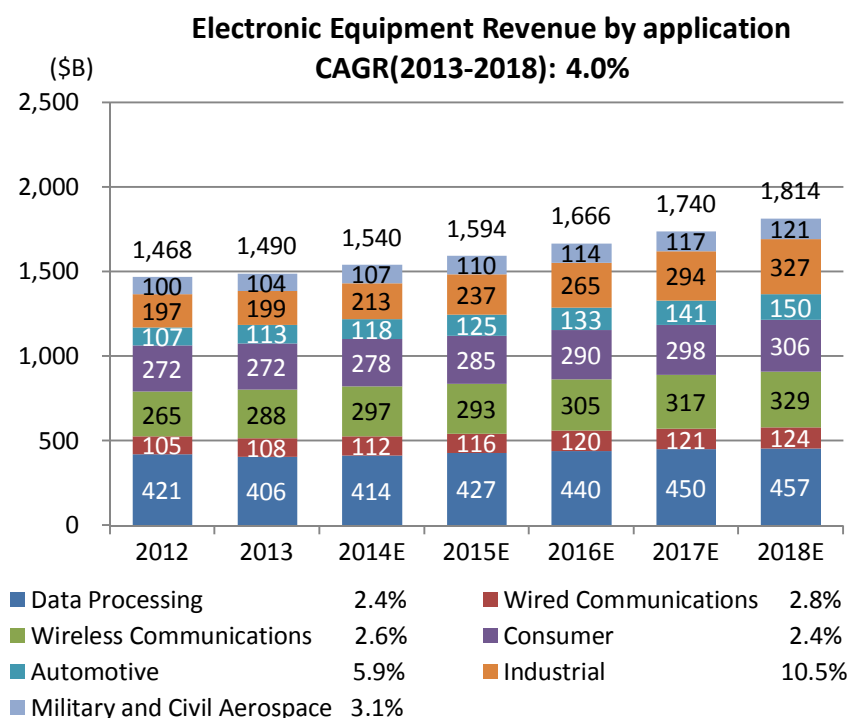


- ▶ By 2018, there will be nearly 21 billion global network connections. (CAGR 11%)
- ▶ The Internet of Everything such as smart meters, healthcare, transportation, etc. is also gaining momentum and there will be 7.3 billion M2M connections in 2018.

(Source: Cisco Visual Networking Index 2014) 22

# Electronic Equipment and Semi Market Outlook

- ▶ Electronic equipment continue to grow CAGR 4.0%
- ▶ Semiconductors are expected to grow CAGR 4.3%. Usage in PCs/server/mobile/SSD 50-55%



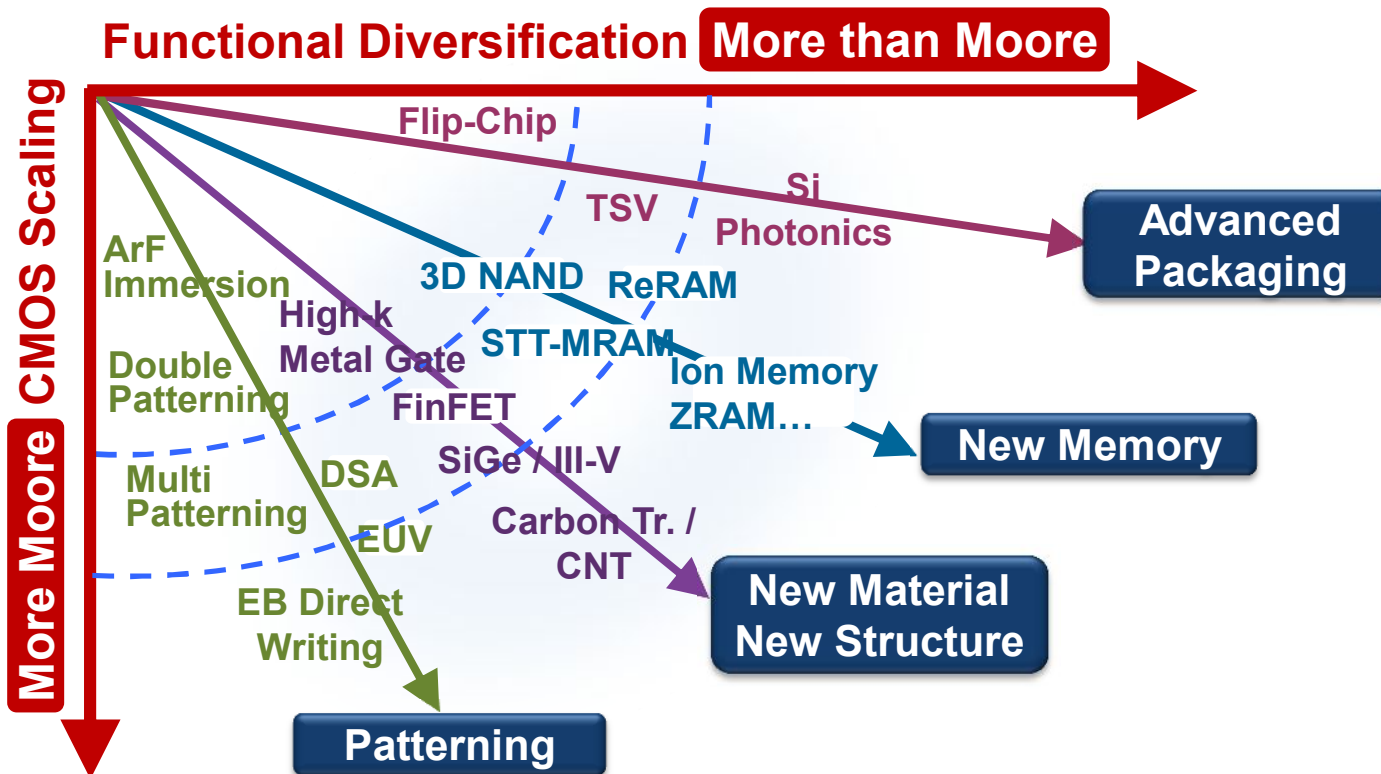
Source: Gartner, "Semiconductor Forecast Database, Worldwide, 2Q14 Update" 25 June 2014 E=Estimate

The Gartner Report described herein, (the "Gartner Report") represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this enterprise report) and the opinions expressed in the Gartner Report are subject to change without notice.



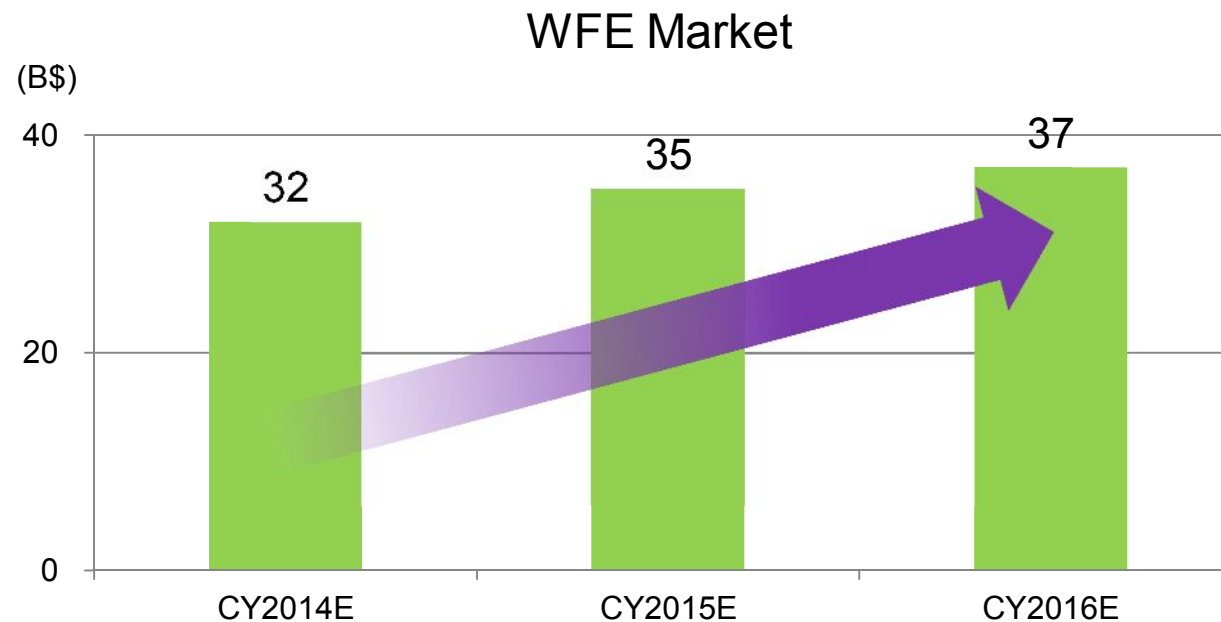
# Technology Divergence (Inflection point)

- ▶ Expanding technology requirements to enhance device performance: lower power consumption, faster operation, larger capacity, and lower cost will drive WFE capex



## CY2016 WFE Outlook (as of July 2014)

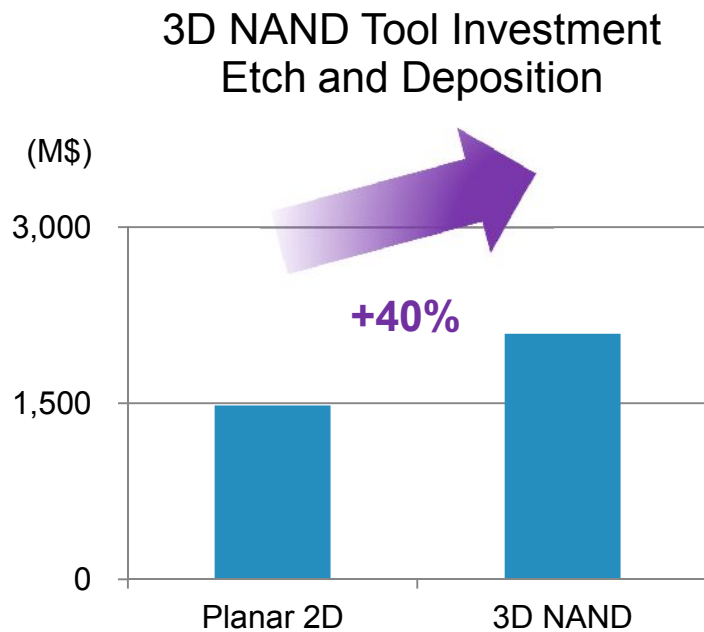
- ▶ Mobility and network expansion continue to drive semiconductor and WFE market
- ▶ Major technological inflections provide growth opportunities



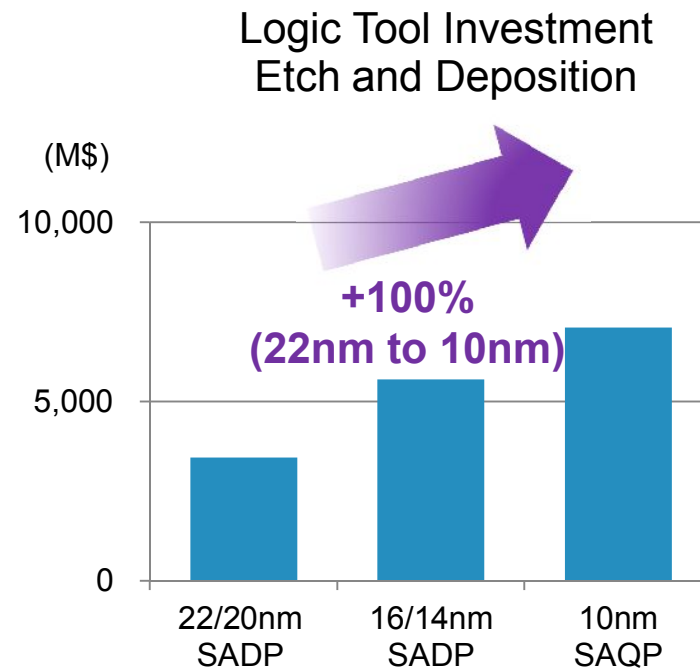
(Source: TEL estimates)

# Major Inflections: Growth Opportunities

- ▶ Multi-patterning and 3D devices such as 3D NAND and FinFET need more etch and deposition equipment



(Source: TEL estimate based on IC knowledge)  
Tool investment cost for 100k wafers per month fab

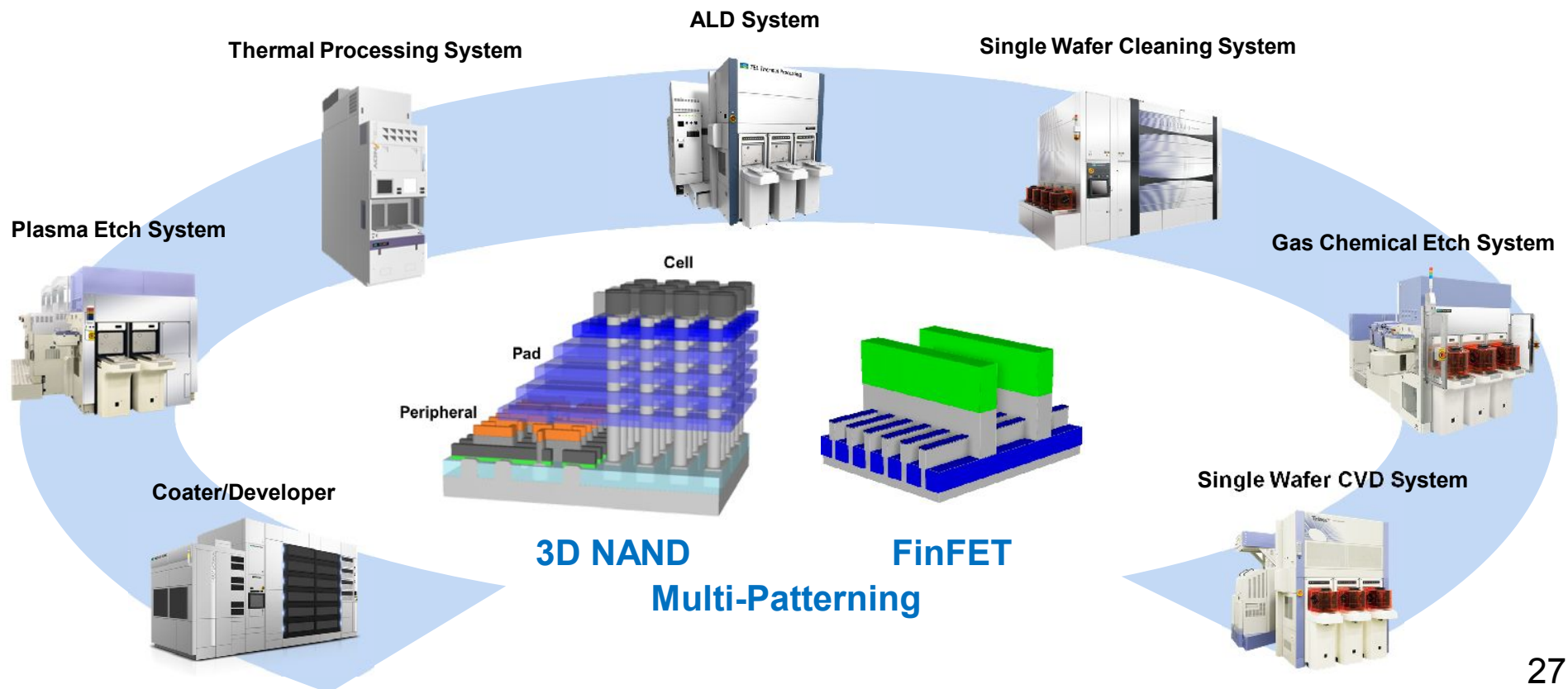


(Source: TEL estimate based on IC knowledge)  
Tool investment cost for 100k wafers per month fab

SADP: Self-aligned double patterning, SAQP: Self-aligned quadrupling patterning

# Product Strategies to Enhance Market Positions

- ▶ Developing innovative equipment for new technologies such as 3D NAND, FinFET and multi-patterning
- ▶ Expect CY2014 WFE share to be around 13 to 14%



## Announced New Company Name - Eteris

---

- ▶ Eteris is derived from the concept of eternal innovation for society and demonstrates our commitment to a new and exciting future for our merged company to create and enable technology innovations that improve the way people live.



# Summary

---

1. CY2014 WFE expected to be up 15% YoY.  
Continued active investment by memory and foundry customers,  
driven by mobile devices
2. Focus management resources in SPE and FPD businesses and  
improve profitability
3. Upward revision to FY2015 1<sup>st</sup> half financial estimates due to  
strong memory investment
4. Expect CY2014 WFE share to be around 13 to 14%
5. Merger with Applied Materials expected to complete on target in  
the second half of 2014

---

▶ **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/PV 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/PV cell 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/PV: Flat panel display/Photovoltaic

# 50 Years