

August 8, 2018

Japan Display Inc.

Consolidated Financial Results for the Three Months of Fiscal Year 2018 (Japanese GAAP)

[This is an English translation of an original Japanese-language document.]

Company name: Japan Display Inc. (“JDI”)
 Security code: 6740
 Listing: Tokyo Stock Exchange (First Section)
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Filing of 1Q-FY2018 quarterly securities report: August 9, 2018
 Commencement of dividend payments: -
 Supplementary materials for the 1Q-FY2018 earnings results: Available
 Briefing for 1Q-FY2018 results: August 8, 2018

(Figures in this earnings report are rounded down to the nearest million yen.)

1. Consolidated results of operations for the three months ended June 30, 2018

(1) Results of operations

	(Millions of yen, except per share amounts)			
	3 mo. ended Jun. 30, 2018	YoY (%)	3 mo. ended Jun. 30, 2017	YoY (%)
Net sales	103,281	(45.2)	188,588	8.2
Operating profit (loss)	(9,806)	-	(14,442)	-
Ordinary profit (loss)	(12,713)	-	(20,613)	-
Net income (loss) attributable to owners of the parent	(1,771)	-	(31,456)	-
Net income (loss) per share				
-Basic	(2.27)		(52.30)	
-Diluted	-		-	
(Reference) Comprehensive income	(2,852)	-	(30,285)	-

(2) Financial position

	(Millions of yen, except shareholders' equity ratio)	
	Jun. 30, 2018	Mar. 31, 2018
Total assets	586,232	614,644
Net assets	114,190	82,046
Shareholders' equity ratio (%)	19.2	13.1
(Reference) Shareholders' equity	112,364	80,336

2. Dividends

	Jun. 30	Sep. 30	Dec. 31	FY-end	Total
Year ended Mar. 31, 2018	-	0.00	-	0.00	0.00
Year ending Mar. 31, 2019	-				
Year ending Mar. 31, 2019 (forecast)		0.00		-	-

Notes: Changes from the most recently announced dividend forecast: None

Notes:

- (1) Changes to scope of consolidation: None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes
- (3) Accounting changes in consolidated financial statements.
- a) Changes in accounting policy in accordance with amendments to accounting standards: None
 - b) Changes in accounting policy other than a) above: None
 - c) Changes in accounting estimates: None
 - d) Retrospective restatement: None

(4) Number of shares outstanding (common shares)

	Jun. 30, 2018	Mar. 31, 2018
Number of shares outstanding (incl. treasury shares).....	846,165,800	601,411,900
Number of treasury shares	-	-
	3 mo. ended Jun. 30, 2018	3 mo. ended Jun. 30, 2017
Average number of shares outstanding	781,615,320	601,411,900

* This financial statement is not subject to quarterly review procedures.

Proper use of earnings forecasts and other matters warranting special mention

Forward-looking information such as earnings forecasts in this document is based on information available to the Company at the time the document was prepared and management's reasonable assumptions. Such information should not be interpreted as a guarantee of future performance or results. Furthermore, forward-looking information is necessarily subject to a number of factors that may cause actual results to differ materially from those results implied by the expectations suggested by such information

Attachments

1. Quarterly Results Information

(1) Overview of Results of Operations

Consolidated Results of Operations for the First Quarter of FY 2018 (April 1 - June 30, 2018)

Year on year comparison

(Millions of yen)

	1Q-FY 2017	1Q-FY 2018	YoY	
			Change	(%)
Mobile Device Category	152,391	62,576	(89,815)	(58.9)
Automotive Category*1	24,511	28,935	4,424	18.0
Non-Mobile Device Category*1	11,684	11,769	84	0.7
Net sales	188,588	103,281	(85,306)	(45.2)
Gross profit	1,040	1,195	155	15.0
Operating profit (loss)	(14,442)	(9,806)	4,635	-
Ordinary profit (loss)	(20,613)	(12,713)	7,900	-
Net income (loss) attributable to owners of the parent	(31,456)	(1,771)	29,684	-
EBITDA*2	8,117	2,031	(6,086)	(75.0)

Notes: *1. As of the first quarter of FY 2018 the heretofore "Automotive & Non-Mobile Device Category" has been separated into the "Automotive Category" and the "Non-Mobile Category."

*2. EBITDA = Operating profit + Depreciation (operating costs) + Amortization of goodwill

Quarter on quarter comparison

(Millions of yen)

	4Q-FY 2017	1Q-FY 2018	QoQ	
			Change	(%)
Mobile Device Category	109,631	62,576	(47,055)	(42.9)
Automotive Category*1	29,821	28,935	(885)	(3.0)
Non-Mobile Device Category*1	12,481	11,769	(712)	(5.7)
Net sales	151,934	103,281	(48,652)	(32.0)
Gross profit	(7,937)	1,195	9,133	-
Operating profit (loss)	(22,851)	(9,806)	13,044	-
Ordinary profit (loss)	(35,121)	(12,713)	22,408	-
Net income (loss) attributable to owners of the parent	(146,620)	(1,771)	144,848	-
EBITDA*2	(4,724)	2,031	6,755	-

Notes: *1. As of the first quarter of FY 2018 the heretofore "Automotive & Non-Mobile Device Category" has been separated into the "Automotive Category" and the "Non-Mobile Category."

*2. EBITDA = Operating profit + Depreciation (operating costs) + Amortization of goodwill

In the first quarter of FY 2018 severe competition continued in the small-medium display industry owing to overseas display makers increasing production capacity, customers adopting OLED displays and other factors. Also, with the smartphone market responsible for more than half of global small-medium display demand, a higher rate of smartphone penetration and longer replacement times affected display demand as shown by stagnant growth and sluggish sales.

JDI's first-quarter net sales experienced a substantial YoY decline due to a decrease in net sales of Mobile Device Category.

Below is an overview of JDI's performance in each of the company's application categories in the first quarter of FY 2018.

Mobile Device Category

The Mobile Device Category includes smartphone, tablet and other displays. First-quarter net sales in this category were 62,576 million yen (down 58.9% YoY and down 42.9% QoQ) and accounted for 60.6% of total company net sales.

In the first quarter net sales to the US/Europe regions were lower YoY and QoQ due in part to seasonal factors and inventory adjustments. Net sales to China were higher QoQ because of new product announcements in the quarter from smartphone makers, but intensified competition and other factors caused these net sales to fall YoY. Other net sales in Asia were lower both YoY and QoQ partly due to greater competition among smartphone makers.

Automotive Category

The Automotive Category includes automotive application displays. First-quarter net sales in this category were 28,935 million yen (up 18.0% YoY and down 3.0% QoQ) and accounted for 28.0% of total company net sales.

Automotive display sales were higher YoY because of the increasing number of displays installed in vehicles and growing screen sizes. However, net sales were lower QoQ due to ordinary seasonal factors lifting fourth-quarter net sales to a relatively higher level.

Non-Mobile Category

The Non-Mobile Category includes displays for digital still cameras, wearable devices and other consumer electronics, industrial devices such as medical equipment monitors and income from patents. First-quarter net sales in this category were 11,769 million yen (up 0.7% YoY and down 5.7% QoQ) and accounted for 11.4% of total net sales.

First-quarter Non-Mobile net sales were essentially flat YoY due largely to the mix of lower sales of game device displays and higher sales of wearable device displays. The QoQ drop in net sales is attributable to lower digital camera and wearable device display net sales.

Based on the above, JDI's FY 2018 first-quarter net sales were 103,281 million yen (down 45.2% YoY and down 32.0% QoQ). Though an operating loss of 9,806 million yen was recorded (compared with an operating loss of 14,442 million yen a year earlier and a loss of 22,851 million yen in the fourth quarter of FY 2017), the size of the loss was lower YoY and QoQ due to the benefits of structural reforms implemented in FY 2017 and other factors. An ordinary loss of 12,713 million yen (compared with an ordinary loss of 20,613 million yen a year earlier and a loss of 35,121 million yen in the fourth quarter of FY 2017) was due partly to foreign exchange gains and share of loss of entities accounted for using equity method booked as non-operating income and expenses respectively. The first quarter also saw a net loss attributable to owners of the parent of 1,771 million yen (compared with a net loss attributable to owners of the parent of 31,456 million yen a year earlier and a net loss attributable to owners of the parent of 146,620 million yen in the fourth quarter of FY 2017) after accounting for a gain on change in equity of 11,943 million yen in an extraordinary income resulted from an increase in capital at equity-method affiliate JOLED.

(2) Overview of Financial Position

Assets

At the end of the first quarter of FY 2018 JDI had current assets of 258,351 million yen, a decrease of 12,428 million yen versus the end of FY 2017. The main factors were increases of 5,321 million yen in work in process, 4,923 million yen in merchandise and finished goods and 2,245 million yen in other current assets and decreases of 18,700 million yen in accounts receivable-trade and 5,163 million yen in accounts receivable-other. Non-current assets were 327,880 million yen, a decrease of 15,984 million yen versus the end of FY 2017, with the main factors being an increase of 9,946 million yen in investments and other assets and decreases of 25,446 million yen in property, plant and equipment and 484 million yen in intangible assets.

As a result total assets at the end of the first quarter were 586,232 million yen, a decrease of 28,412 million yen versus the end of FY 2017.

Liabilities

At the end of the first quarter of FY 2018 JDI had current liabilities of 385,312 million yen, a decrease of 38,786 million yen relative to the end of FY 2017. The main factors were an increase of 9,984 million yen in short-term loans payable and 21,005 million yen in accounts payable-trade and 18,648 million yen in other current liabilities. Non-current liabilities were 86,728 million yen, a decrease of 21,770 million yen versus the end of FY 2017.

As a result total liabilities at the end of the first quarter were 472,041 million yen, a decrease of 60,557 million yen relative to the end of FY 2017.

Net assets

Total net assets at the end of first quarter of FY 2018 were 114,190 million yen, an increase of 32,144 million yen versus the end of FY 2017. The main factor was an increase of 17,499 million yen each in capital stock and the capital surplus as a result of a third-party allotment of new shares.

As a result JDI had a shareholders' equity ratio of 19.2% at the end of the first quarter (13.1% at the end of FY 2017).

(3) Note Concerning the Forecast of Consolidated Financial Results

The business environment surrounding JDI's primary business of small-medium displays experiences significant volatility that makes accurate financial forecast calculations difficult. Accordingly, JDI is providing partial guidance for fiscal year 2018.

JDI anticipates that the FY 2018 consolidated full term will see net sales rise 10-20% YoY and an operating profit margin of 2-3%. This outlook is unchanged from the outlook the company disclosed on May 15 of this year. Sluggish sales can be expected in the first half of the year due to seasonal factors, customer inventory adjustments and greater competition causing stagnant smartphone display sales.

On the other hand, in the second half of the year strong customer demand for the FULL ACTIVE™ displays developed by JDI is expected to lead to a surge in net sales and a rapid recovery in business results. Also, stable growth is expected in the Automotive Category and Non-Mobile Category.

2. Material Events Related to Going Concern Assumptions

JDI recorded a material net loss attributable to owners of the parent in FY 2017, and still had a net loss attributable to owners of the parent in the first quarter of FY 2018, which raises substantial doubt about the company's ability to continue as a going concern. To dispel this doubt, JDI has been making transformations to improve its earnings structure by implementing fundamental structural reforms (the reforms were announced on August 9, 2017).

As a result, the size of the loss was smaller in the first quarter of FY 2018 compared to the fourth quarter of FY 2017, and further recovery in business results is expected from the second half of FY 2018 mainly due to strong customer demand for the FULL ACTIVE™ displays. Furthermore, JDI is accelerating the establishment of mass manufacturing technology and the shift of management resources to growth business areas, in order to stabilize the company's base of business. Also, JDI has taken financial measures that will assure stable funds procurement to improve cash flows, such as conducting a third-party allotment of new shares and renewing contracts for commitment lines. Based upon these observations and measures, JDI has concluded that there are no significant uncertainties related to going concern assumptions.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

	(Millions of Yen)	
	March 31, 2018	June 30, 2018
<u>Assets</u>		
Current assets:		
Cash and deposits	80,866	78,924
Accounts receivable - trade	82,863	64,163
Accounts receivable - other	42,766	37,602
Merchandise and finished goods	17,427	22,351
Work in process	27,381	32,702
Raw materials and supplies	13,358	14,183
Other	6,283	8,529
Allowance for doubtful accounts	(167)	(105)
Total current assets	<u>270,779</u>	<u>258,351</u>
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	132,498	119,013
Machinery, equipment and vehicles, net	111,212	120,051
Land	14,238	12,849
Leased assets, net	7,645	6,888
Construction in progress	28,940	11,276
Other, net	7,265	6,275
Total property, plant and equipment	<u>301,801</u>	<u>276,355</u>
Intangible assets:		
Goodwill	13,832	13,323
Other	5,148	5,173
Total intangible assets	<u>18,981</u>	<u>18,496</u>
Investments and other assets:		
Other	26,560	36,641
Allowance for doubtful accounts	(3,478)	(3,612)
Total investments and other assets	<u>23,081</u>	<u>33,028</u>
Total non-current assets	<u>343,865</u>	<u>327,880</u>
Total assets	<u>614,644</u>	<u>586,232</u>

(1) Consolidated Balance Sheet

	(Millions of Yen)	
	March 31, 2018	June 30, 2018
<u>Liabilities</u>		
Current liabilities:		
Accounts payable - trade	117,830	96,824
Electronically recorded obligations - operating	—	1,513
Short-term loans payable	99,082	109,066
Lease obligations	13,980	11,839
Income taxes payable	943	1,721
Provision for bonuses	4,596	2,637
Advances received	128,288	120,980
Other	59,378	40,729
Total current liabilities	424,099	385,312
Non-current liabilities:		
Bonds with share acquisition rights	45,000	25,000
Long-term loans payable	30,000	30,000
Lease obligations	0	—
Net defined benefit liability	24,063	23,078
Other	9,435	8,650
Total non-current liabilities	108,498	86,728
Total liabilities	532,598	472,041
<u>Net assets</u>		
Shareholders' equity:		
Capital stock	96,863	114,362
Capital surplus	213,648	231,148
Retained earnings	(233,281)	(235,053)
Total shareholders' equity	77,229	110,457
Accumulated other comprehensive income:		
Foreign currency translation adjustment	10,838	9,315
Remeasurements of defined benefit plans	(7,731)	(7,409)
Total accumulated other comprehensive income	3,106	1,906
Share acquisition rights	47	44
Non-controlling interests	1,662	1,782
Total net assets	82,046	114,190
Total liabilities and net assets	614,644	586,232

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Consolidated Statement of Income

	(Millions of Yen)	
	April 1, 2017 - June 30, 2017	April 1, 2018 - June 30, 2018
Net sales	188,588	103,281
Cost of sales	187,547	102,085
Gross profit	1,040	1,195
Selling, general and administrative expenses	15,482	11,002
Operating profit (loss)	(14,442)	(9,806)
Non-operating income:		
Interest income	15	25
Foreign exchange gains	—	2,339
Rent income	128	131
Fiduciary obligation fee	408	283
Subsidy income	1	0
Other	144	133
Total non-operating income	698	2,914
Non-operating expenses:		
Interest expenses	636	566
Share of loss of entities accounted for using equity method	2,811	3,071
Foreign exchange losses	309	—
Depreciation	2,248	310
Other	864	1,870
Total non-operating expenses	6,869	5,820
Ordinary profit (loss)	(20,613)	(12,713)
Extraordinary income:		
Gain on change in equity	—	11,943
Total extraordinary income	—	11,943
Extraordinary losses:		
Business structure improvement expenses	2,652	—
Total extraordinary losses	2,652	—
Income (loss) before income taxes	(23,266)	(769)
Income taxes	7,874	882
Net income (loss)	(31,141)	(1,652)
Net income (loss) attributable to non-controlling interests	315	119
Net income (loss) attributable to owners of the parent	(31,456)	(1,771)

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Consolidated Statement of Comprehensive Income

	(Millions of Yen)	
	April 1, 2017 - June 30, 2017	April 1, 2018 - June 30, 2018
Net income (loss)	(31,141)	(1,652)
Other comprehensive income:		
Deferred gains or losses on hedges	(51)	—
Foreign currency translation adjustment	736	(1,522)
Remeasurements of defined benefit plans, net of tax	170	322
Total other comprehensive income	855	(1,200)
Comprehensive income	(30,285)	(2,852)
(Breakdown)		
Comprehensive income attributable to owners of the parent	(30,607)	(2,971)
Comprehensive income attributable to non-controlling interests	321	119

(3) Notes pertaining to the Consolidated Financial Statements

a) Notes related to going concern assumptions

Not applicable.

b) Notes related to significant changes in shareholders' equity

As of April 25, 2018, JDI received the payments for the issuance of new shares through third-party allotment from Nichia Corporation and overseas financial institutional investors. As a result, capital stock increased by 17,499 million yen and legal capital surplus increased by 17,499 million yen in the first three months of FY 2018, and accordingly capital stock was 114,362 million yen and capital surplus was 231,148 million yen at the end of the first quarter of FY 2018.

c) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements

(a) Calculation of tax expenses

With respect to tax cost, an effective tax rate was reasonably estimated after applying tax effect accounting to income before taxes for the fiscal year including the three-month period ended June 30, 2018, and tax cost was calculated by multiplying quarterly income before taxes by the effective tax rate.

d) Additional Information

JDI applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018), etc., at the beginning of the first quarter of FY 2018. Accordingly, deferred tax assets are now presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

This accounting standard has been applied retrospectively for presentation of the consolidated balance sheets of the prior consolidated fiscal year.