

# 1Q FY2016 (April 1, 2015 – June 30, 2015)

## Financial Announcement

Agenda:

- Introduction  
Tetsuro Higashi, Representative Director, President & CEO
- 1Q FY2016 Consolidated Financial Summary  
Tetsuro Hori, Corporate Director, Senior Vice President & General Manager
- Business Environment and Revision of Financial Estimate  
Toshiki Kawai, Representative Director, Senior Executive Vice President & COO

July 28, 2015



**TOKYO ELECTRON**

Corp IR/July 28, 2015

# 1Q FY2016 Consolidated Financial Summary

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1Q FY2016: April 1, 2015 - June 30, 2015  
FY2016: April 1, 2015 - March 31, 2016

Tetsuro Hori  
Corporate Director, Senior Vice President & General Manager

July 28, 2015

# FY2016 1Q Highlights

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1. Announced Medium-term Management Plan  
New shareholder return policy to raise dividend payout ratio to 50%
2. Achieved 42% of gross profit margin and 19% of operating profit margin
3. Revised financial estimates to reflect market adjustment

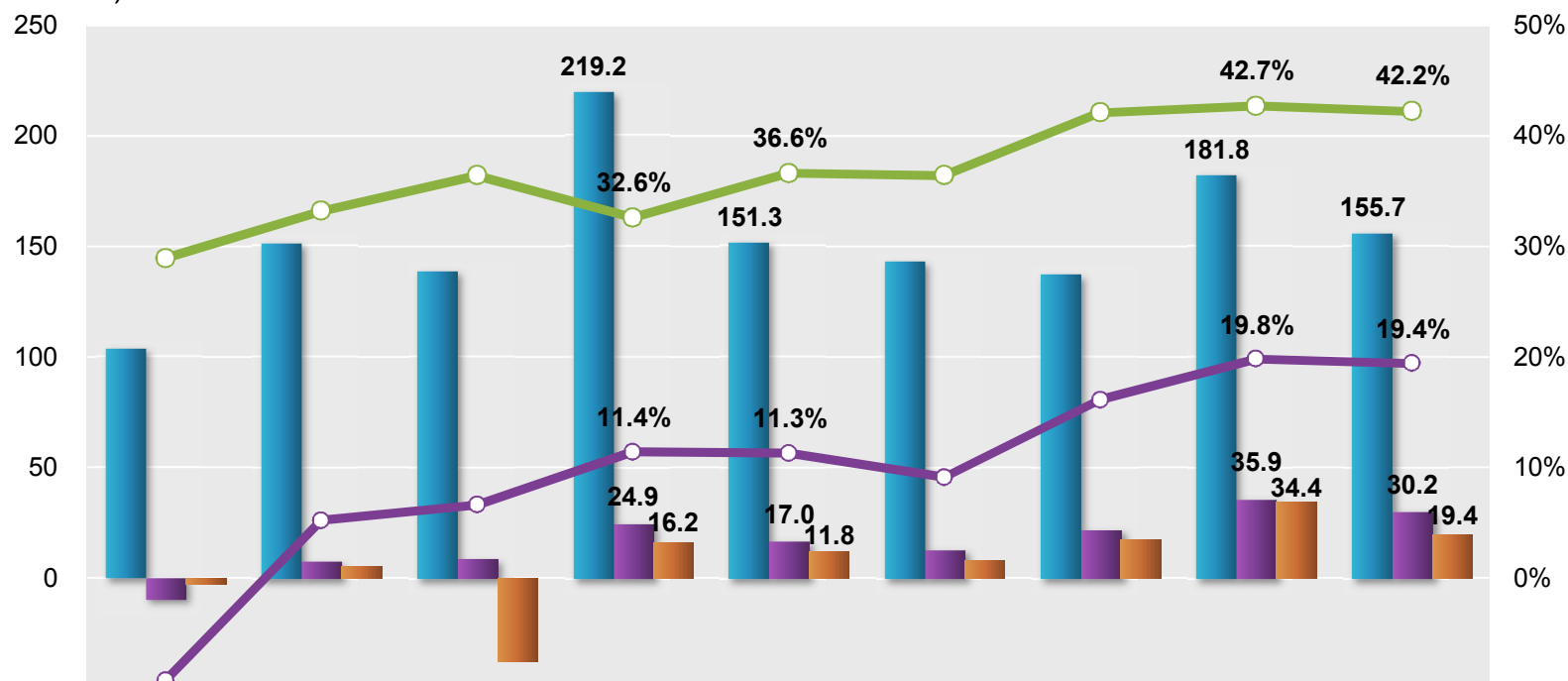
# Financial Summary

	FY2015				FY2016	(Billion Yen)
	1Q	2Q	3Q	4Q	1Q	vs. 1Q FY2015
Net sales	151.3	142.9	137.0	181.8	155.7	+2.9%
Gross profit <i>Gross profit margin</i>	55.3 36.6%	52.0 36.4%	57.6 42.1%	77.6 42.7%	65.7 42.2%	+18.6% +5.6pts
SG&A expenses	38.3	39.0	35.5	41.7	35.4	-7.5%
Operating income <i>Operating margin</i>	17.0 11.3%	13.0 9.1%	22.0 16.1%	35.9 19.8%	30.2 19.4%	+13.2 +8.1pts
Income before income taxes	15.0	14.0	24.7	32.9	29.0	+14.0
Net income attributable to owners of parent	11.8	8.1	17.4	34.4	19.4	+7.6
R&D expenses	16.7	18.1	16.8	19.5	17.5	+4.9%
Capital expenditures	3.7	3.5	2.6	3.2	2.1	-41.9%
Depreciation and amortization	4.7	5.0	5.4	5.6	4.6	-2.0%

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

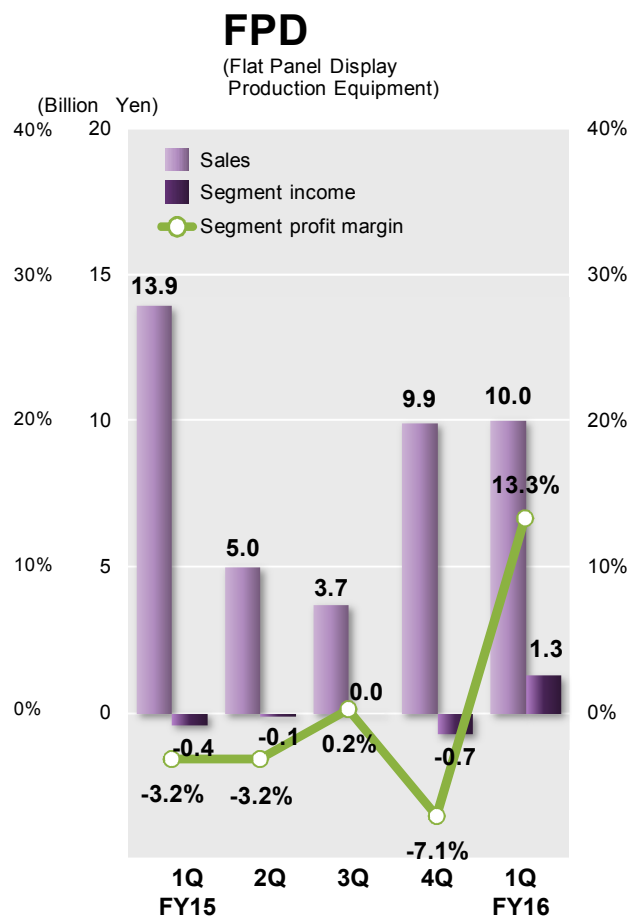
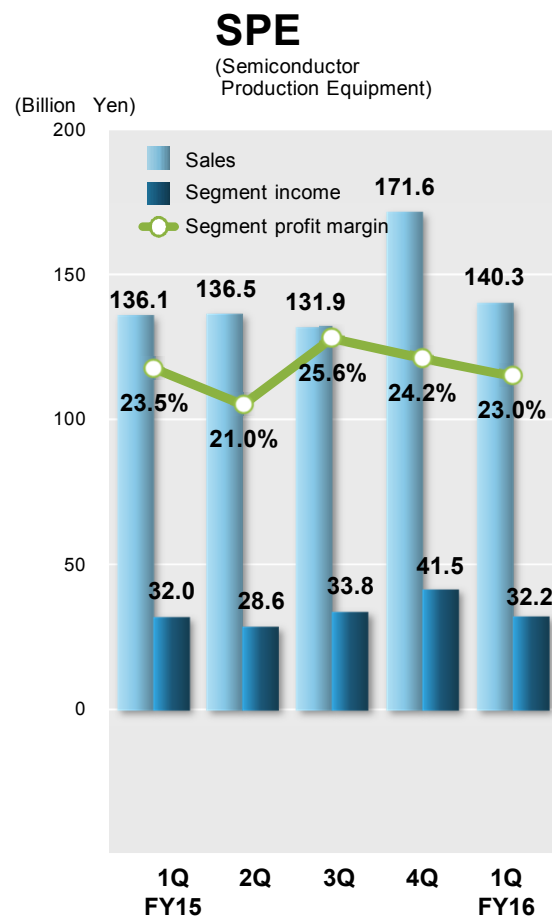
(Billion Yen)



	1Q FY14	2Q	3Q	4Q	1Q FY15	2Q	3Q	4Q	1Q FY16
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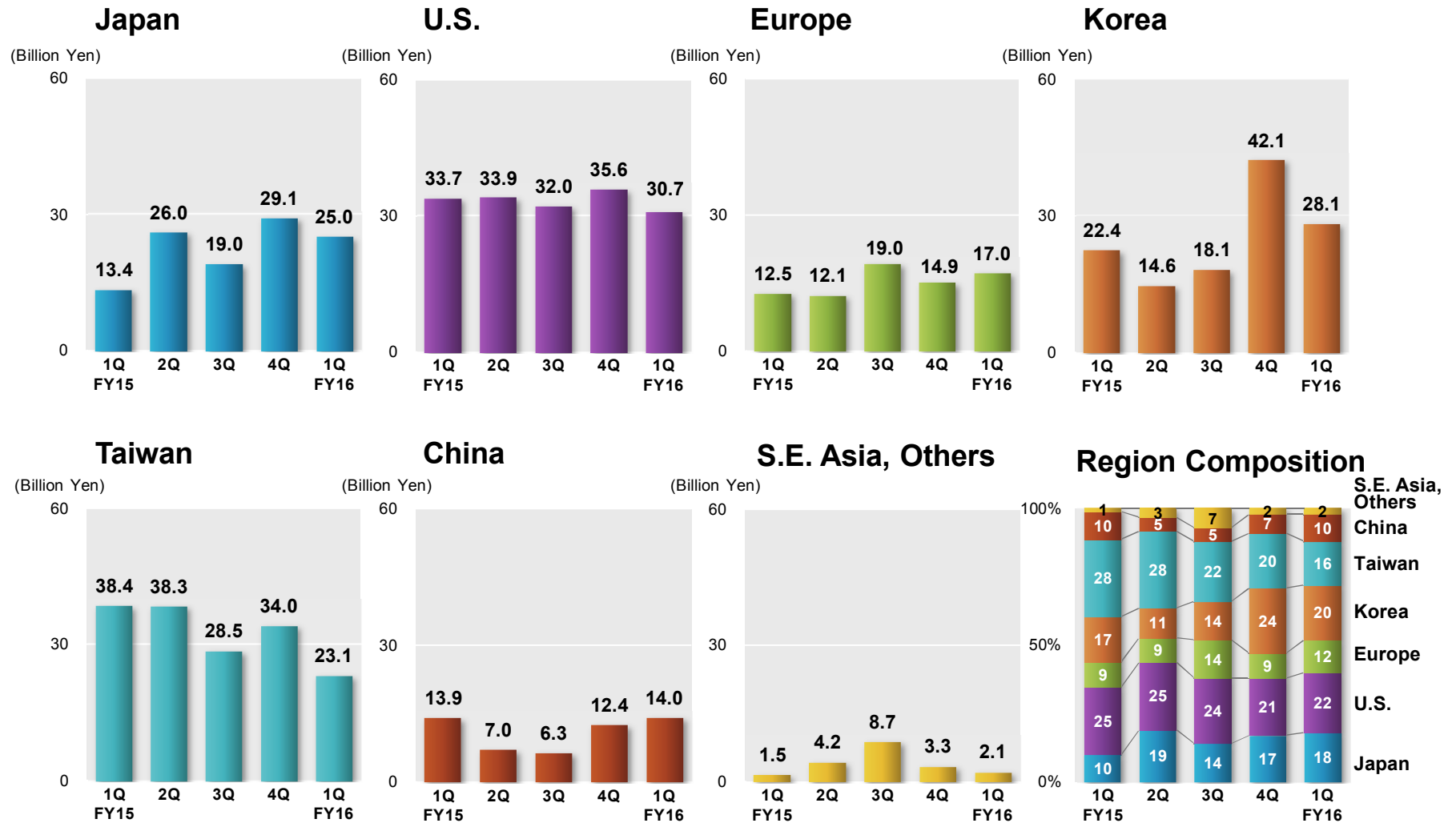
Net sales	103.4	151.0	138.4	219.2	151.3	142.9	137.0	181.8	155.7
Operating income	-9.6	7.8	9.0	24.9	17.0	13.0	22.0	35.9	30.2
Net income attributable to owners of parent	-2.9	5.4	-38.0	16.2	11.8	8.1	17.4	34.4	19.4
Gross profit margin	28.9%	33.2%	36.4%	32.6%	36.6%	36.4%	42.1%	42.7%	42.2%
Operating margin	-9.3%	5.2%	6.6%	11.4%	11.3%	9.1%	16.1%	19.8%	19.4%

# Segment Information



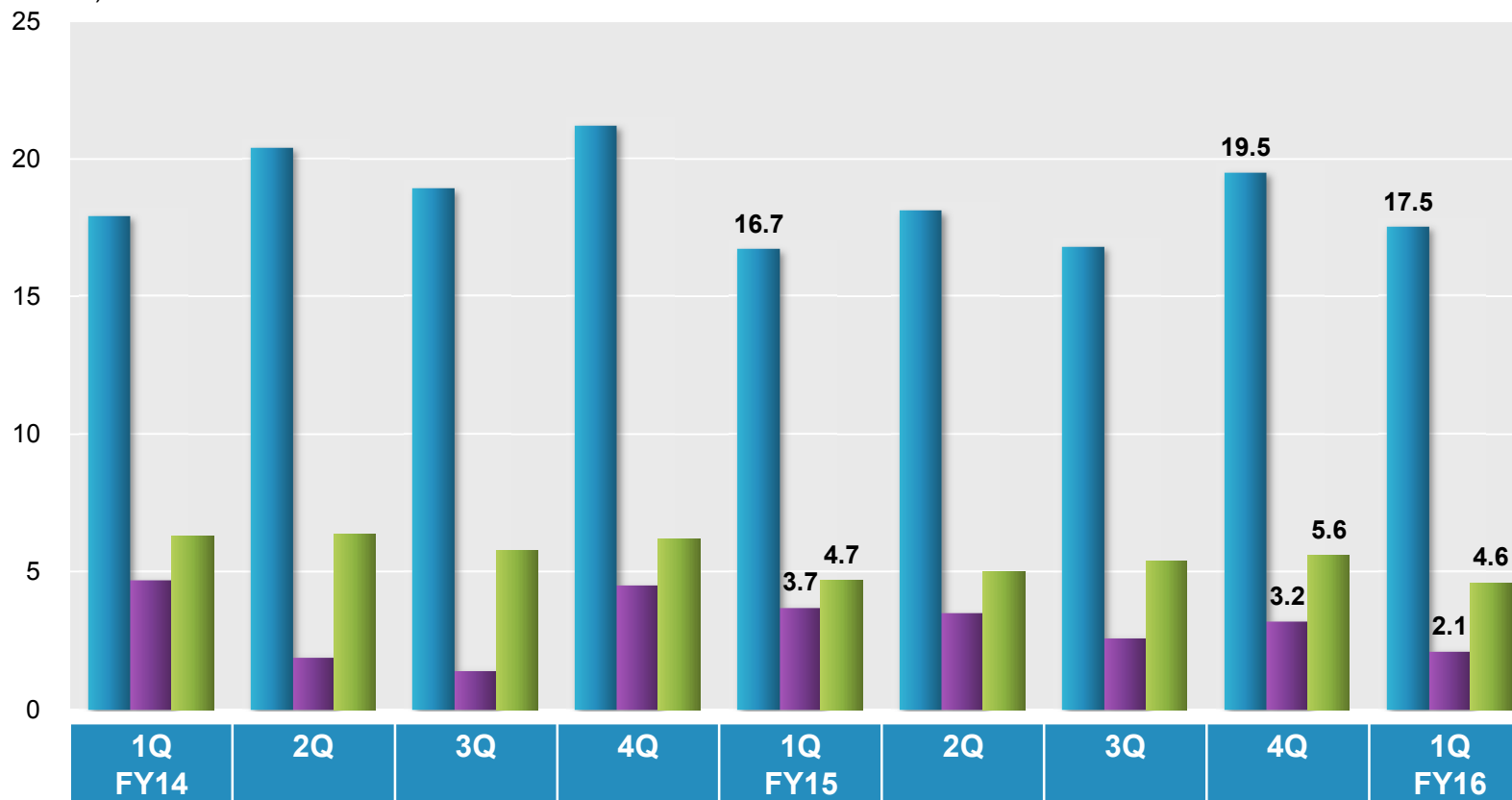
1. Segment income is based on income before income taxes.
2. R&D expenses such as fundamental research and element research are not included in above reportable segments.
3. From 1Q FY2016, due to its reduced importance the PV production equipment business has been excluded from segmental reporting.

# SPE Sales by Region



# R&D, CAPEX and Depreciation Expenses

(Billion Yen)



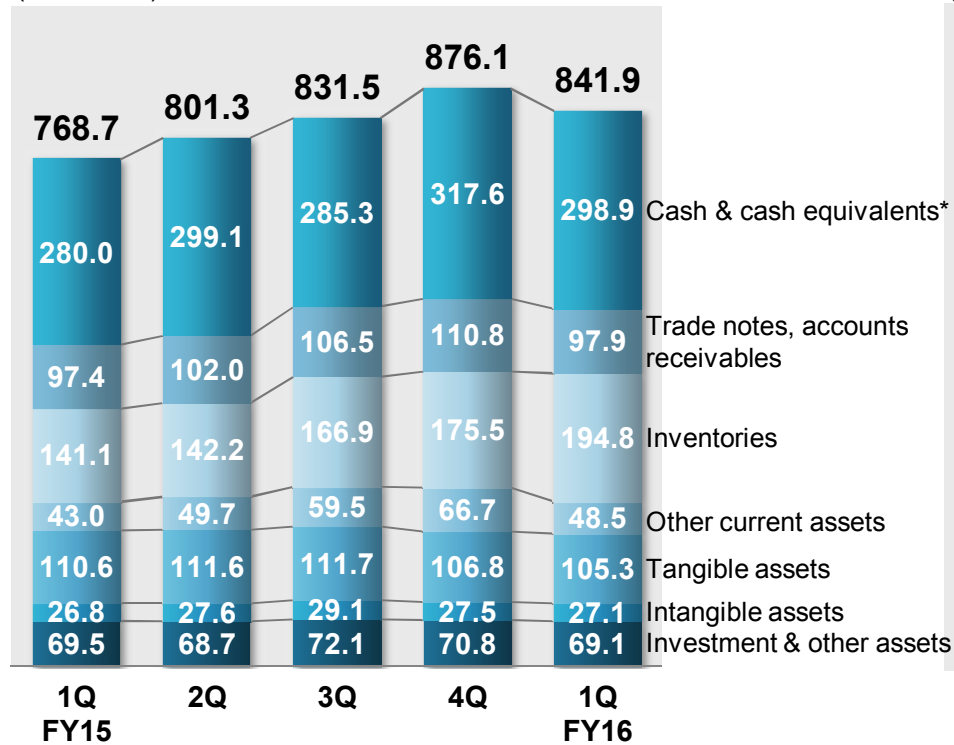
R&D Expenses	17.9	20.4	18.9	21.2	16.7	18.1	16.8	19.5	17.5
CAPEX	4.7	1.9	1.4	4.5	3.7	3.5	2.6	3.2	2.1
Depreciation and amortization	6.3	6.4	5.8	6.2	4.7	5.0	5.4	5.6	4.6



# Balance Sheet

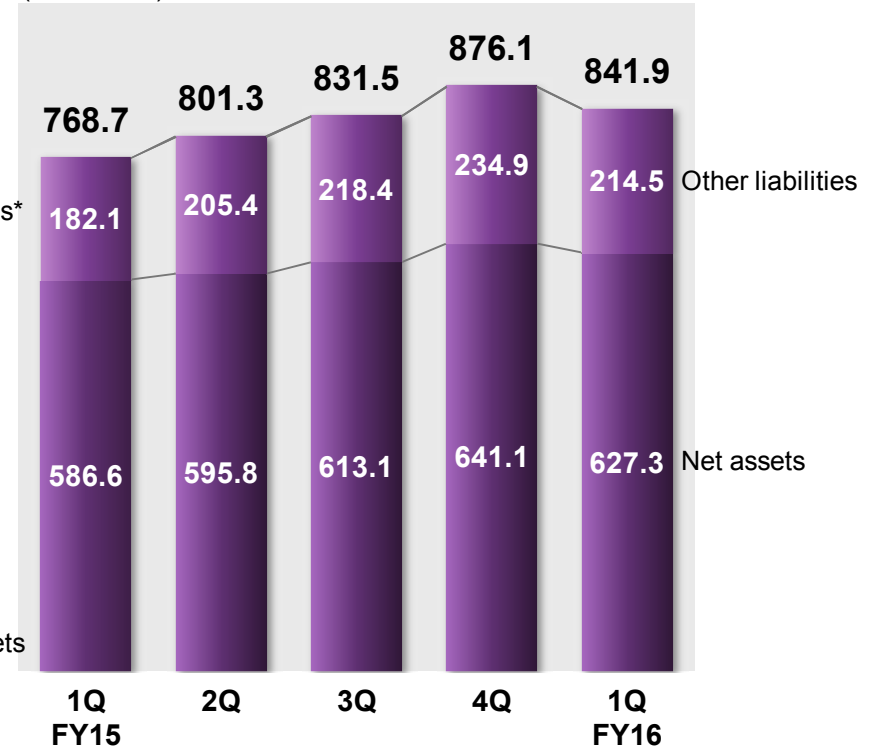
## Assets

(Billion Yen)



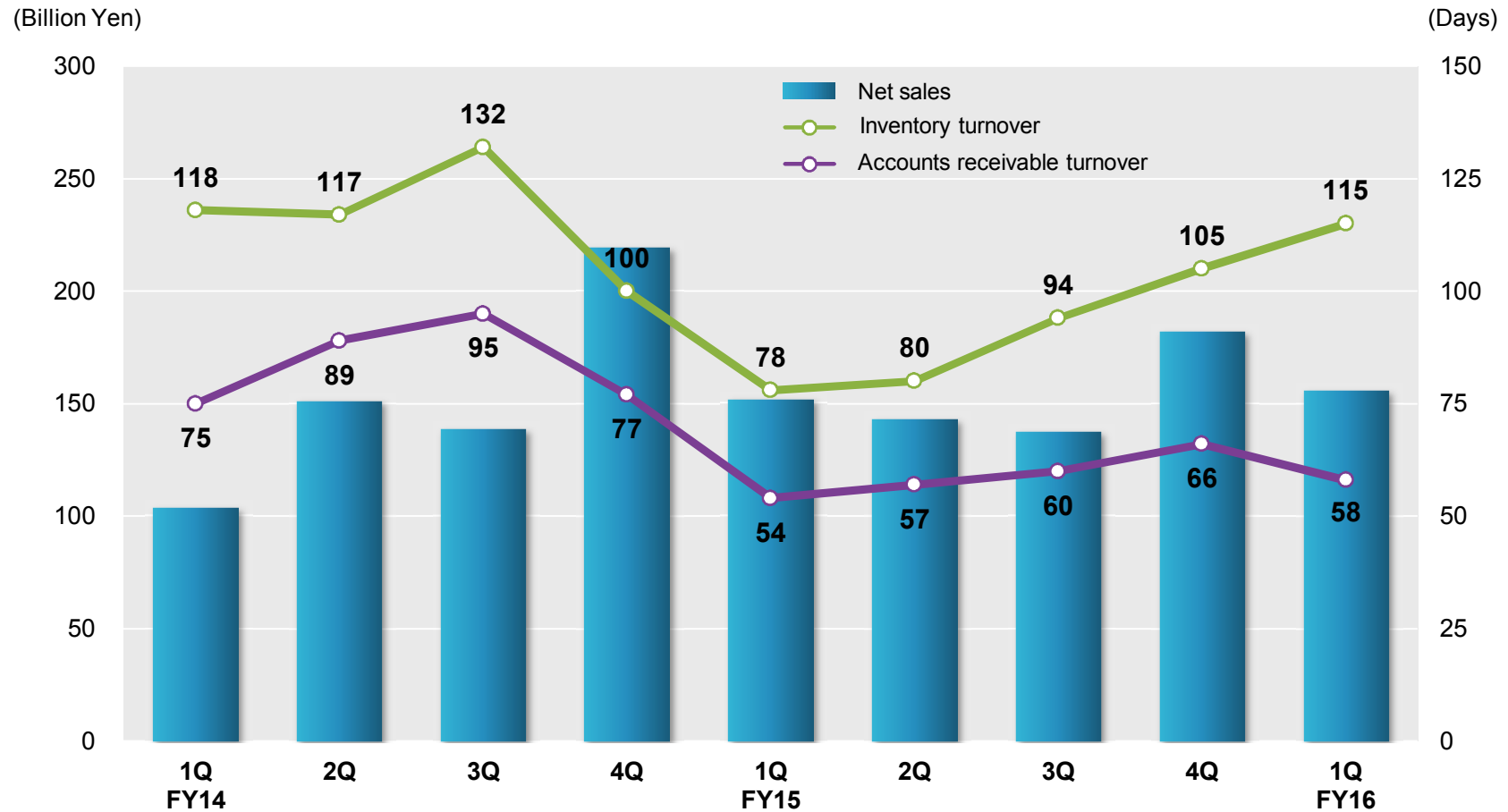
## Liabilities & Net Assets

(Billion Yen)



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

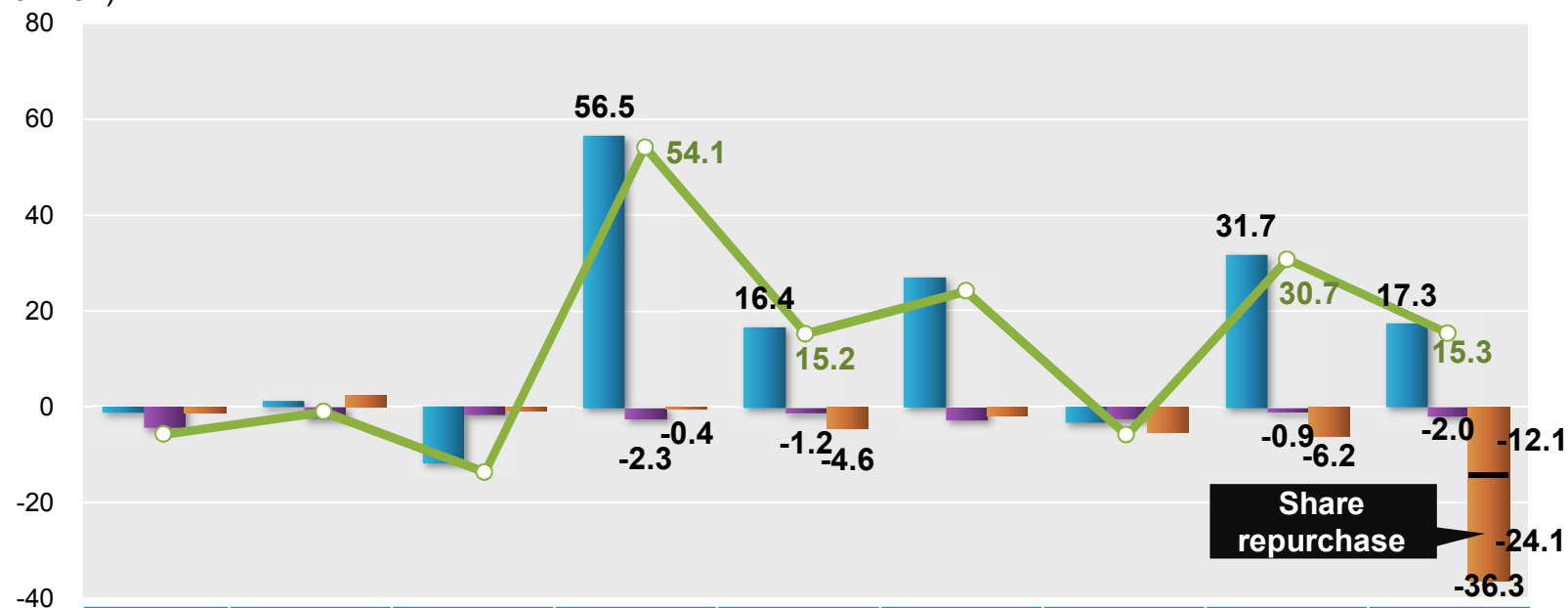
# Inventory Turnover and AR Turnover



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

# Cash Flow

(Billion Yen)



	1Q FY14	2Q	3Q	4Q	1Q FY15	2Q	3Q	4Q	1Q FY16
Cash flow from operating activities	-1.3	1.1	-11.8	56.5	16.4	26.8	-3.2	31.7	17.3
Cash flow from investing activities*	-4.4	-2.3	-1.8	-2.3	-1.2	-2.7	-2.6	-0.9	-2.0
Cash flow from financing activities	-1.4	2.5	-0.8	-0.4	-4.6	-1.8	-5.4	-6.2	-36.3
Free cash flow**	-5.8	-1.1	-13.7	54.1	15.2	24.1	-5.9	30.7	15.3
Cash on hand***	229.5	230.8	212.5	268.1	280.0	299.1	285.3	317.6	298.9

\*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.

# Share Repurchase Status

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## Cumulative total of shares repurchased (as of June 30, 2015)

(1) Total number of shares acquired: 3,111,900 shares

(2) Total cost of acquisition: 23,838,423,989 yen

### Details of announcement on April 27, 2015

- ❑ Type of shares to be acquired: Shares of common stock
- ❑ Total number of shares to be acquired: Up to 15.4 million shares  
(Equivalent to 8.59% of outstanding shares excluding treasury stock)
- ❑ Total cost of acquisition: Up to 120 billion yen
- ❑ Period of acquisition: From May 14, 2015 to May 13, 2016

# Business Environment and Revision of Financial Estimates

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Toshiki Kawai

Representative Director, Senior Executive Vice President & COO

July 28, 2015



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# Business Environment

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## ▶ SPE Capex

CY2015 WFE capex is expected to increase slightly YonY driven by demand from the enterprise server and mobile device markets

- DRAM/NAND: Increase YonY due to investment in increased production
- Foundry: Continued investment in 1X generation cutting-edge logic
- Logic: Server and image sensor demand strong but PC demand weakening, overall logic expected to show YonY decline

## ▶ FPD Capex

CY2015 demand for LCD panel manufacturing equipment forecast to increase 20% YonY due to increase in capex for large panels and the start of investment in small/medium panels for mobile devices.

OLED TV market expected to develop from 2017

(Outlook as of July 2015)

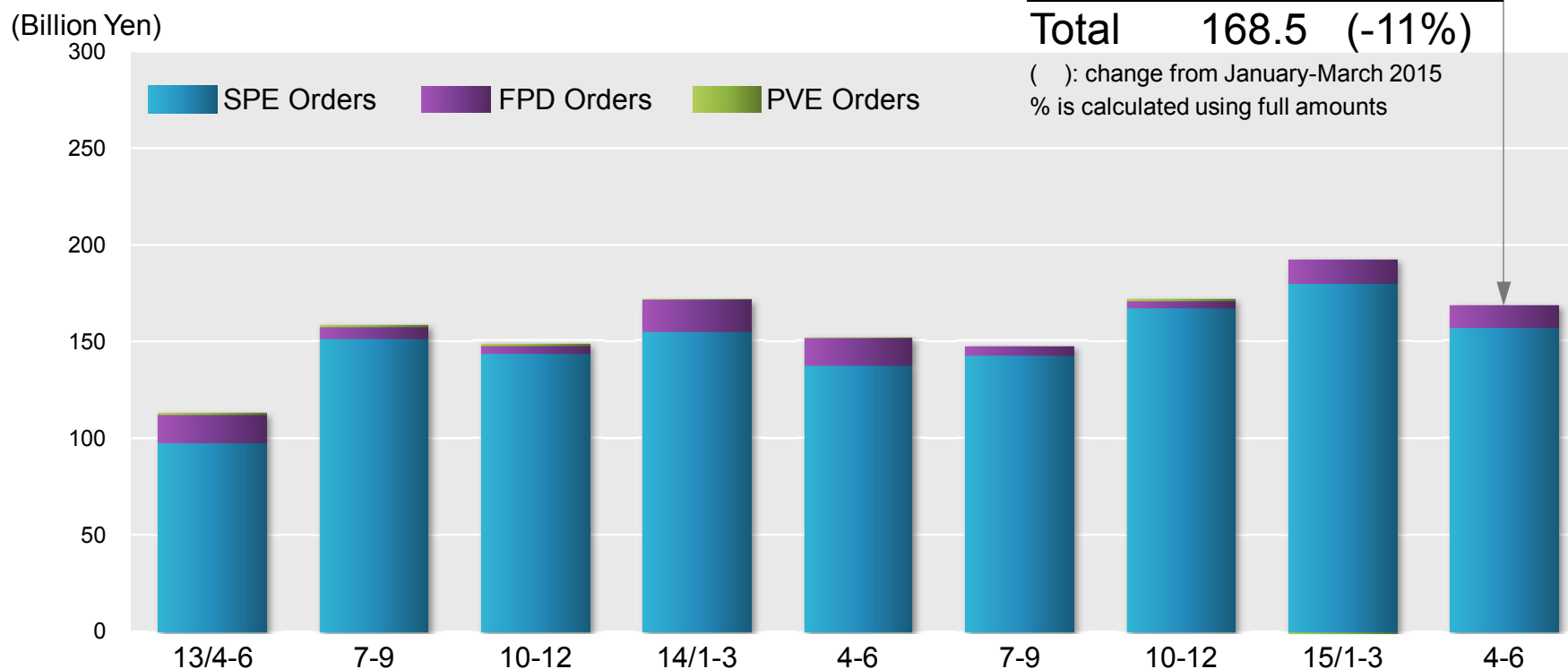
The semiconductor production process can be divided into two sequential sub-processes referred to as front-end (wafer fabrication) and back-end (assembly and test) production. WFE (wafer fabrication equipment) is used in the front-end production process.

# Quarterly Orders

## April-June 2015

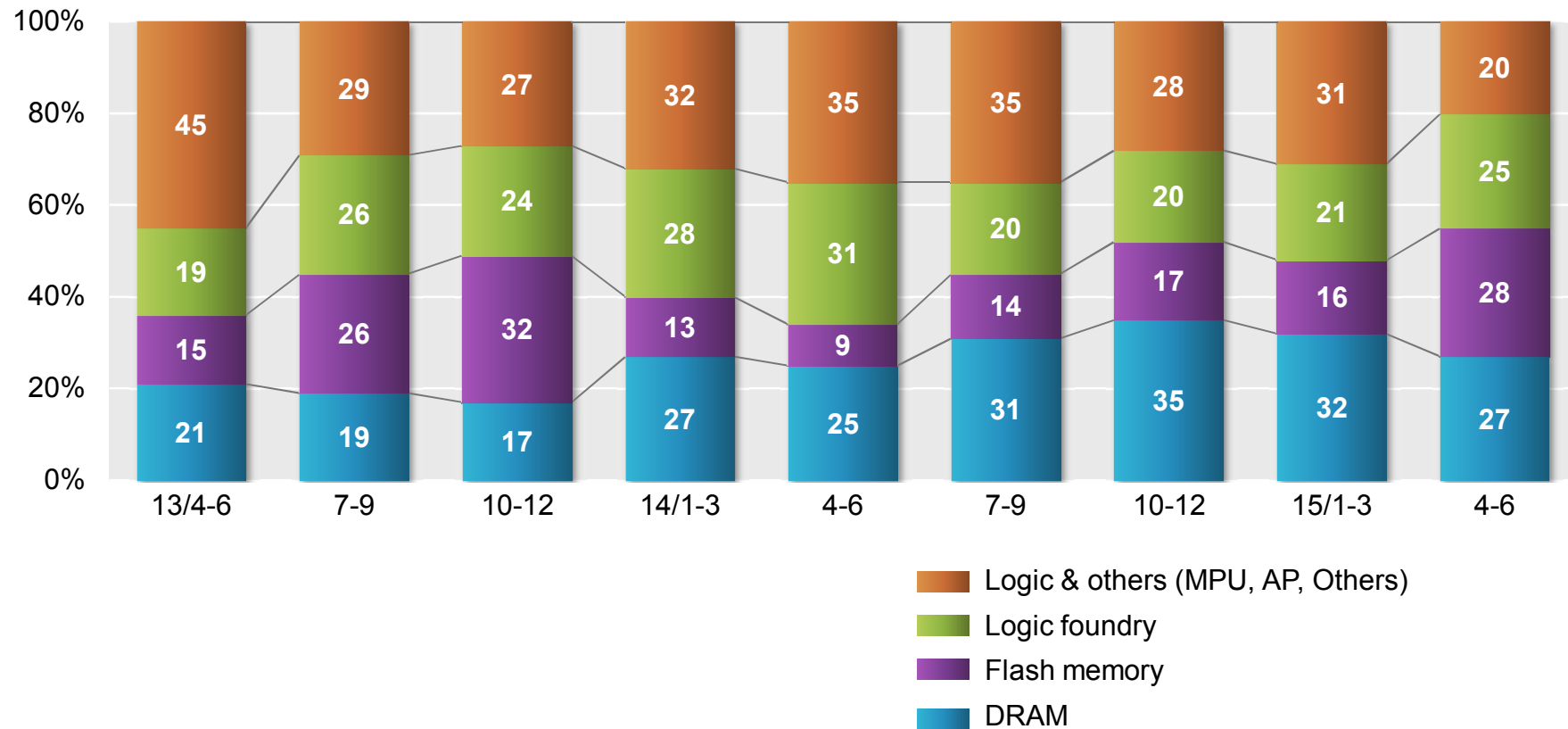
SPE	156.6	(-13%)
FPD	11.8	(-7%)
<b>Total</b>	<b>168.5</b>	<b>(-11%)</b>

( ) : change from January-March 2015  
% is calculated using full amounts



From the April-June 2015 quarter, due to its reduced importance the PVE business has been excluded from segmental reporting.

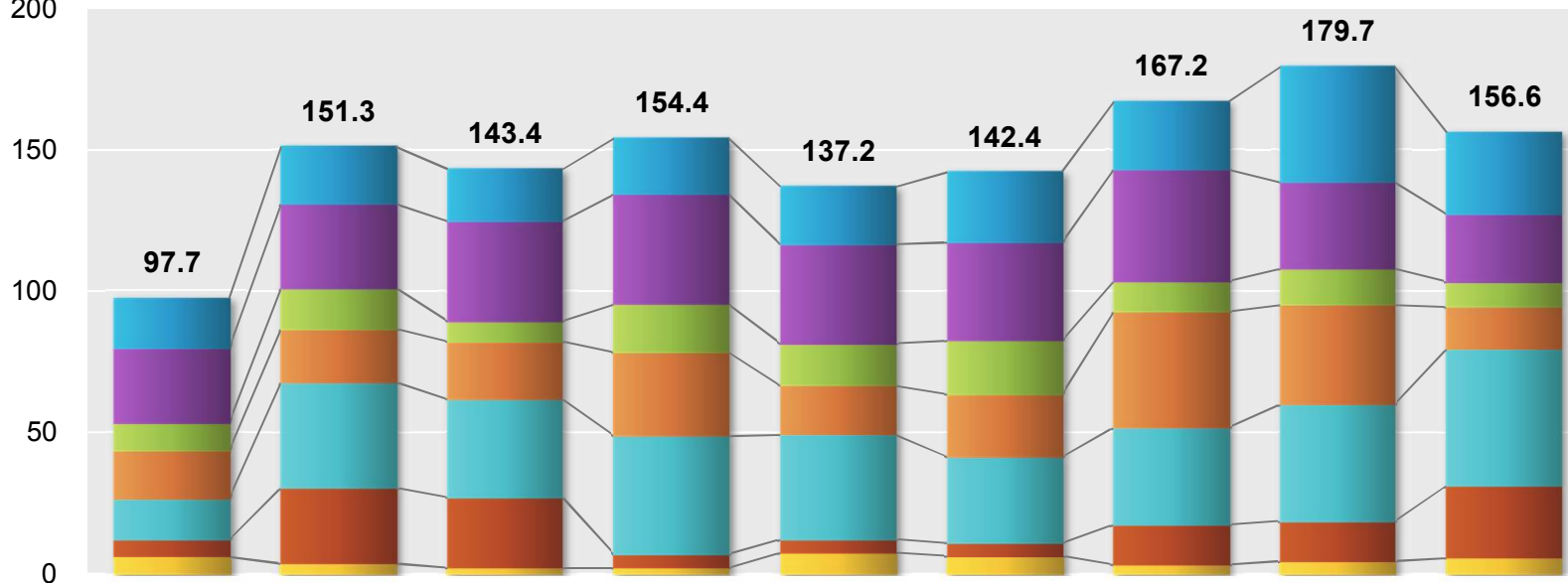
# Composition of SPE Orders by Application: Equipment only





# SPE Orders by Region

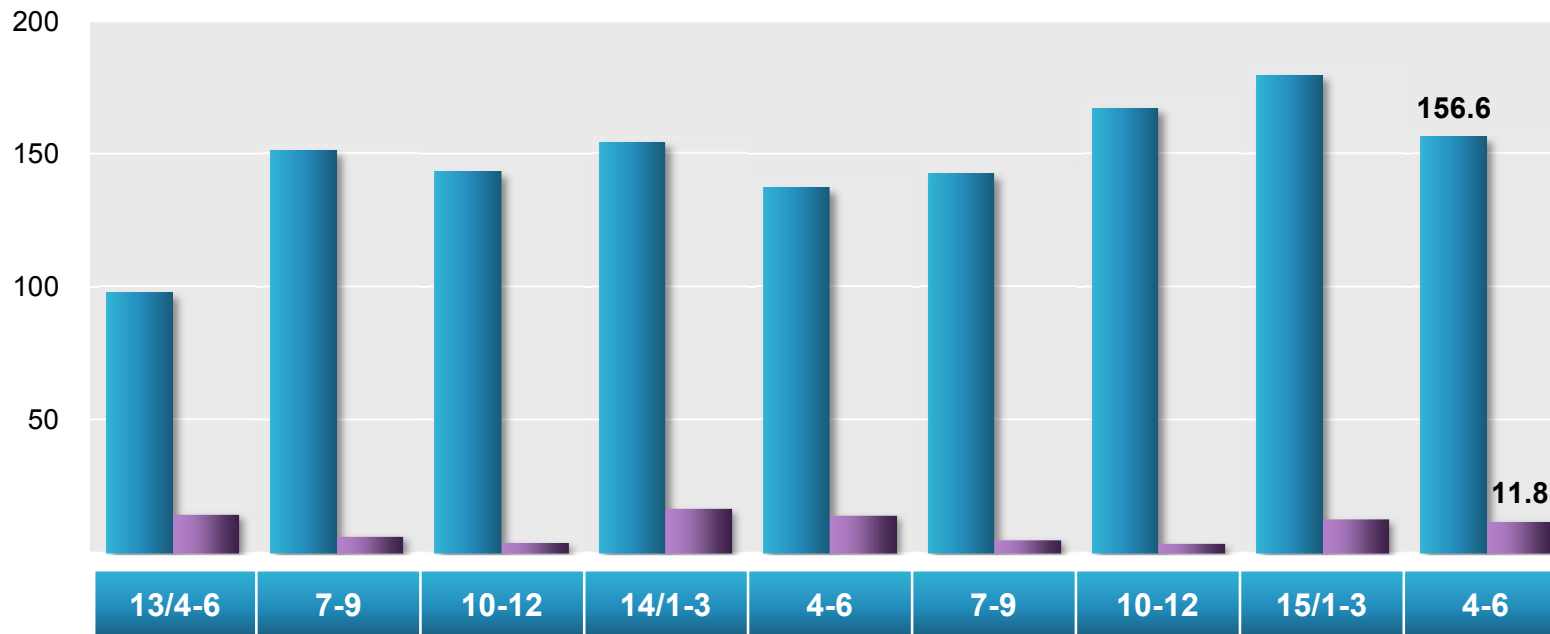
(Billion Yen)  
200



	13/4-6	7-9	10-12	14/1-3	4-6	7-9	10-12	15/1-3	4-6
Japan	17.5	20.1	18.4	19.8	20.4	24.9	24.0	40.8	29.0
U.S.	26.4	29.8	35.3	38.9	35.1	34.7	39.5	30.7	23.9
Europe	9.8	14.4	7.2	17.0	15.0	19.0	10.8	12.7	8.9
Korea	17.0	18.9	20.5	29.5	17.3	22.1	40.8	35.1	14.8
Taiwan	14.4	37.3	34.6	41.8	37.0	30.5	34.5	41.3	48.3
China	6.2	26.9	24.9	4.8	4.7	4.5	14.2	14.2	25.7
S.E. Asia, Others	6.0	3.6	2.2	2.2	7.5	6.4	3.2	4.5	5.6

# Orders, Order Backlog

(Billion Yen)



■ SPE Orders	97.7	151.3	143.4	154.4	137.2	142.4	167.2	179.7	156.6
■ FPD Orders	14.4	6.3	3.8	16.6	14.2	4.8	3.4	12.6	11.8
SPE Order backlog	164.5	196.0	237.2	209.9	211.0	217.0	252.3	260.4	276.7
FPD Order backlog	25.5	27.4	22.5	29.0	29.3	29.1	28.8	31.6	33.3

From the 2015/4-6 quarter, due to its reduced importance the PVE business has been excluded from segmental reporting.

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# Revision of FY2016 Financial Estimates



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# Revision of FY2016 Financial Estimates

## ➤ Revised estimates to reflect market adjustment

(Billion Yen)

	FY2015	FY2016 (Estimate)						YoY change
		1 <sup>st</sup> half		2 <sup>nd</sup> half		Full year		
		New estimates	Adjustments*	New estimates	Adjustments*	New estimates	Adjustments*	
Net sales	613.1	338.5	+18.5	306.5	-48.5	645.0	-30.0	+5%
SPE	576.2	315.0	+15.0	279.0	-46.0	594.0	-31.0	+3%
FPD	32.7	18.0	+0.5	27.0	-2.5	45.0	-2.0	+38%
Operating income	88.1	53.5	+6.5	41.5	-23.5	95.0	-17.0	+6.9
Lower line: OP margin	14.4%	15.8%	+1.1pts	13.5%	-4.8pts	14.7%	-1.9pts	+0.3pts
Income before income taxes	86.8	52.5	+6.5	41.5	-23.5	94.0	-17.0	+7.2
Net income attributable to owners of parent	71.8	37.0	+4.0	29.0	-17.0	66.0	-13.0	-5.8

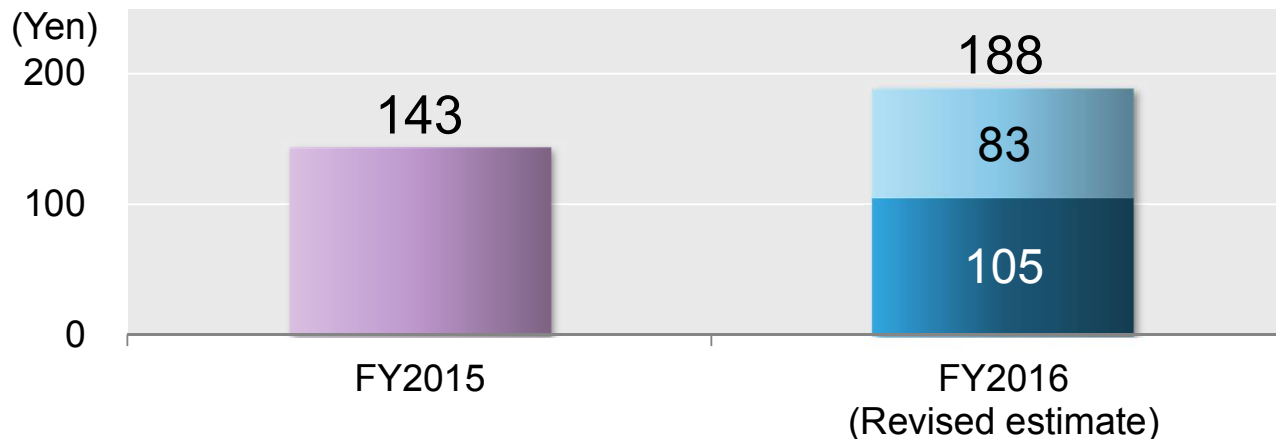
\*Adjustments: changes from the figures announced on April 27, 2015.

SPE: semiconductor production equipment FPD: flat panel display production equipment

# FY2016 Dividend Forecast

- New shareholder return policy: Raise dividend payout ratio to 50%, plan to pay high dividend of 188 yen

Dividend per share (Estimate)		
Interim	Year-end	Year Total
105 yen	83 yen	188 yen



Our previous dividend policy since FY2011 year-end dividend was performance-linked payout ratio of around 35%.

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# Medium-term Management Plan Highlights



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# Financial Model (toward FY2020)

## ➤ Aiming for global-level profitability

(Billion Yen)

	FY2016 (Estimate)	FY2020 (Medium-term plan)	
	WFE \$33B	WFE \$30B	WFE \$37B
Net sales	<b>645.0</b>	<b>720.0</b>	<b>900.0</b>
Gross profit margin	<b>38%</b>	<b>42%</b>	<b>44%</b>
SG&A expenses <small>SG&amp;A expense ratio</small>	<b>149.0</b> <small>23%</small>	<b>160.0</b> <small>22%</small>	<b>170.0</b> <small>19%</small>
Operating margin	<b>15%</b>	<b>20%</b>	<b>25%</b>
ROE		<b>15%</b>	<b>20%</b>

The semiconductor production process can be divided into two sequential sub-processes referred to as front-end (wafer fabrication) and back-end (assembly and test) production. WFE (wafer fabrication equipment) is used in the front-end production process.

# Medium-term Plan: Basic Strategy

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## 1. Outperform market growth

- Focus on SPE growth areas: Etching, ALD and Cleaning
- Strengthen Field Solutions business

## 2. Pursue operational efficiency

- Raise efficiency of development and manufacturing
- Reduce SG&A expense/Sales ratio



**Increase market share and profitability by providing high value added products.**

**Grow sales while limiting associated cost increases**



# Medium-term Market Outlook

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1. Internet of Things (IoT) will expand semiconductor applications and markets
2. At technological inflection points, extensive new technologies will drive semiconductor evolution
  - Advanced patterning technologies
  - 3D devices, new materials and new structure
  - New memory (STT-MRAM)



**WFE market expected to grow in medium-term**

STT-MRAM: Spin Transfer Torque-Magnetoresistive Random Access Memory

## Medium-term Main Scenario (WFE \$37B)

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**Net sales 900 billion yen (+40%)**

**Gross profit margin 44% (+6%pts)**

**SG&A expense ratio 19% (-4%pts)**

**Operating margin 25% (+10%pts)**

( ): comparison between FY2016 financial estimates and each target in medium-term plan.

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▶ **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 panel 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

