



Japan  
Display  
Inc.  
Group

# **Second Quarter of FY2015 Consolidated Financial Results**

**Japan Display Inc.**

**November 9, 2015**

1. FY2015-2Q Financial Results & 3Q Guidance
2. Market Trends & JDI's Action
3. Progress of Management Reforms

**Note:**

The depreciation costs noted in this document include amortization of goodwill and non-operating depreciation.  
The R&D costs noted in this document are the total of the amounts included in costs of goods sold and SG&A.

# 2Q-FY2015 Results & 3Q Guidance

Keiichi Yoshida  
Chief Financial Officer

## 2Q-FY2015 Topics

- Strong net sales to a large & China customers; total sales up 63% YoY to Y261.7bn, nearly same as forecast.
- Operating income into black, Y8.3bn, vs. Y7.6bn loss a year ago. Higher fixed costs seen but shipment growth & production cost improvements helped profits.
- Larger sales of JDI's high value-added Pixel Eyes™ minimized the impact of continued price decline in smartphone display market.
- 3Q-FY15: Some sales variation by regional customer but total sales should rise; targeting better profits via management reforms.

(Billion Yen)

	Net sales	Op. income	Dep. & Amort.	R&D expense	FX rate (¥/US\$)
2Q-FY15 (A)	261.7	8.3	20.2	6.5	122.3
2Q-FY15 (F)	260.0	8.0	21.8	6.4	120.0
2Q-FY14 (A)	160.4	(7.6)	17.5	4.0	103.8

# 2Q-FY2015 Financial Results

(Billion yen)

	Q2-FY15	Q2-FY14	YoY Chg.	Q1-FY15	QoQ Chg.
Net sales	261.7	160.4	+101.3	246.1	+15.6
Cost of sales	237.1	155.6	+81.5	228.3	+8.8
Gross profit	24.6	4.8	+19.8	17.9	+6.8
	9.4%	3.0%		7.3%	
SG&A	16.3	12.4	+3.9	15.6	+0.7
Operating income	8.3	(7.6)	+15.9	2.2	+6.1
	3.2%	-4.7%		0.9%	
Non-operating profit (loss)	(6.6)	2.0	(8.6)	(2.4)	(4.2)
Ordinary income	1.8	(5.6)	+7.4	(0.1)	+1.9
	0.7%	-3.5%		0.0%	
Extraordinary income (loss)	0.0	(2.1)	+2.1	0.0	+0.0
Income (loss) before tax	1.8	(7.7)	+9.5	(0.1)	+1.9
	0.7%	-4.8%		0.0%	
Net profit (loss)	0.1	(11.0)	+11.1	(0.5)	+0.6
	0.0%	-1.3%		0.0%	
EBITDA	28.4	9.8	+18.6	22.5	+5.9
	10.8%	6.1%		9.1%	

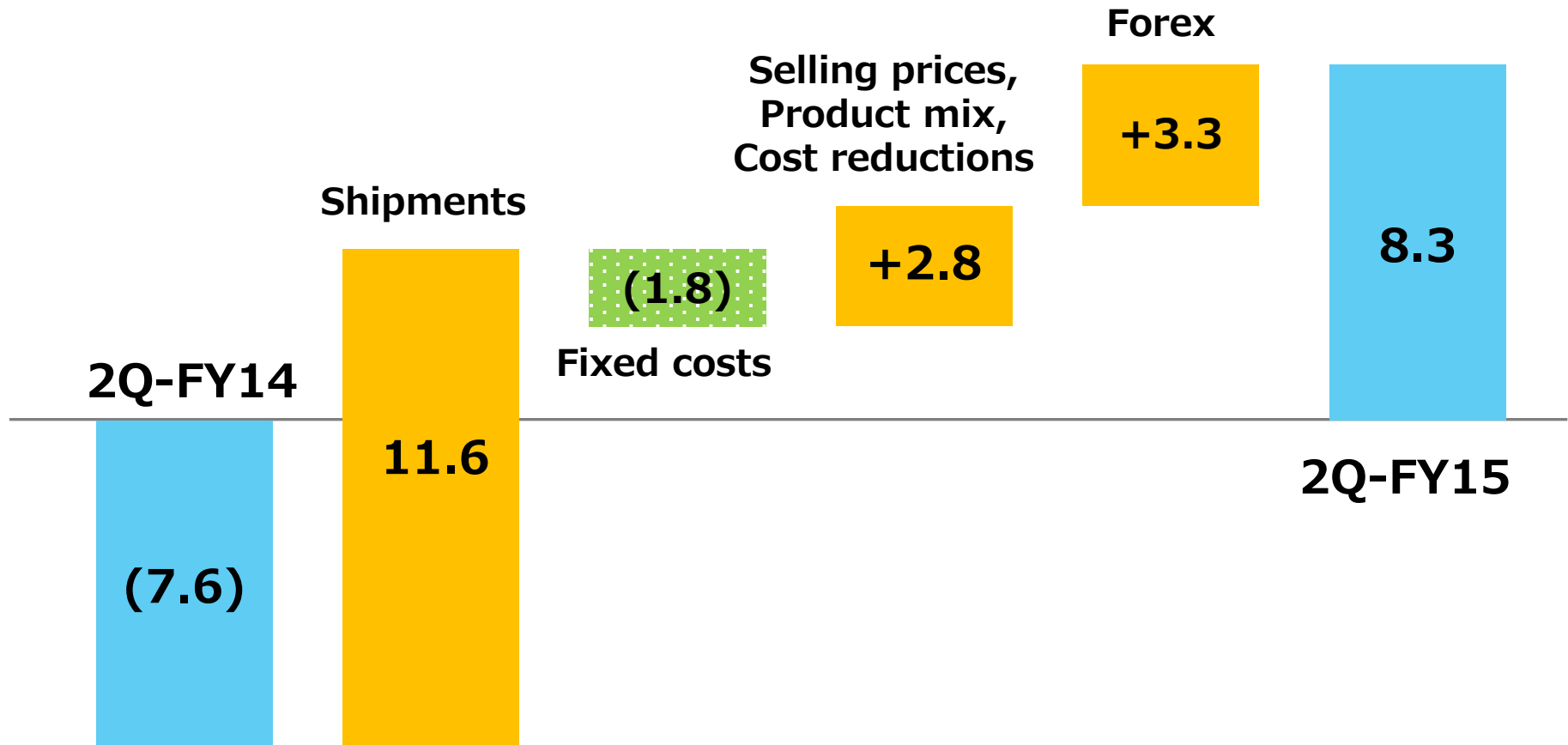
# 1H-FY2015 Consolidated Operating Results

(Billion yen)

	1 H-FY15	1 H-FY14	YoY Chg.	
Net sales	507.9	285.6	+222.3	+77.8%
Cost of sales	465.4	281.6	+183.7	
Gross profit	42.5	3.9	+38.6	+980.8%
	8.4%	1.4%	17.4%	
SG&A	31.9	24.2	+7.7	
Operating income	10.6	(20.3)	+30.9	-
	2.1%	-7.1%	13.9%	
Non-operating profit (loss)	(8.9)	(2.2)	(6.7)	
Ordinary income	1.7	(22.5)	+24.1	-
	0.3%	-7.9%	10.9%	
Extraordinary income (loss)	0.0	(2.1)	+2.1	
Income (loss) before tax	1.7	(24.6)	+26.3	-
	0.3%	-8.6%	11.8%	
Net income (loss)	(0.3)	(27.8)	+27.5	-
	-0.1%	-9.7%	12.4%	
EBITDA	50.8	14.2	+36.7	+258.6%
	10.0%	5.0%	16.5%	

# 2Q-FY 2015 Operating Income (YoY Analysis)

(Billion yen)



# 2Q-FY2015 Balance Sheet

(Billion yen)

	9/2015	3/2015	9/2014
Cash and deposits	51.8	94.6	71.2
Accounts receivable	184.1	144.1	124.9
Other receivables	117.3	62.8	48.3
Inventories	114.9	113.4	103.0
Others	22.4	21.8	29.4
Total current assets	490.5	436.7	376.9
Non-current assets	412.2	394.9	398.3
<b>Total assets</b>	<b>902.7</b>	<b>831.6</b>	<b>775.2</b>
Accounts payable	242.9	197.1	147.6
Interest-bearing debt	84.7	83.5	96.3
Advance payments	83.1	65.3	56.1
Other liabilities	90.4	83.1	94.4
<b>Total liabilities</b>	<b>501.2</b>	<b>429.0</b>	<b>394.4</b>
<b>Total net assets</b>	<b>401.5</b>	<b>402.6</b>	<b>380.7</b>
Shareholders' equity ratio	44.3%	48.2%	49.0%
Net debt to equity ratio	32.9	-11.1	25.1
Merchandise and finished goods	10	12	20
Work in process	19	21	26
Raw materials and supplies	10	11	12
<b>Days in inventory</b>	<b>40</b>	<b>44</b>	<b>58</b>



# 2Q-FY2015 Cash Flow

	(Billion yen)		
	1H-FY15	1H-FY14	Increase/ Decrease
Income before income taxes	1.7	(24.6)	26.3
Depreciation and amortization	40.5	34.6	5.9
Working capital <sup>(1)</sup>	(52.9)	(17.0)	(35.9)
Decrease in advance receipts	17.8	-10.7	28.5
Cash flow from operating activities	13.1	(14.6)	27.7
Acquisitions of property and equipment	(59.4)	(48.2)	(11.2)
Cash flow from investing activities	(57.4)	(47.6)	(9.8)
Cash flow from financing activities	1.3	(9.6)	10.9
Ending balance, cash and equivalents	51.8	71.2	(19.4)
Free cash flow <sup>(2)</sup>	(44.3)	(62.2)	17.9

Negative FCF in 1H-FY15 but expected to turn positive in 2H-FY15 due to working capital improvements, etc.; aiming at full-term positive FCF.

(1) Working capital = Accounts receivable + Inventories + Accounts payable + Other receivables

(2) Free cash flow = Cash flow from operating activities + Cash flow from investing activities

# 3Q-FY2015 Financial Forecast

## 3Q-FY15 forecast

- Net sales: Sales down QoQ to China/Asia customers but strong sales to largest customer to bring total sales to Y300.0bn mark, a first.
- Operating income: Slightly down YoY due to higher fixed costs etc., up Y4.7bn QoQ to Y13.0bn.

(Billion Yen)

	Net sales	Op. income	Dep. & Amort.	R&D expense	FX rate (¥/US\$)
3Q-FY15 (F)	310.0	13.0	21.4	6.3	120.0
2Q-FY15 (A)	261.7	8.3	20.2	6.5	122.3
3Q-FY14 (A)	251.1	14.7	17.4	3.3	114.4

\*Forex impact on op. income: Y1 change = approx. +Y300mn

- Risks: Greater weakness in sales to customers in China

## FY15 costs forecast

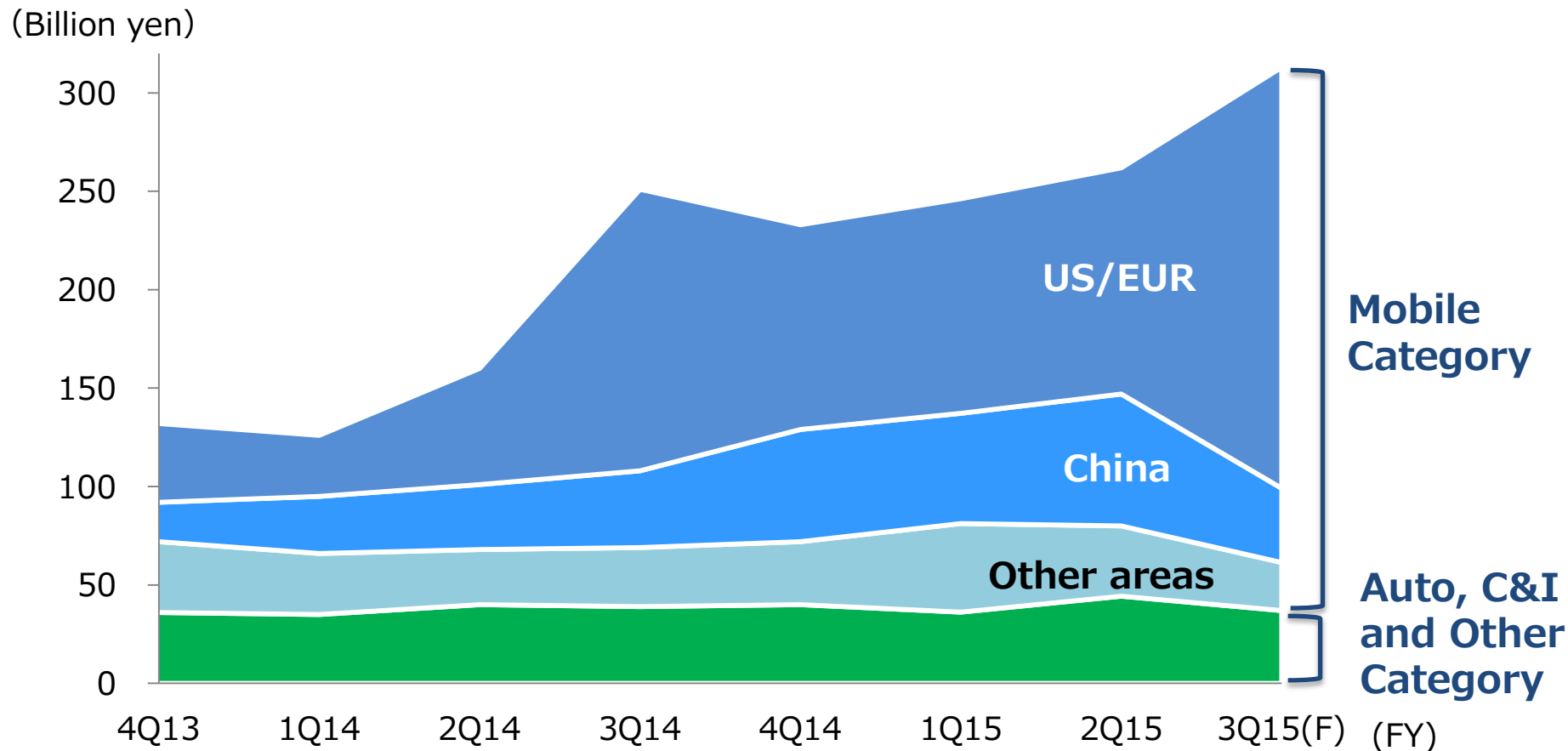
- Dep & amort: ¥85.0bn (+¥14.1bn YoY)
- R&D costs: ¥26.0bn (+10.0bn YoY)
- Capex: ¥210.0bn (incl. amount allocated from advance receipts)

# Market Trends and JDI's Action

Shuji Aruga

President and Chief Operating Officer

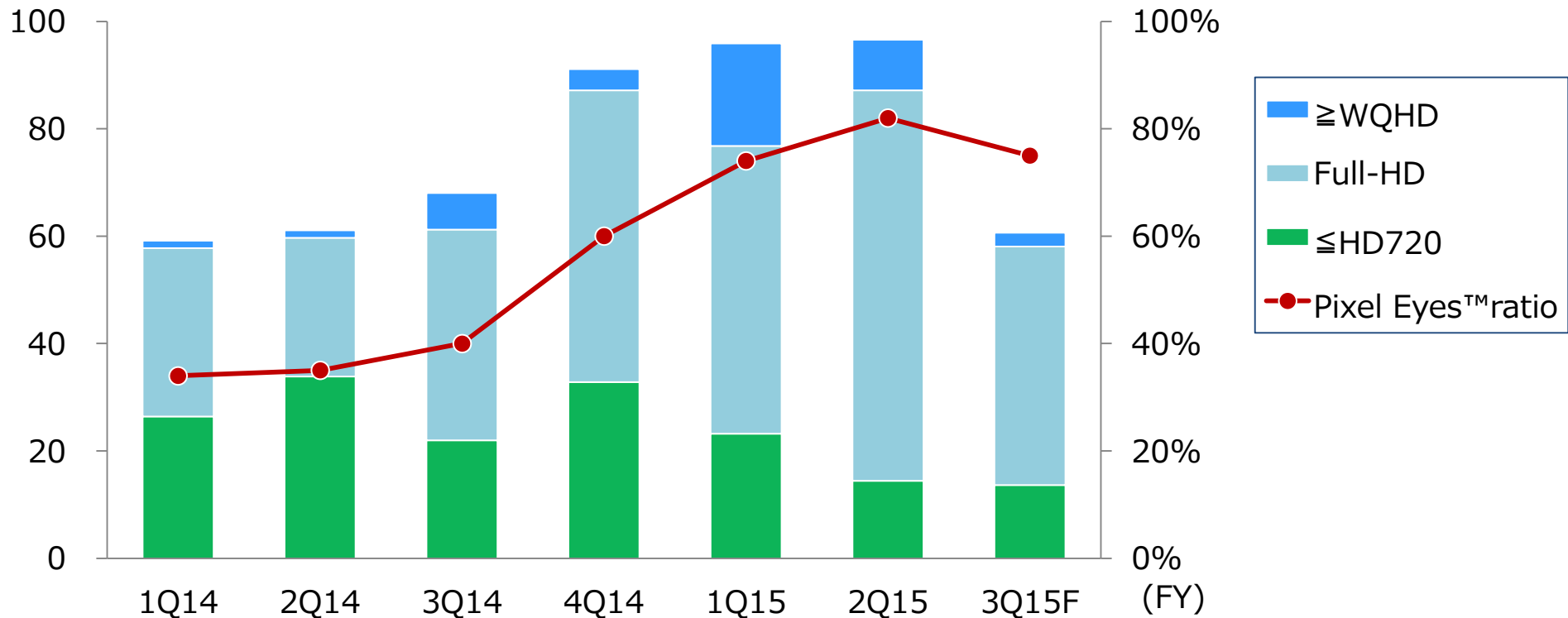
# Quarterly Sales by Product Category and Sales Region



- 3Q-FY15 forecast: Temporary dip in China/other region sales due to tougher mkt competition.
- But US/EUR sales to rise & outweigh sales weakness in China/other regions.

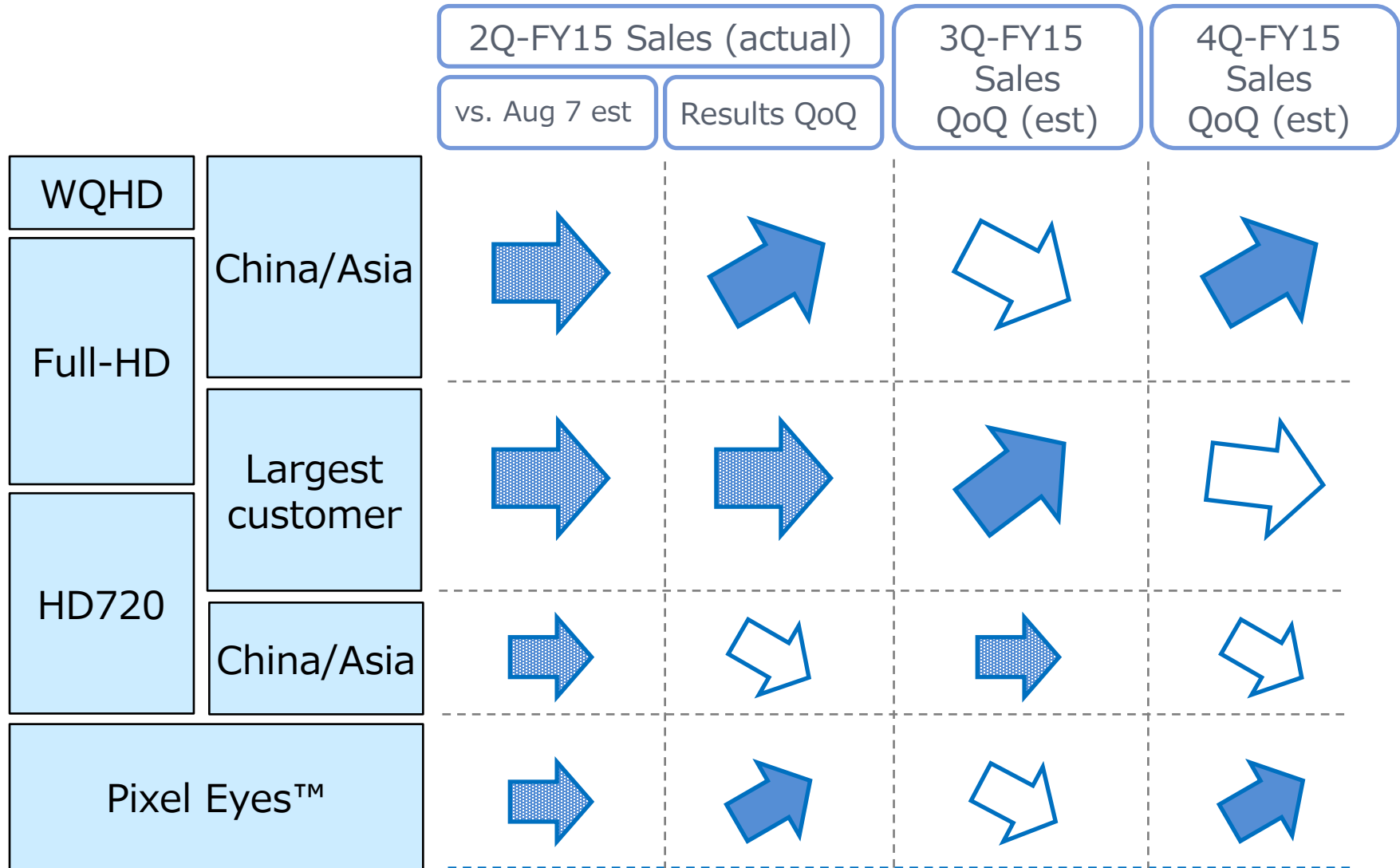
# Sales of Smartphone Displays to China/Asia Customers

(Billion yen)



- 2Q15: Drop in WQHD shipments covered by Full-HD.  
3Q15: Weakness but 2nd-gen Pixel Eyes™, DCI (wide color gamut) compliant models & other new technology product intros etc.; from 4Q15 onward support from order recovery & new customers.
- Pixel Eyes™: In 2Q15 sales ratio exceeded 80% for first time; ratio to dip in 3Q15 but should rise again in 4Q15 on recovery of orders.

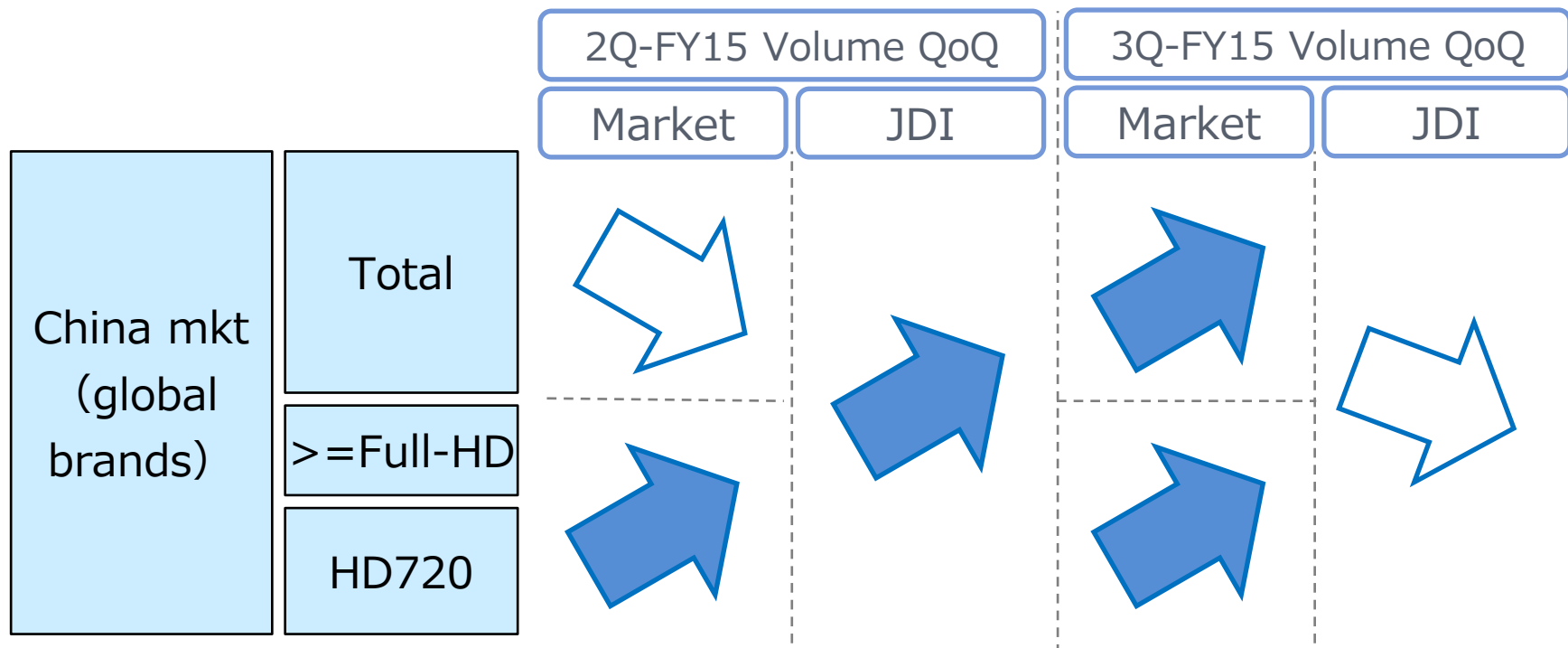
# Sales Forecast by Resolution and Customer Region



# China mkt smartphone displays volume trends (JDI est)

China smartphone mkt demand continues to see rising volume for HD720 & higher resolutions => bigger HD720+ JDI shipment vol. in 2Q-FY15. JDI shipments to China customers to drop in 3Q-FY15 due to tougher competition.

Smartphone display mkt prices to fall 10%/Q but ratio of in-cell touch panels in JDI shipments to rise & better product mix to support avg. prices.



# JDI response to smartphone market volatility

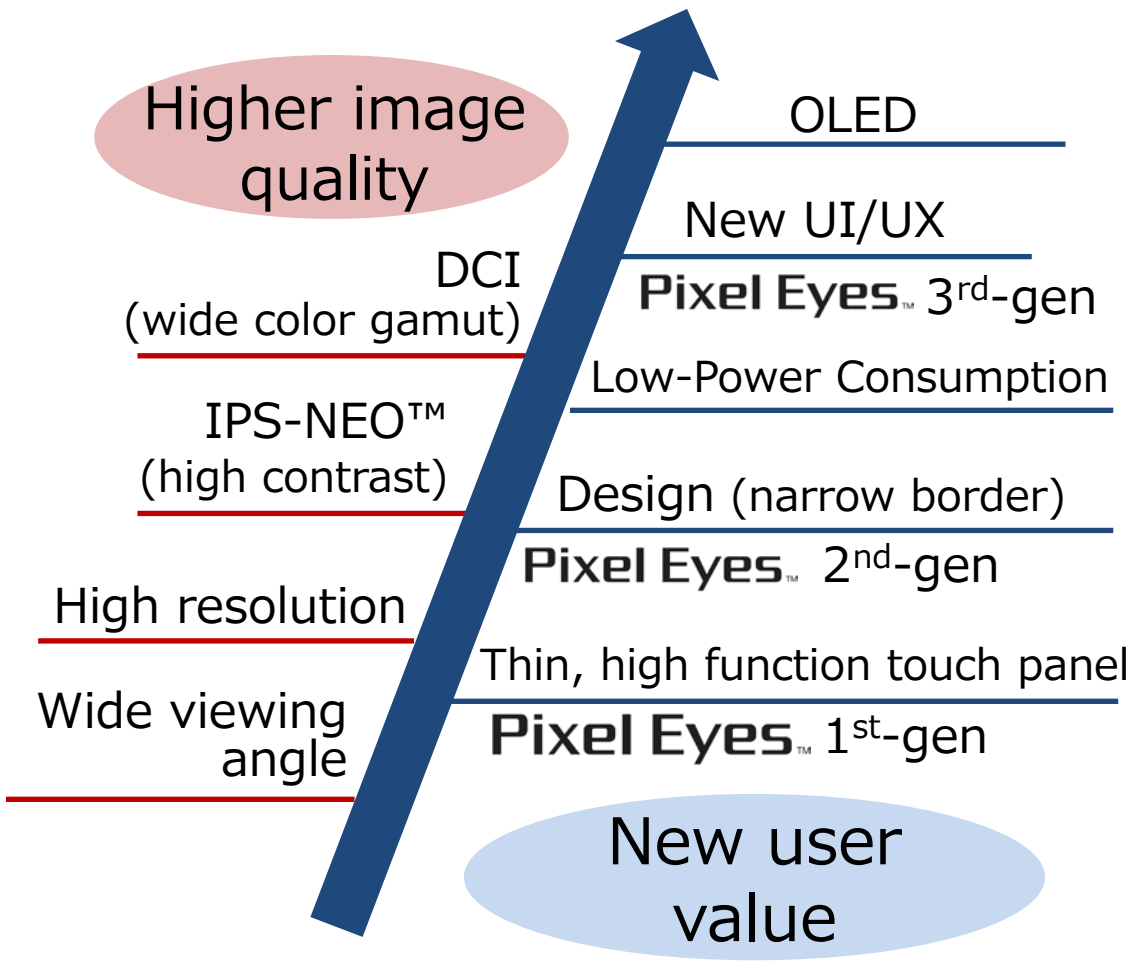
- **Annual sales target (all companies): ¥1 trillion plus**
- Company structure that can withstand smartphone mkt volatility  
→ break-even fab utilization rate in 4Q-FY15 to **improve 25%** YoY
- Marginal profit ratio\* improvement due to mgmt reforms (vs. 1Q-FY15): +3 % points (2Q-FY15) → +6 % points (4Q-FY15)
  - ✓ Collaboration with suppliers to lower procurement costs
  - ✓ Boost mfg yields, minimize mfg losses
  - ✓ Streamline all operations, greater efficiency
  - ✓ Reduce days in inventory
- **2<sup>nd</sup>-gen Pixel Eyes™** shipments to start in 3Q. High Pixel Eyes™ ratio to blunt impact of lower market prices.

\*marginal profit ratio = (sales - variable costs)/sales

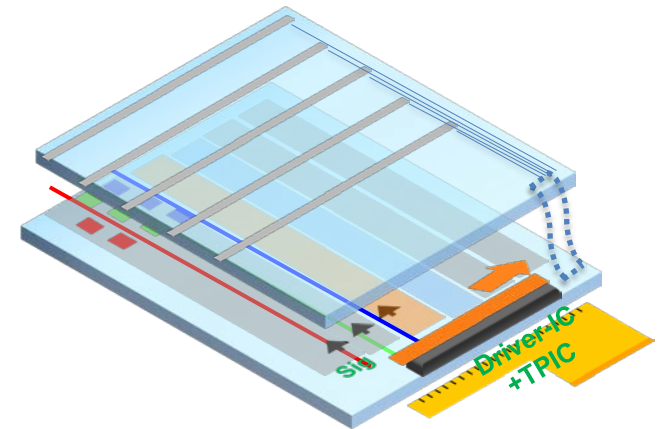


# Secure & Maintain Competitive Edge

Quick-to-mkt new technology  
for higher user value



## Pixel Eyes™ 2nd generation



- ✓ **Narrow border**
- ✓ **Real black**
- ✓ **Water tracking**
- ✓ **High-res stylus**
- ✓ **3D sensing**

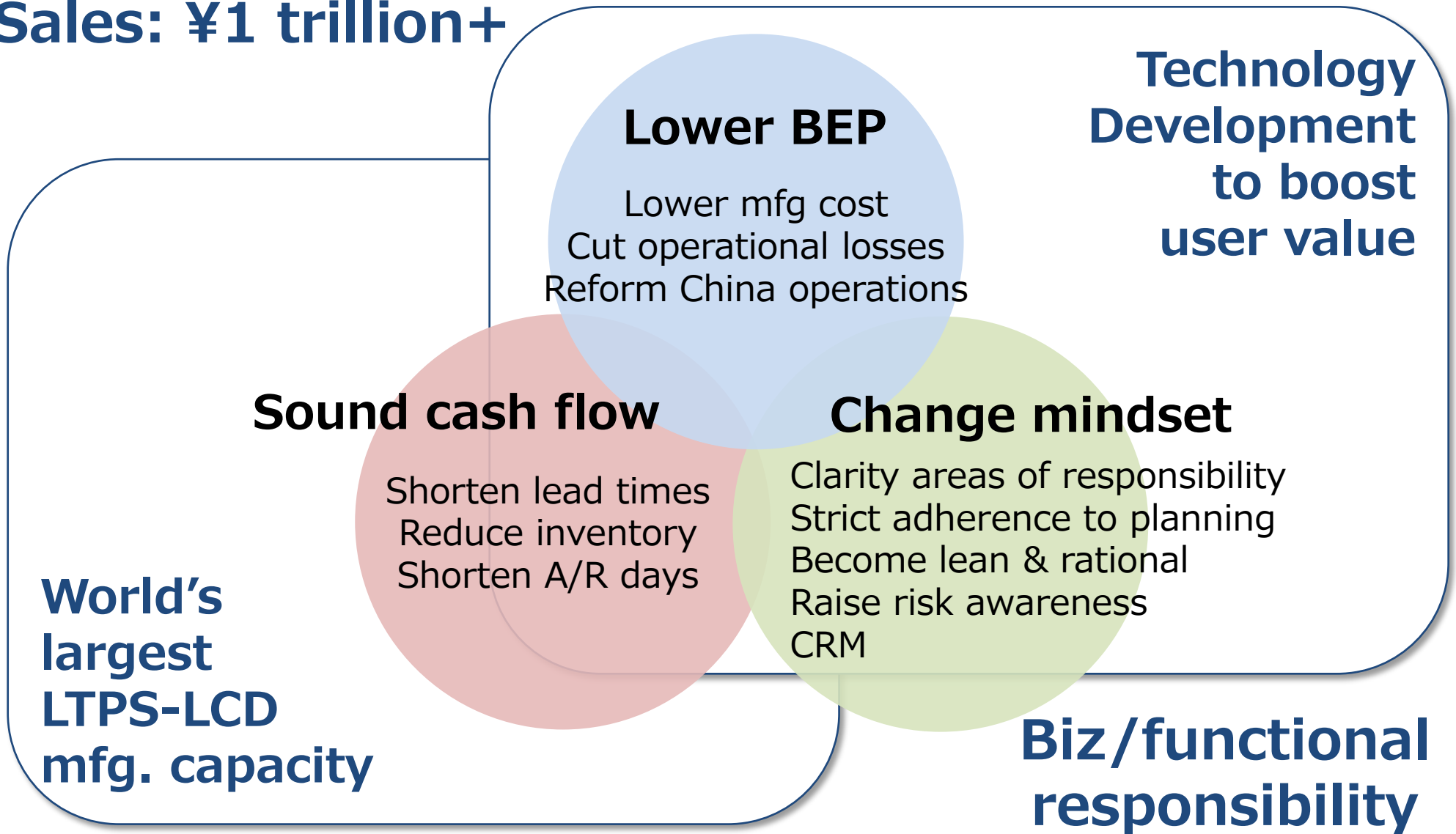
# Progress of Management Reforms

Mitsuru Homma

Chairman, Representative Director & CEO

# Management Reforms to Boost Corporate Value

**Sales: ¥1 trillion+**



## Lower BEP

Lower mfg cost  
Cut operational losses  
Reform China operations

### ✓ Break-even fab utilization rate: 25% boost YoY in 4Q-FY15

Improvement in marginal profit ratio\* due to mgmt reforms (vs. 1Q-FY15):

**+3 % points (2Q) → +6 % points (4Q)**

Improvement in mfg yield losses to sales ratio due to mgmt reforms (vs. 1Q-FY15):

**+2 % points (2Q) → +3 % points (4Q)**

### ✓ Consolidate distribution warehouses in China

Southern China: From 7 to 1 locations during Dec 2015-Feb 2016

Eastern China: From 6 to 2 locations by end-March 2016 (planned)

\*marginal profit ratio = (sales – variable costs)/sales

## Sound cash flow

Shorten lead times  
Reduce inventory  
Shorten A/R days

- ✓ DOS: 29 days by **end-FY15**
- ✓ Break-even fab utilization ratio, DOS improvements, shorter A/R collect period  
→ **Positive FCF in 2H**

## Change mindset

Clarity areas of responsibility  
Strict adherence to planning  
Become lean & rational  
Raise risk awareness  
CRM

- ✓ Oct. 1: Org. changes. **Clearer business responsibility & disciplined planning**
- ✓ **Codify management principles**
- ✓ China business development ctr: Opened Nov. 2. **Customer relations at all company levels (CRM)**

\*DOS: days of stock (=days in inventory)

# Reorganize China operations (China Business Development Ctr)

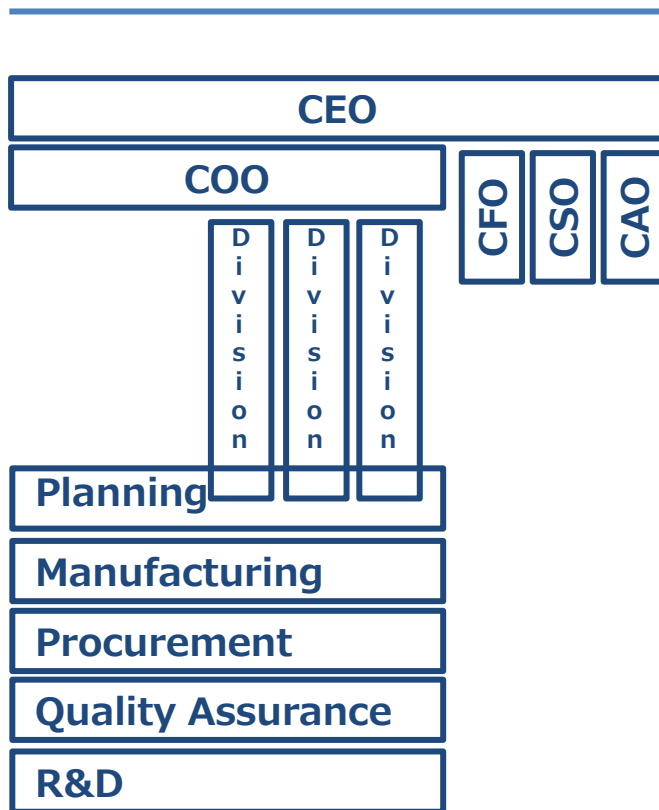
JDI subsidiary JDI China Inc. established a **China Business Development Center** (China BDC; Nov. 2 start-up) in Shenzhen (Guangdong Province) to fully functionally support China/Taiwan customers. Will handle product development for customers supported by our Beijing, Shanghai & Taiwan offices and support all customers including ODMs in China, Taiwan & NICs. Taiwan Display Inc. now specializes in sales functions in Taiwan; design, quality assurance etc. functions to be managed by JDI or China BDC.



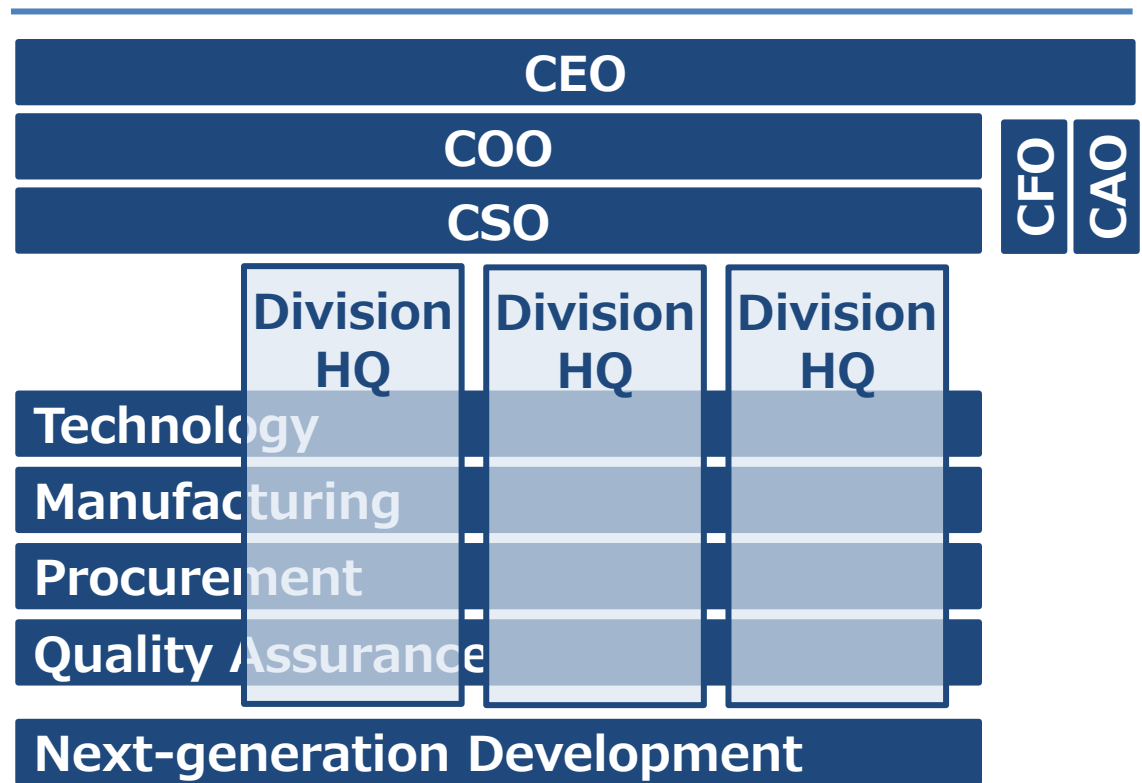
# Organizational Change

Organizational changes instituted Oct. 1. **Divisional profit/loss responsibility & authority clarified.** Each division to have **independent authority** and **strict divisional planning requirements.**

Previous



New Organization



# Management Philosophy/Slogan/Code of Conduct

## Management Philosophy

To contribute to the realization of a prosperous society by delivering beauty and excitement to the world's people through leading-edge technology.

## Slogan

Let's create new value via Live Interface

## Code of Conduct

- |                     |  |
|---------------------|--|
| 1. Creation:        | Being creation professionals                       |
| 2. Challenge:       | Boldly taking on change                            |
| 3. Responsibility:  | Persisting with responsibility and tenacity        |
| 4. Speed:           | Achieving speed                                    |
| 5. Customer-driven: | Planning and creating with the customer            |
| 6. Fairness:        | Being open and fair                                |
| 7. Harmony:         | Contributing to the global environment and society |





### **Forward Looking Statement:**

Any information related to market trends or industries mentioned in this document is based on information available at present and JDI does not guarantee that this information is accurate or complete.

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