Financial Results

Fourth Quarter & Full Year
Fiscal 2018

Japan Display Inc.

May 15, 2019

Summary of Q4-FY18 Results

- **QoQ:**
Sales down 32% mainly due to display demand for smart phones failing to recover & seasonal factors. Gross profit fell due to lower sales, an unfavorable product mix, a lower fab utilization rate and greater inventory write-down. Also, an operating loss of ¥20.4bn, as result of higher R&D expenses for preparation of OLED mass production, was larger than expected at the time Q3 results were announced.

- **YoY:**
Sales up by 13%. The higher sales and effect of the write down on assets partially offset the decline in the marginal profit ratio that resulted from the unfavorable product mix/lower selling prices and the increase in inventory write-down, but did not lead to an expected smaller operating loss. Non-operating depreciation expenses decreased ¥2.9bn and forex losses fell by ¥2.6bn.

- After a review of future earnings in the mobile display business, we recorded an impairment loss of ¥75.2bn on assets related to the Hakusan Plant.

(Billion Yen)

	Net sales	Op. income	Ordinary income	Net profit	Dep. & Amort.	R&D expense	FX rate (¥/US$)
Q4-FY18	171.3	(20.4)	(24.4)	(98.6)	11.4	4.8	110.2
Q3-FY18	251.1	3.8	(0.7)	(1.3)	11.4	3.3	112.9
Q4-FY17	151.9	(22.9)	(35.1)	(146.6)	21.4	4.5	108.2

Summary of FY 2018 Results

- An initially expected increase in 2H of FULL ACTIVE™ shipments for smartphones did not reach the anticipated level, leading net sales to fall 11.3% YoY (Feb. 14 forecast: approx. -10% YoY).
- Structural reforms implemented in FY17 reduced fixed costs, but lower than expected sales and a lower marginal profit ratio due to a more competitive environment caused continued operating losses. Also the Q4 operating loss exceeded expectations, resulting in a full-term loss of ¥31bn (Feb. 14 forecast: a loss of more than ¥20bn).
- Non-operating expenses decreased ¥17.4bn YoY: depreciation expenses down ¥9.1bn, equity method investment losses down ¥5.3bn, forex losses down ¥3.2bn.
- Impairment loss of ¥75.2bn was recorded as an extraordinary loss on assets related to the Hakusan Plant.

(Billion Yen)

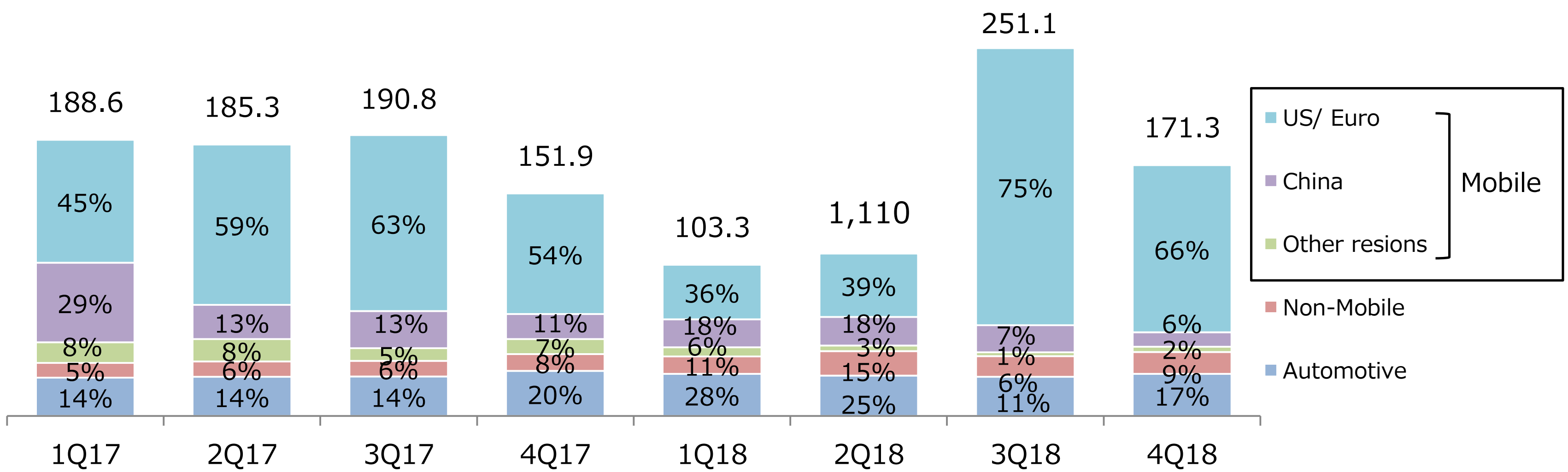
	Net sales	Op. income	Ordinary income	Net profit	Dep. & Amort.	R&D expense	FX rate (¥/US$)
FY18	636.7	(31.0)	(44.2)	(109.4)	45.9	15.1	110.9
FY17	717.5	(61.7)	(93.7)	(247.2)	91.2	19.2	110.8

Sales Breakdown by Region/Application

Q4 Biz Conditions

- **Mobile category:** Down 39% QoQ to ¥127.5bn due to the market downturn and other reasons such as lower seasonal demand. Sales to US/China decreased substantially. Full-year sales decreased by 17% YoY to ¥466.9bn. Especially the decrease regarding the Chinese market was especially large.
- **Automotive category:** Due to the impact of the new emission test criteria introduced in Europe, full-year net sales only rose 4% YoY to ¥112.3bn, but the impact seems to be lessening as Q4 sales rose 8% QoQ to ¥28.9bn.
- **Non-mobile category:** Up 7% QoQ to ¥15bn. Full-term sales rose 26% YoY to ¥57.5bn. Notebook PCs and VR drove growth. Wearables were also solid.

Sales by Region/ Application



Q4-FY 2018 Operating Results

(Billion yen)

	Q4-FY18	Q4-FY17	YoY Chg.		Q3-FY18	QoQ Chg.	
Net sales	**171.3**	151.9	+19.4	+12.8%	251.1	(79.7)	−31.8%
Cost of sales	**178.9**	159.9	+19.1	+11.9%	235.7	(56.7)	−24.1%
Gross profit (loss)	**(7.6)** **-4.4%**	(7.9) -5.2%	+0.3	-	15.4 6.1%	(23.0)	-
SG&A	**12.7**	14.9	(2.2)	−14.5%	11.5	+1.2	+10.7%
Operating income (loss)	**(20.4)** **-11.9%**	(22.9) -15.0%	+2.5	-	3.8 1.5%	(24.2)	-
Net non-op. income (expenses)	**(4.1)**	(12.3)	+8.2	-	(4.5)	+0.5	-
Ordinary income (loss)	**(24.4)** **-14.3%**	(35.1) -23.1%	+10.7	-	(0.7) -0.3%	(23.7)	-
Net extraordinary income (loss)	**(74.5)**	(111.1)	+36.6	-	-	(74.5)	-
Income (loss) before income taxes	**(98.9)** **-57.7%**	(146.2) -96.2%	+47.3	-	(0.7) -0.3%	(98.2)	-
Income taxes	**(0.2)**	0.4			0.6		
Net income (loss) attributable to owners of the parent	**(98.6)** **-57.5%**	(146.6) -96.5%	+48.0	-	(1.3) -0.5%	(97.2)	-
EBITDA	**(9.3)** **-5.5%**	(4.7) -3.1%	(4.6)	-	15.2 6.0%	(24.5)	-
Avg. FX rate (JPY/USD)	**110.2**	108.2			112.9		
Q-End FX rate (JPY/USD)	**111.0**	106.2			111.0		

Q4-FY18 Main non-operating expenses: Share of loss of entities accounted for using equity method ¥2.1bn

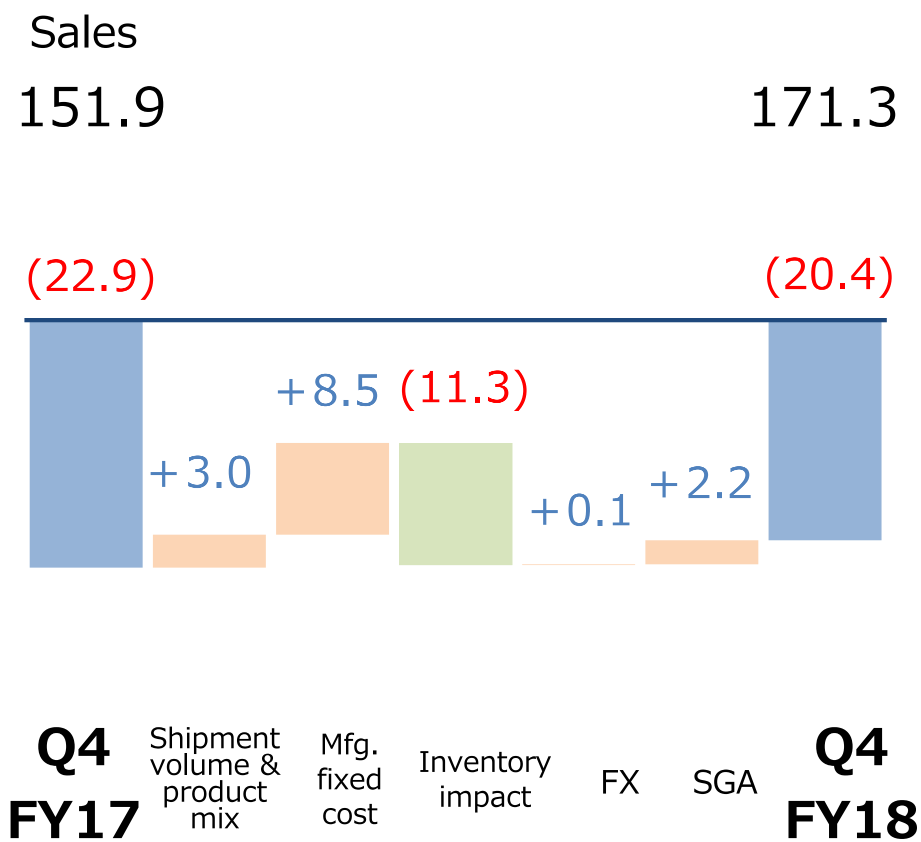
FY 2018 Operating Results

(Billion yen)

	FY2018	FY2017	YoY Chg.	
Net sales	**636.7**	717.5	(80.9)	−11.3%
Cost of sales	**620.4**	720.2	(99.8)	−13.9%
Gross profit	**16.3** **2.6%**	(2.6) -0.4%	+18.9	-
SG&A	**47.3**	59.1	(11.8)	−20.0%
Operating income (loss)	**(31.0)** **-4.9%**	(61.7) -8.6%	+30.8	-
Net non-op. income (expenses)	**(13.2)**	(31.9)	+18.7	
Ordinary income (loss)	**(44.2)** **-6.9%**	(93.7) -13.1%	+49.5	-
Net extraordinary income (loss)	**(62.5)**	(143.7)	+81.2	
Income (loss) before income taxes	**(106.7)** **-16.8%**	(237.4) -33.1%	+130.7	-
Income taxes	**2.4**	9.9		
Net income (loss) attributable to owners of the parent	**(109.4)** **-17.2%**	(247.2) -34.5%	+137.8	-
EBITDA	**14.1** **2.2%**	19.6 2.7%	(5.5)	−28.1%
Avg. FX rate (JPY/USD)	**110.9**	110.8		

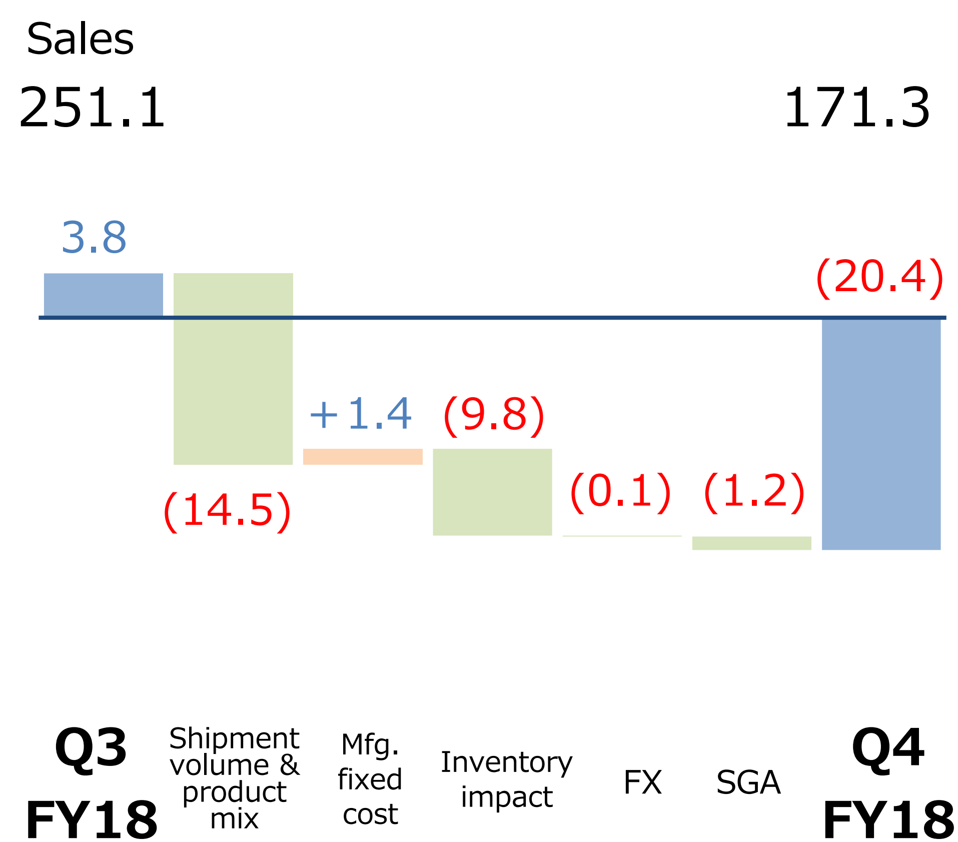
Operating Profit Change Factors (Q4)

vs. Previous Year (Q4-FY17)



vs. Previous quarter (Q3-FY18)

(Billion yen)



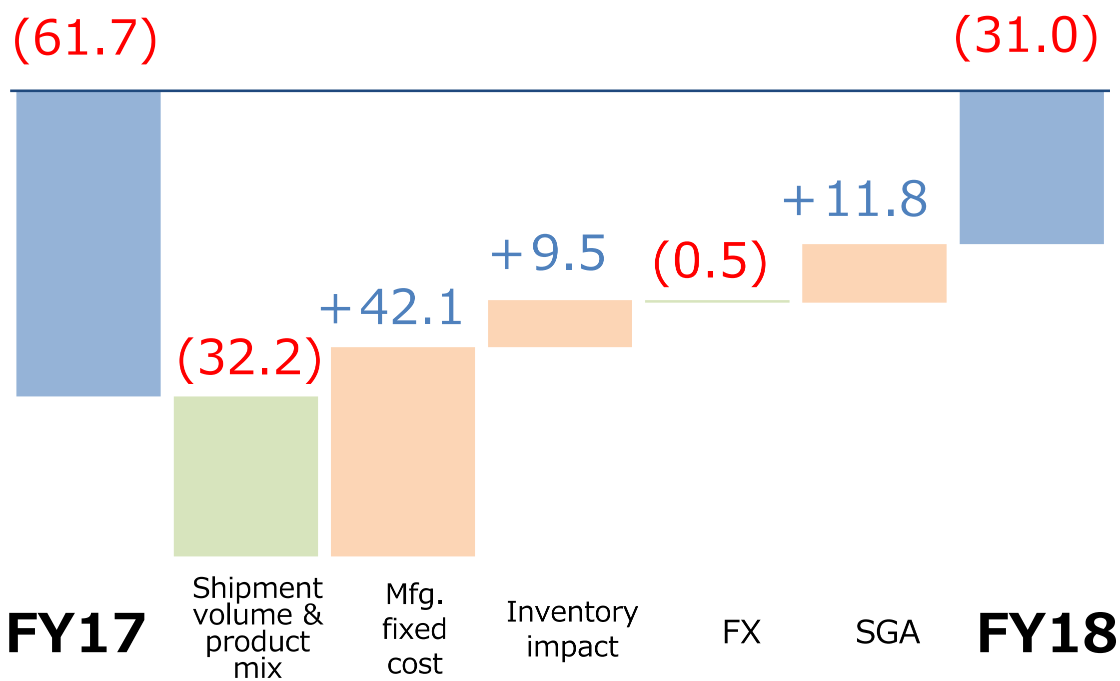
Operating Profit Change Factors (FY18)

vs. Previous Year (FY17)

(Billion yen)

Net sales

7,175 6,367



Balance Sheet

(Billion yen)

	3/2019	12/2018	3/2018
Cash and deposits	**69.0**	54.4	80.9
Accounts receivable - trade	**92.2**	119.4	82.9
Accounts receivable - other	**49.7**	80.6	42.8
Inventories	**71.1**	80.4	58.2
Other	**8.9**	11.2	6.1
Total current assets	**290.9**	345.9	270.8
Total non-current assets	**254.5**	334.0	343.9
Total assets	**545.4**	680.0	614.6
Accounts payable - trade	**178.4**	204.8	117.8
Interest-bearing debt	**185.8**	185.8	188.1
Advances received	**101.9**	109.3	128.3
Other liabilities	**72.2**	74.9	98.4
Total liabilities	**538.4**	574.8	532.6
Total net assets	**7.0**	105.1	82.0
Shareholders' equity ratio	**0.9%**	15.1%	13.1%
Net debt	**116.9**	131.5	107.2
Merchandise and finished goods	**15**	11	10
Work in process	**12**	12	15
Raw materials and supplies	**9**	7	8
Days in inventory*	**36**	31	33

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

Cash Flows

■ JGAAP

(Advances received are included in Operating CF)

(Billion yen)

	FY2018	FY2017
Income bef. income taxes	(106.7)	(237.4)
Dep. & Amort.	45.9	91.2
Working capital	34.1	53.9
Advances received	(26.3)	(51.1)
Structural reform cost	0.0	142.3
Impairment loss	75.2	0.0
Other	(28.3)	0.3
CF from operating activities	(6.1)	(0.8)
Acquisitions of P&E	(45.0)	(49.5)
Other	7.2	(3.7)
CF from investing activities	(37.9)	(53.2)
CF from financing activities	31.8	52.9
Ending bal., cash & equiv.	69.0	80.9
Free cash flow	(44.0)	(53.9)

Major “Other” items:

Operating cash flow:

Dec. in accrued exp. (Structural reform. etc.)	¥ (10.5) bn
Gain on change in equity:	¥(12.7) bn

Investing cash flow :

Proceeds from sale of non-current assets	+¥19.1 bn

■ Internal business administration

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

(Billion yen)

	FY2018	FY2017
Income bef. income taxes	(106.7)	(237.4)
Dep. & Amort.	45.9	91.2
Working capital	34.1	53.9
Structural reform cost	0.0	142.3
Impairment loss	75.2	0.0
Other	(28.3)	0.3
CF from operating activities	20.2	50.4
Acquisitions of P&E	(45.0)	(49.5)
Other	7.2	(3.7)
CF from investing activities	(37.9)	(53.2)
Advances received	(26.3)	(51.1)
Other	31.8	52.9
CF from financing activities	5.4	1.8
Ending bal., cash & equiv.	69.0	80.9
Free cash flow	(17.7)	(2.8)

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

FY 2019 Forecast

- In the 1H of FY 2019, net sales are expected to decrease by approx. 10% YoY (FY18 1H: ¥214bn) due to the continuation of the severe business environment, sluggish demand owing to seasonality in the mobile category and inventory adjustments by customers.
- In the 2H, sales are expected to grow versus the 1H due to the launch of new products including OLED. Based on structural reforms to be announced in the 1Q, we will further reduce fixed costs and aim for sustainable profitability.
- Continued discussions toward closing the Capital and Business Alliance Agreement with the Suwa Consortium.
- The medium-term management plan announced in Aug 2017 will be revised after the alliance with the Suwa Consortium

(Billion yen)	**FY18 actual**	**FY19 forecast**
Net sales	636.7	Currently, forecasts are not disclosed due to structural reforms in progress, including a review of the business portfolio
Operating Income	(31.0)	
Dep. & amort.	45.9	35.0
R&D expenses	15.1	14.0
Capital expenditures	45.0	25.0

FY19 forex assumption: 1US$ = ¥108

Outline of Structural Reforms

The fixed cost reduction benefits due to a write-down and structural reforms is expected to be ¥20bn in FY 2019

Items	Contents	Costs & benefits
Asset write-down related to Hakusan Plant (already implemented in FY18)	■ Asset write-down • Hakusan Plant (buildings, equipment, land, construction in progress, goodwill etc.) • Mobara Plant (equipment etc.)	■ Impairment losses: ¥75.2bn (of which, Hakusan Plant is ¥74.7bn) ■ Benefits: ¥11bbn (FY19)
Personnel cost cuts & salary reductions (planned for FY19)	■ Approx. 1,000 voluntary early retirements solicited 1H-FY19 ■ Reduced executive compensation & managerial bonuses etc. (Details to be announced in 1Q)	■ Structural reform costs: approx. ¥10bn ■ Benefits: approx. ¥20b (annually)

Reflections on FY18 and FY19 Initiatives

Reflections on FY18	• Structural reforms implemented in FY17 reduced fixed costs by more than ¥50bn, but this wasn't enough since mobile category sales were significantly lower than forecast. • Though automotive & non-mobile category sales saw positive YoY growth, the result was below initial plans.
FY19 initiatives	• Closing the Capital and Business Alliance Agreement with the Suwa Consortium and then beginning collaboration to realize synergies • Transform product portfolio • Start mass production of OLED displays • Further reduce fixed costs (more structural reforms including personnel reductions)

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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