



Japan  
Display  
Inc.  
Group

**Third Quarter of FY 2018**  
**(Oct. 1, 2018 – Dec. 31, 2018)**  
**Consolidated Financial Results**

**Japan Display Inc.**  
**February 14, 2019**

# Today's Speakers

**Yoshiyuki Tsukizaki**

Chief Operating Officer and President

**Takanobu Oshima**

Chief Financial Officer

# Highlights of Q3-FY18 Results

Q3  
(3 mo)

- Greater-than-expected decline in demand for FULL ACTIVE™ for smartphones held Q3 net sales to ¥251.1bn, up only 126% QoQ.
- Operating income was positive for the first time in seven quarters, but ¥3.8bn in profit (up ¥8.5bn QoQ) was not commensurate with the sales amount due to a lower gross margin resulting from a less favorable sales mix and intensifying competition.

Q3 YTD  
(9 mo)

- Despite ¥100bn net sales decline YoY, the operating loss shrunk by nearly ¥30bn owing to fixed cost reductions achieved thru FY 2017 structural reforms. However, sales fell short of expectations, leaving JDI unable to return to profit.

(Billion yen)

	Net sales	Operating income	Ordinary income	Net income	Dep. & Amort.	R&D expense	FX rate (¥/US\$)
3Q-FY18	251.1	3.8	(0.7)	(1.3)	11.4	3.3	112.9
2Q-FY18	111.0	(4.7)	(6.3)	(7.8)	11.0	2.8	110.3
3Q-FY17	191.7	(12.1)	(18.4)	(32.6)	22.2	3.8	113.0
3Q-FY18 YTD (9mo)	465.3	(10.6)	(19.7)	(10.9)	34.5	10.3	111.2
3Q-FY17 YTD (9mo)	565.6	(38.9)	(58.5)	(100.6)	69.8	14.7	111.7

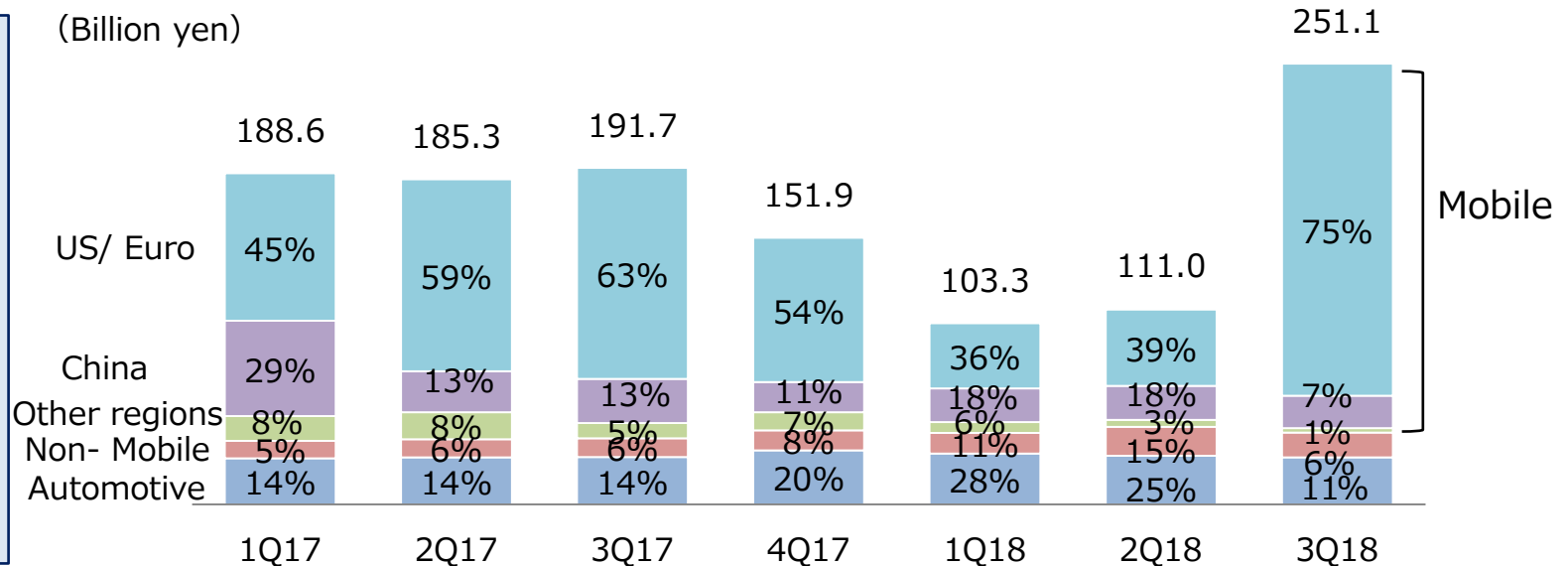
Q3-FY18 major non-operating expenses: Equity in losses of affiliates of ¥1.8 billion and foreign exchange losses of ¥1.3 billion

# Business Conditions

## Q3 Biz Conditions

- Total Q3 sales rose 126% QoQ and 31% YoY, but fell short of expectations due to a significant drop in demand from major customers.
- Increase in shipments to US/Euro regions contributed to higher Q3 net sales. Mobile display business for China/other regions remained severe due to customer adoption of OLED and intensifying market competition.
- Automotive display sales were almost flat QoQ and YoY due to YoY decline in auto sales resulting from new emission test standards in Europe.
- Non-mobile device category sales declined QoQ mainly due to decline in sales for DSCs, but wearables, notebook PCs, etc. remained solid.

## Sales by Region/ Application



# 3Q - FY 2018 Operating Results

(Billion yen)

	Q3-FY18	Q3-FY17	YoY Chg.		Q2-FY18	QoQ Chg.	
Net sales	<b>251.1</b>	191.7	+59.3	+30.9%	111.0	+140.1	+126.2%
Cost of sales	<b>235.7</b>	189.5	+46.2	+24.4%	103.6	+132.1	+127.4%
Gross profit (loss)	<b>15.4</b> 6.1%	2.2	+13.1	+594.1%	7.4	+8.0	+108.6%
SG&A	<b>11.5</b>	14.3	(2.8)	-19.5%	12.0	(0.5)	-4.3%
Operating income (loss)	<b>3.8</b> 1.5%	(12.1)	+15.9	-	(4.7)	+8.5	-
Net non-op. income (expenses)	<b>(4.5)</b>	(6.3)	+1.7	-	(1.6)	(2.9)	-
Ordinary income (loss)	<b>(0.7)</b> -0.3%	(18.4)	+17.7	-	(6.3)	+5.6	-
Net extraordinary income (loss)	-	(14.7)	+14.7	-	-	-	-
Income (loss) before income taxes	<b>(0.7)</b> -0.3%	(33.1)	+32.4	-	(6.3)	+5.6	-
Income taxes	<b>0.6</b>	0.3			1.2		
Net income (loss) attributable to owners of the parent	<b>(1.3)</b> -0.5%	(32.6)	+31.2	-	(7.8)	+6.4	-
EBITDA	<b>15.2</b> 6.0%	8.1	+7.1	+87.4%	6.2	+8.9	+143.8%
Avg. FX rate (JPY/USD)	<b>112.9</b>	113.0			110.3		
Q-End FX rate (JPY/USD)	<b>111.0</b>	113.0			113.6		

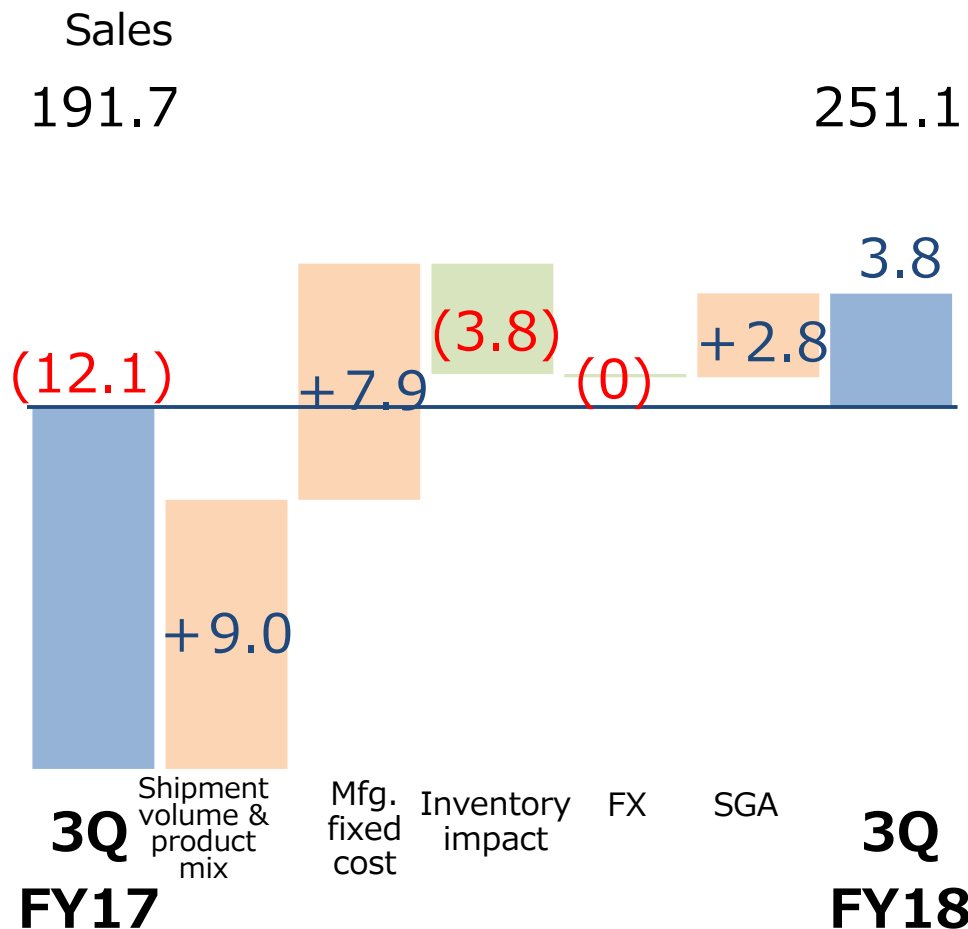
# 3Q YTD - FY 2018 Operating Results

(Billion yen)

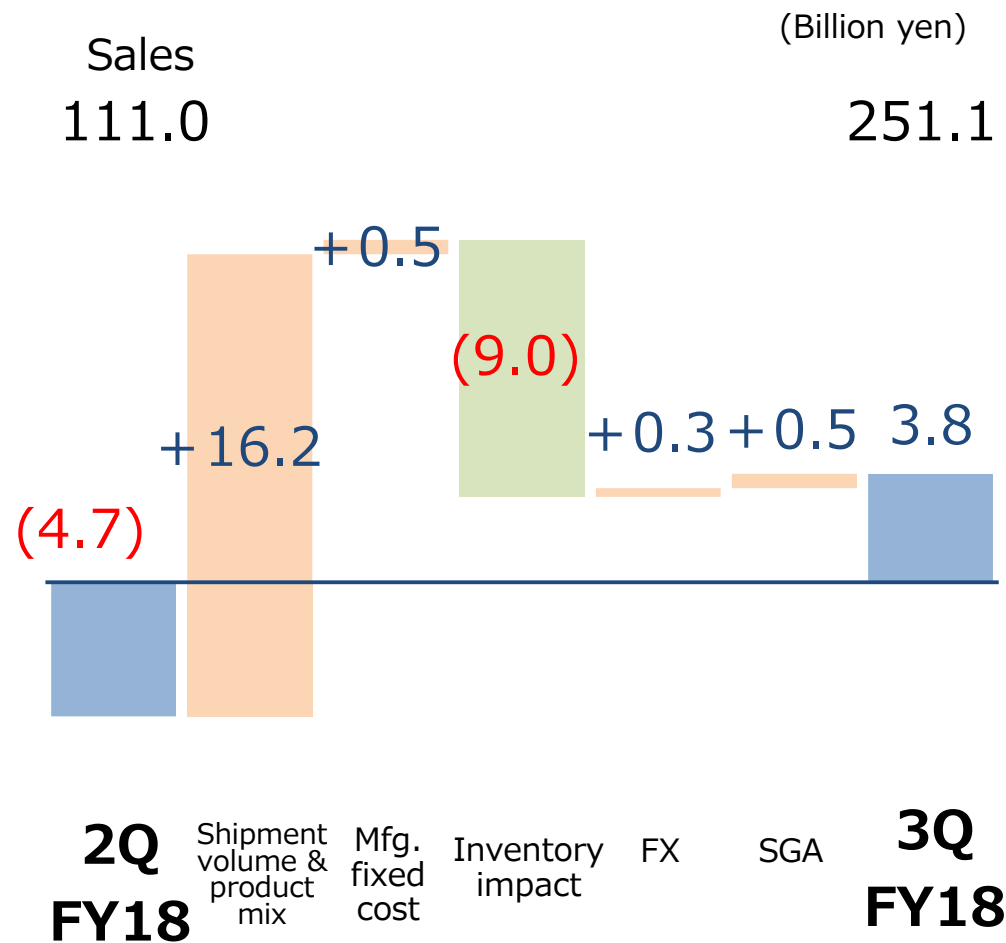
	3Q YTD -FY18	3Q YTD -FY17	YoY Chg.	
Net sales	<b>465.3</b>	565.6	(100.3)	-17.7%
Cost of sales	<b>441.4</b>	560.3	(118.9)	-21.2%
Gross profit	<b>23.9</b>	5.3	+18.6	+350.8%
	5.1%	0.9%		
SG&A	<b>34.6</b>	44.2	(9.7)	-21.8%
Operating income (loss)	<b>(10.6)</b>	(38.9)	+28.3	-
	-2.3%	-6.9%		
Net non-op. income (expenses)	<b>(9.1)</b>	(19.6)	+10.5	
Ordinary income (loss)	<b>(19.7)</b>	(58.5)	+38.8	-
	-4.2%	-10.3%		
Net extraordinary income (loss)	<b>11.9</b>	(32.7)	+44.6	
Income (loss) before income taxes	<b>(7.8)</b>	(91.2)	+83.4	-
	-1.7%	-16.1%		
Income taxes	<b>2.6</b>	9.4		
Net income (loss) attributable to owners of the parent	<b>(10.9)</b>	(100.6)	+89.7	-
	-2.3%	-17.8%		
EBITDA	<b>23.4</b>	24.3	(0.9)	-3.7%
	5.0%	4.3%		
Avg. FX rate (JPY/USD)	<b>111.2</b>	111.7		

# Operating Profit Change Factors

vs. Previous Year (3Q-FY17)



vs. Previous quarter (2Q-FY18)



# Balance Sheet

	(Billion yen)			
	12/2018	9/2018	3/2018	12/2017
Cash and deposits	54.4	62.2	80.9	60.4
Accounts receivable - trade	119.4	80.9	82.9	100.7
Accounts receivable - other	80.6	67.3	42.8	62.7
Inventories	80.4	78.1	58.2	80.9
Other	11.2	20.1	6.1	7.4
Total current assets	345.9	308.5	270.8	312.2
Total non-current assets	334.0	339.9	343.9	451.0
<b>Total assets</b>	<b>680.0</b>	<b>648.4</b>	<b>614.6</b>	<b>763.1</b>
Accounts payable - trade	204.8	149.7	117.8	153.0
Interest-bearing debt	185.8	183.1	188.1	164.4
Advances received	109.3	115.2	128.3	136.0
Other liabilities	74.9	93.5	98.4	79.9
<b>Total liabilities</b>	<b>574.8</b>	<b>541.5</b>	<b>532.6</b>	<b>533.3</b>
<b>Total net assets</b>	<b>105.1</b>	<b>106.8</b>	<b>82.0</b>	<b>229.9</b>
Shareholders' equity ratio	15.1%	16.2%	13.1%	29.8%
Net debt	131.5	120.9	107.2	104.0
Merchandise and finished goods	11	25	10	13
Work in process	12	28	15	19
Raw materials and supplies	7	15	8	7
<b>Days in inventory*</b>	<b>31</b>	<b>68</b>	<b>33</b>	<b>38</b>

\*Days in inventory = Inventory / Cost of goods sold × 90days



# Cash Flows

## ■ JGAAP

(Advances received are included in Operating CF)

	(Billion yen)		
	Q1-FY18	Q2-FY18	Q3-FY18
Income bef. income taxes	(0.8)	(6.3)	(0.7)
Dep. & Amort.	12.1	11.0	11.4
Working capital	(5.3)	(3.5)	(1.8)
Advances received	(7.3)	(5.7)	(6.0)
Other	(23.9)	(1.3)	(3.2)
<b>CF from operating activities</b>	<b>(25.1)</b>	<b>(5.9)</b>	<b>(0.3)</b>
Acquisitions of P&E	(11.6)	(17.7)	(9.5)
Other	11.3	(1.2)	0.3
<b>CF from investing activities</b>	<b>(0.3)</b>	<b>(18.9)</b>	<b>(9.2)</b>
<b>CF from financing activities</b>	<b>22.9</b>	<b>7.2</b>	<b>2.8</b>
Ending bal., cash & equiv.	78.9	62.2	54.4
<b>Free cash flow</b>	<b>(25.4)</b>	<b>(24.8)</b>	<b>(9.6)</b>

Major "Other" items:

Operating CF (1Q):

Dec. in accrued exp. (Structural reform. etc.)    ¥ (5.2) bn

Gain on change in equity:                            ¥(11.9) bn

Investing CF (1Q):

Proceeds from sale of non-current assets        +¥18.8 bn

## ■ Internal business administration

(Advances received are regarded as long-term liabilities & included in financing CF)

	(Billion yen)		
	Q1-FY18	Q2-FY18	Q3-FY18
Income bef. income taxes	(0.8)	(6.3)	(0.7)
Dep. & Amort.	12.1	11.0	11.4
Working capital	(5.3)	(3.5)	(1.8)
Other	(23.9)	(1.3)	(3.2)
<b>CF from operating activities</b>	<b>(17.9)</b>	<b>(0.1)</b>	<b>5.6</b>
Acquisitions of P&E	(11.6)	(17.7)	(9.5)
Other	11.3	(1.2)	0.3
<b>CF from investing activities</b>	<b>(0.3)</b>	<b>(18.9)</b>	<b>(9.2)</b>
Advances received	(7.3)	(5.7)	(6.0)
Other	22.9	7.2	2.8
<b>CF from financing activities</b>	<b>15.6</b>	<b>1.4</b>	<b>(3.2)</b>
Ending bal., cash & equiv.	78.9	62.2	54.4
<b>Free cash flow</b>	<b>(18.1)</b>	<b>(19.0)</b>	<b>(3.6)</b>

Note: JDI views "advances received" as equivalent to long-term liabilities and manages them internally by situating them in cash flow from financing activities.

## Main Factors for the Revision

- Significant decline in customer demand for smartphone displays in 2H.
- Adoption of OLED displays for smartphones by customers and expansion of the mfg. capacity of overseas display manufacturers led to lower gross margin despite planned fixed cost reductions enabled by FY 2017 structural reforms.
- The growth businesses of automotive and non-mobile displays grew steadily but not to the extent JDI had planned.

# Revision to FY 2018 Earnings Forecast

- Q4 net sales expected to decrease by about 30% QoQ.
- Operating loss of over ¥10bn expected in Q4.
- Given the first 9 mo. results and Q4 outlook above, forecast for annual net sales and operating income is revised downward. Accordingly, we determine it will be difficult to achieve FY 2018 net profit target.

(Billions of yen)	FY17 results	FY18 forecast (Nov. 12)	FY18 forecast (Feb. 14)
Net sales	717.5	Up 5-15% YoY	Down approx 10% YoY
Operating Income	(61.7)	Operating income margin of 1-2%	Over (20.0)
Dep. & amort.	91.2	48.0	46.0
R&D expenses	19.2	20.0	17.0
Capital expenditures	49.5	52.0	45.0

Assumed FY18 exchange rate: 1US\$=¥105

# Efforts to Reinforce Earnings Base

## Management aspects

- In order to strengthen market competitiveness and financial base, JDI is negotiating an alliance with several parties and aims to achieve final agreement in the very near future, with the endorsement of INCJ, Ltd., our largest shareholder. INCJ has indicated it will continue to support JDI even after the alliance is concluded.
- Further structural reforms are under consideration in light of the recent decline in demand that exceeded our assumptions and intensifying competition in the smartphone display market.

## Business aspects

- Drive technological evolution for LCDs and strengthen collaboration with JOLED in automotive and industrial business.
- Further shifting resources to new non-mobile business such as sensors.
- Preparing for mass production of evaporation OLED at Mobara Plant starting in FY 2019.



### **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.

Any plan, estimation, calculation, quotation, evaluation, prediction, expectation or other forward-looking information in this document is based on the current assumptions and beliefs of JDI in light of the information currently available to it, and involves known and unknown risks, uncertainties, and other factors. Such risks, uncertainties and other factors may cause JDI's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, without limitation: economic conditions and individual consumption trends in Japan and overseas, currency exchange rate movements, trends in the market for smartphones and other electronic equipment, the management policies of our major business partners and fluctuations in the price of raw materials.