



Japan  
Display  
Inc.  
Group

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

**Japan Display Inc.**

**February 8, 2016**

# Agenda

1. 3Q-FY15 Financial Results & 4Q Guidance
2. Market Trends & JDI's Action
3. Progress of Management Reforms & Creating Stable Operating Base

**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.

# **3Q-FY2015 Results & 4Q Guidance**

**Keiichi Yoshida**  
**Chief Financial Officer**

# 3Q-FY 2015 Topics

- Sales to China/other regions fell due to increased competition but with higher sales to a major customer total sales up 21% YoY to ¥305.0bn, in line with forecast.
- Worse product mix YoY was a minus but operational reforms to lower costs & fixed costs led to ¥13.3bn in op. income, in line with forecast.
- Customer demand slowdown apparent at end-3QFY15. Accelerating push to lower defective goods & back-end operations cost ratios, material costs etc.

(Billion Yen)

	Net sales	Op. income	Dep. & Amort.	R&D expense	FX rate (¥/US\$)
3Q-FY15(A)	305.0	13.3	20.3	3.9	121.5
3Q-FY15 (F)	310.0	13.0	21.4	6.3	120.0
3Q-FY14 (A)	251.1	14.7	17.4	3.3	114.4

# Operating Results (3 Mo. Ended Dec. 31, 2015)

(Billion yen)

	Q3-FY15	Q3-FY14	YoY Chg.	Q2-FY15	QoQ Chg.
Net sales	305.0	251.1	53.9	261.7	43.3
Cost of sales	278.8	224.4	54.4	237.1	41.7
Gross profit	26.1	26.7	(0.6)	24.6	1.5
	8.6%	10.6%		9.4%	
SG&A	12.8	12.0	0.8	16.3	(3.5)
Operating income	13.3	14.7	(1.4)	8.3	5.0
	4.4%	5.9%		3.2%	
Non-operating profit (loss)	(5.1)	3.6	(8.7)	(6.6)	1.5
Ordinary income	8.2	18.3	(10.1)	1.8	6.4
	2.7%	7.3%		0.7%	
Extraordinary income (loss)	(1.1)	1.1	(2.2)	0.0	(1.1)
Income before tax	7.1	19.4	(12.3)	1.8	5.3
	2.3%	7.7%		0.7%	
Net profit	4.7	19.2	(14.5)	0.1	4.6
	1.6%	7.6%		0.1%	
EBITDA	33.0	32.0	1.0	28.4	4.6
	10.8%	12.7%		10.8%	

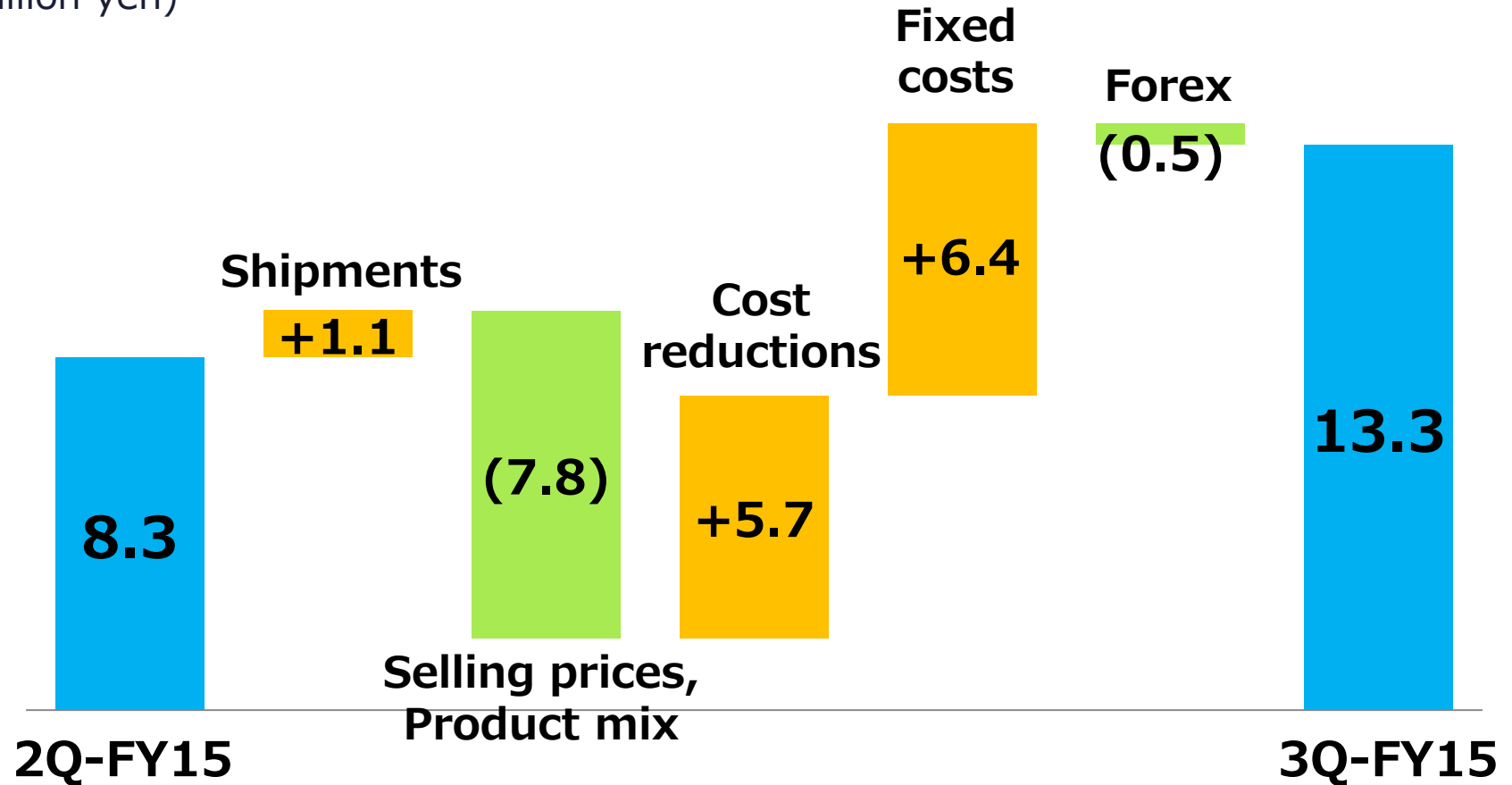
# Operating Results (9 Mo. Ended Dec. 31, 2015)

(Billion yen)

	9 mo. ended Dec.31, 2015	9 mo. ended Dec.31, 2014	YoY Chg.	
Net sales	812.8	536.7	276.1	+51.4%
Cost of sales	744.2	506.1	238.1	
Gross profit	68.6	30.7	38.0	+123.9%
	8.4%	5.7%		
SG&A	44.7	36.2	8.5	
Operating income (loss)	23.9	(5.6)	29.5	-
	2.9%	-1.0%		
Non-operating profit (loss)	(14.0)	1.4	(15.4)	
Ordinary income (loss)	9.9	(4.2)	14.0	-
	1.2%	-0.8%		
Extraordinary loss	(1.1)	(1.1)	(0.0)	
Income (loss) before tax	8.8	(5.2)	14.0	-
	1.1%	-1.0%		
Net income (loss)	4.4	(8.6)	13.0	-
	0.5%	-1.6%		
EBITDA	83.8	46.2	37.6	+81.5%
	10.3%	8.6%		

# 3Q-FY 2015 Operating Income (QoQ Analysis)

(Billion yen)



# Balance Sheet

(Billion yen)

	12/2015	3/2015	12/2014
Cash and deposits	120.0	94.6	89.1
Accounts receivable	139.9	144.1	159.6
Other receivables	106.3	62.8	78.6
Inventories	119.7	113.4	109.7
Others	23.9	21.8	26.4
Total current assets	509.8	436.7	463.4
Non-current assets	441.4	394.9	394.8
<b>Total assets</b>	<b>951.2</b>	<b>831.6</b>	<b>858.1</b>
Accounts payable	270.8	197.1	221.2
Interest-bearing debt	74.2	83.5	86.6
Advance payments	112.8	65.3	52.1
Other liabilities	88.4	83.1	92.4
<b>Total liabilities</b>	<b>546.3</b>	<b>429.0</b>	<b>452.2</b>
<b>Total net assets</b>	<b>404.9</b>	<b>402.6</b>	<b>406.0</b>
Shareholders' equity ratio	42.4%	48.2%	47.1%
Net debt to equity ratio	-45.7	-11.1	-2.5
Merchandise and finished good	17	12	12
Work in process	12	21	18
Raw materials and supplies	7	11	9
<b>Days in inventory</b>	<b>35</b>	<b>44</b>	<b>39</b>



# Cash Flow (9 Mo.)

	(Billion yen)		
	9 mo. ended Dec.31, 2015	9 mo. ended Dec.31, 2014	Increase/ Decrease
Income before income taxes	8.8	(5.2)	14.0
Depreciation and amortization	60.7	52.0	8.7
Working capital <sup>(1)</sup>	25.9	(2.4)	28.3
Decrease in advance receipts	47.5	(14.8)	62.3
Cash flow from operating activities	143.9	28.5	115.4
Acquisitions of property and equipment	(112.3)	(70.4)	(41.9)
Cash flow from investing activities	(108.7)	(62.4)	(46.3)
Cash flow from financing activities	(9.2)	(20.4)	11.2
Ending balance, cash and equivalents	120.0	89.1	30.9
Free cash flow <sup>(2)</sup>	35.2	(34.0)	69.2

Due to earnings growth, higher A/R efficiency etc. 9-month FCF in black at ¥35.2bn. Expect lower FCF in 4Q but full-term goal is finishing black.

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

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

# 4Q-FY2015 Financial Forecast

- Sales: Fall in customer demand likely to lower sales by 38% QoQ.
- Op. income: Pushing further operational cost cuts, but large marginal profit decline from lower sales & higher OLED development R&D costs mean ¥1.9bn loss likely. Full-term: improvement expected.
- Sales recovery & further cost cutting measures underway or under consideration.

(Billion Yen)

	Net sales	Op. income	Dep. & Amort.	R&D expense	FX rate (¥/US\$)
4Q-FY15 (F)	190.2	(1.9)	20.3	7.5	115.0
3Q-FY15 (A)	305.0	13.3	20.3	3.9	121.5
4Q-FY14 (A)	232.6	10.7	18.9	5.2	119.2
FY 2015 (F)	1,003.0	22.0	81.0	24.0	
FY 2014 (A)	769.3	5.1	70.9	16.0	

\*Forex impact on op. income: Y1 change = approx. +Y100mn / quarter

**YoY**  
**Net sales : 130%**  
**Op. income : 427%**

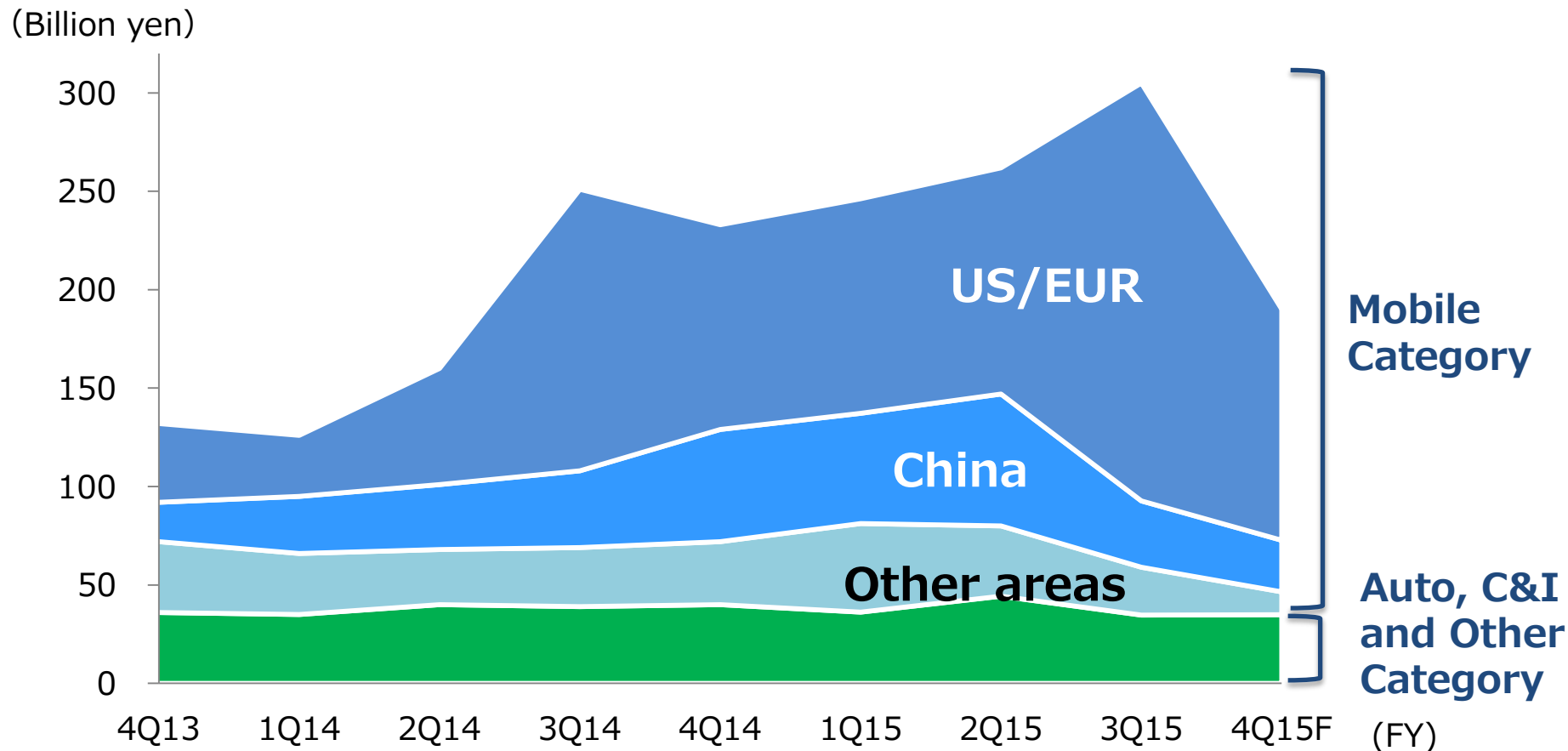
- FY 2015 CAPEX: ¥185.0bn (incl. amount allocated from advance receipts)

# **Market Trends and JDI's Action**

**Shuji Aruga**

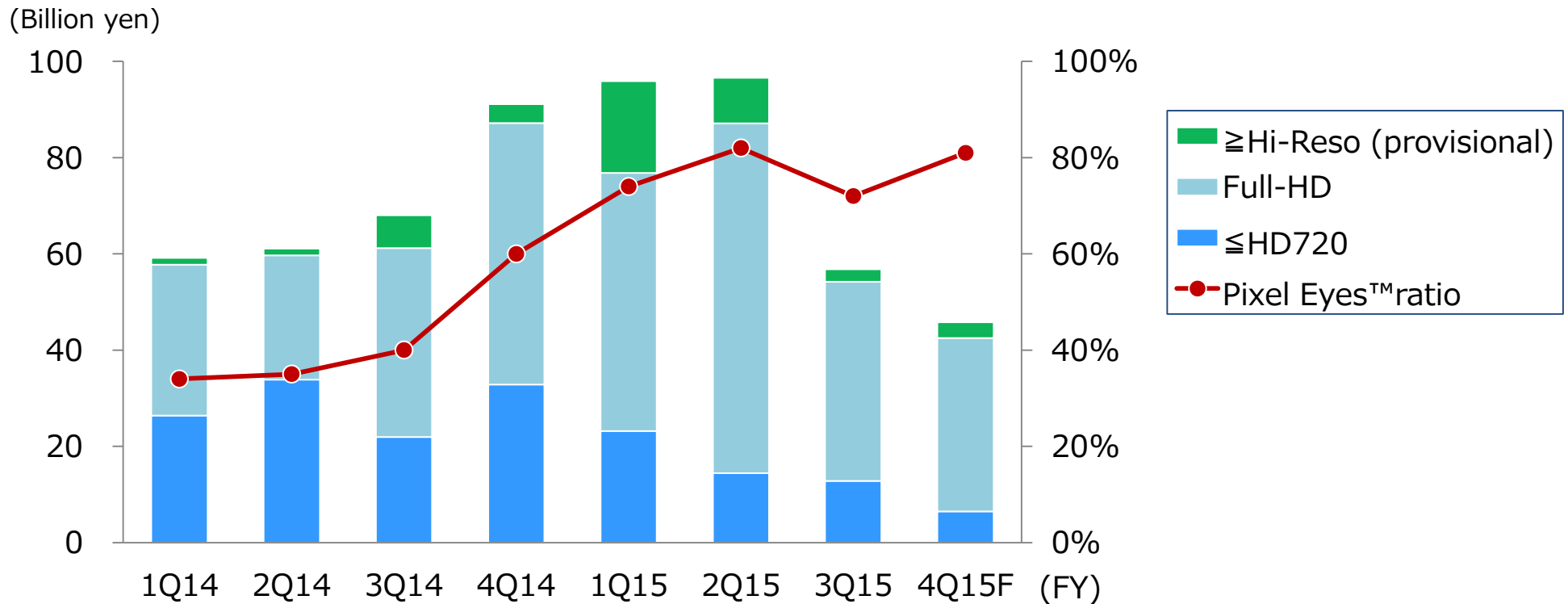
**President and Chief Operating Officer**

# Quarterly Sales by Product Category and Sales Region



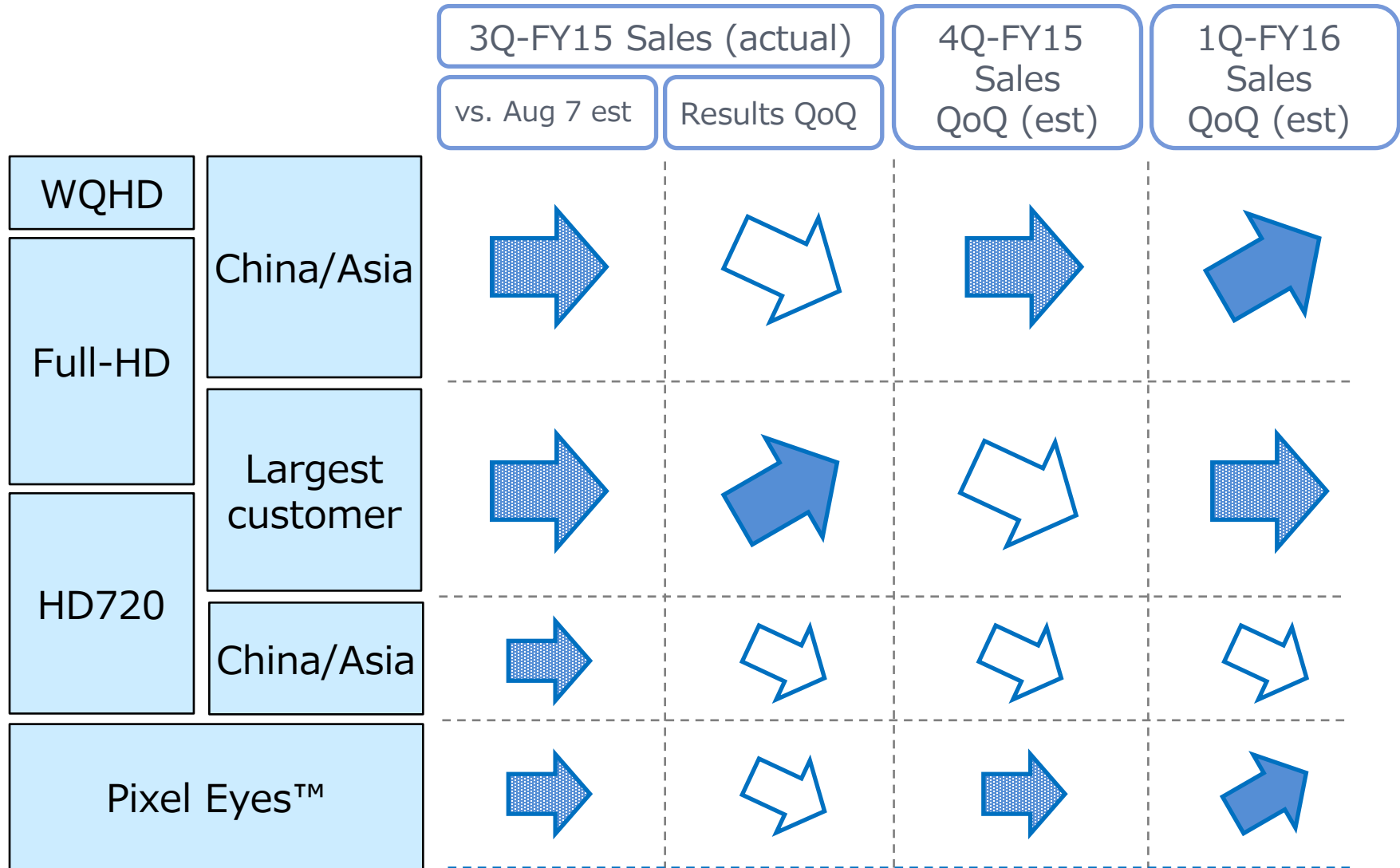
- 3Q-FY15 sales to China/other reg. down QoQ due to increased competition. Also, softness in total smartphone mkt. means stagnant sales thru 1Q-FY16 but from 2Q-FY16 aim for recovery.

# Sales of Smartphone Displays to China/Asia Customers



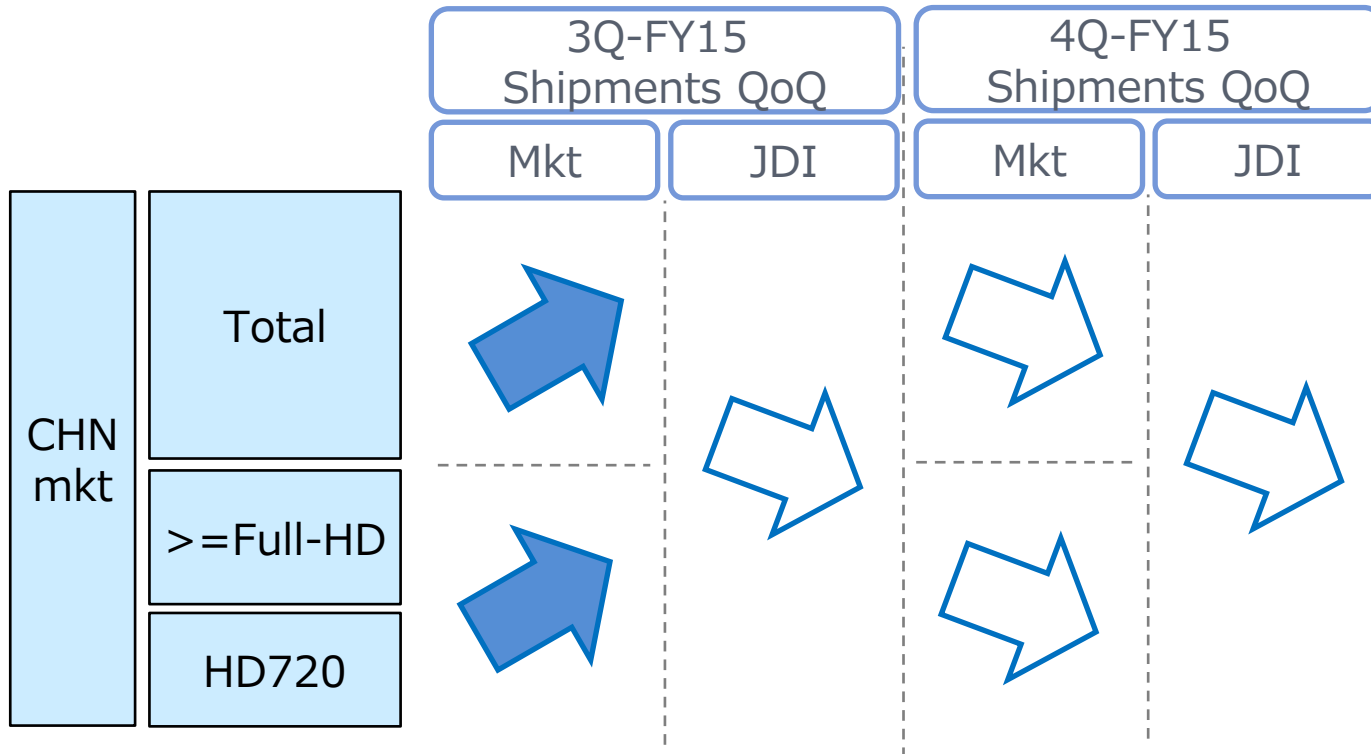
- 3Q15 was in line with forecast but 4Q15 to fall short of our mid-Nov. forecast due to slowdown in smartphone mkt & changes in customer-side plans etc.; thus 4Q to be down QoQ.
- Full Gen-2 Pixel Eyes™ shipments to start in 4Q15. Expect Gen-2 shipments to exceed Gen-1 shipments in 1Q16.

# Sales Forecast by Resolution and Customer Region

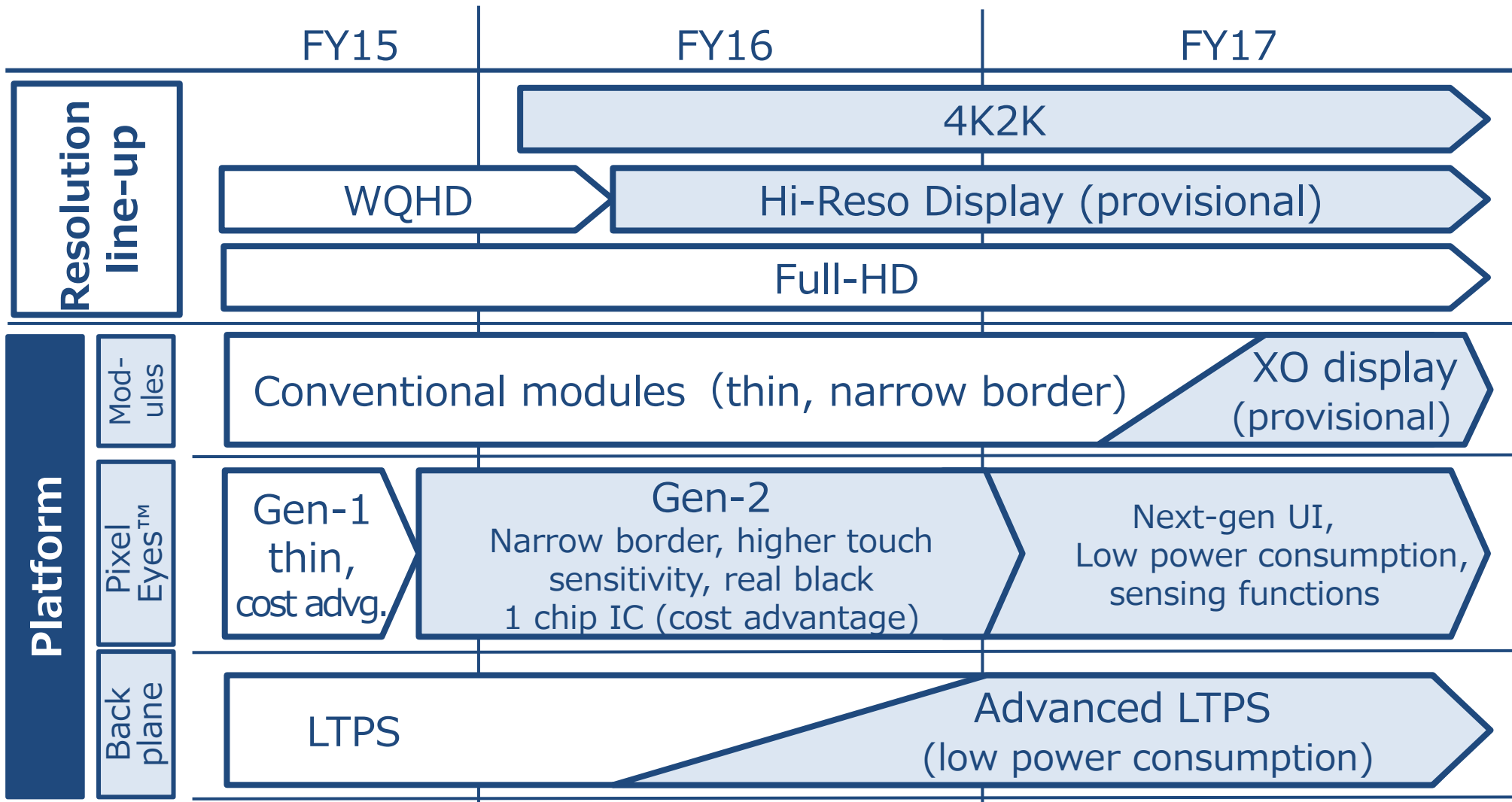


# Vol. Sales of Smartphone Displays in CHN mkt (JDI est)

- Demand in China smartphone mkt → steady vol. sales growth of  $\geq$ HD720; 4Q-FY15: Mkt seasonality, China mkt weakness → lower  $\geq$ HD720 vol. sales.
- JDI 3Q-FY15 shipments down on greater competition with OLED in high price range mkt; med. price range LTPS also lower due to competition.
- Ramping up competitive products to meet goal of FY16 sales recovery.



# Road Map Of Products That Can Win Through





# **Progress of Management Reforms & Creating Stable Operating Base**

**Mitsuru Homma**

**Chairman and Chief Executive Officer**

# Management Reform Achievements (1)

## Lower BEP

Lower mfg cost  
Lower fixed cost  
Cut operational losses  
Reform China operations

- FY15-4Q break-even fab utilization rate est.: 27 pts lower than FY15-1Q.
- Major boost from cuts in defectives, materials & fixed costs.

## Sound cash flow

Shorten lead times  
Reduce inventory  
Shorten A/R days

- 9-month FCF: in black at ¥35.2bn

## Change mindset

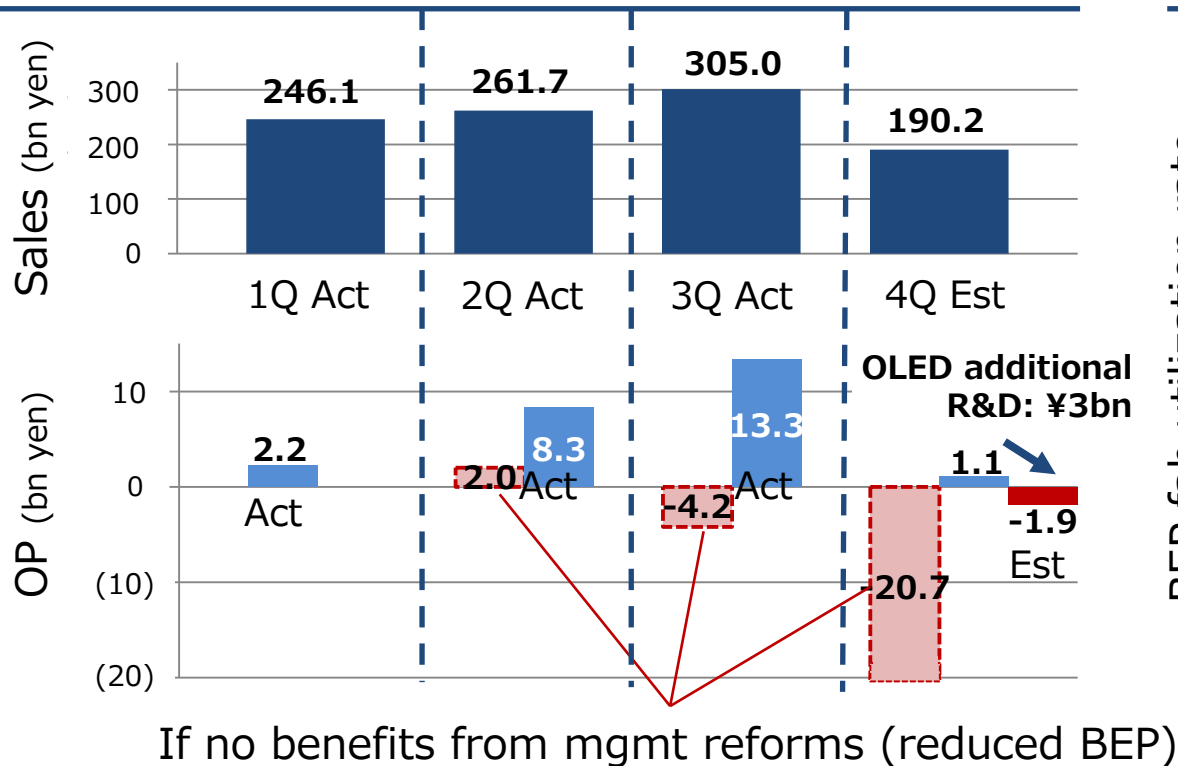
Clarity areas of responsibility  
Strict adherence to planning  
Become lean & rational  
Raise risk awareness  
CRM

- Division HQ: Run operations via self-mgmt responsibility
- 3Q results est = Biz plan achieved

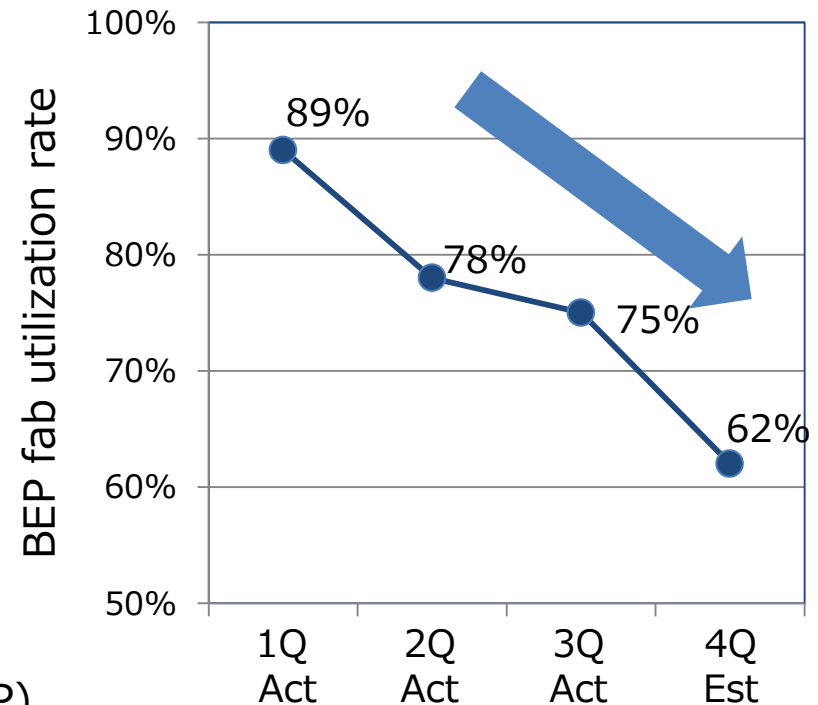
# Management Reform Achievements (2)

- Lower than planned BEP => positive op. income impact of ¥39.3bn in 2H-FY15, ¥45.6bn FY15 full year.
- 4Q: Incr. competition, seasonality, China mkt weakness => big drop in utilization rate likely but improved biz structure to enable a profit; op. income est: -¥1.9bn when OLED ¥3.0bn R&D costs added

## Benefits of mgmt. reforms on op. income



## Break-even fab utilization rate



# Stable Operating Base (Growth Strategy)

Jul 2015

Apr 2016

2018

**1st  
phase**

## Management reform project

- Lower BE fab utilization rate
- Sound cash flow
- Change mindset

Continuous improvement

**2nd  
phase**

## Structural reform project

- Fundamental fixed costs cuts

**OP 3%  
EBITDA 10%  
ROE 1%  
(3Q15 Act)**

**3rd  
phase**

## Business restructure project

- 1) Mobile : Competitive products faster to mkt
- 2) Auto : a-Si→accelerate LTPS
- 3) 3rd pillar : Grow reflective LCD, med size 4K2K
- 4) OLED : Putting resources into 2018 mass mfg start

**Goals:  
OP 10%  
EBITDA 20%  
ROE >10%**



### **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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