



Japan
Display
Inc.
Group


First Quarter of FY 2020 Consolidated Financial Results

Japan Display Inc.

September 10, 2020

Highlights

- **Equity finance from Ichigo Trust: Total of JPY 110.8bn** (Note 1)
Issuance of Class B & Class D preferred shares, stock acquisition rights for Class E preferred shares
 - ✓ Capital improvement
 - ✓ Secure large-scale funding for a growth strategy as a going concern

- **Hakusan Plant transfer: Total transfer price of JPY 71.3bn** (Note 2)
 - ✓ Reduces costs - - - - - About JPY 8bn/year
 - ✓ Reduces liabilities (advances received) - - - JPY 74.3bn
 - ✓ Disposes of non-operating assets - - - - - JPY 50.2bn
 - ✓ Gains from transfer - - - - - \geq JPY 15.9 bn

Healthier balance sheet

- **Production & sales conditions**
 - ✓ **Production: Significant recovery from the impact of coronavirus constraints**
 - ✓ **Sales: Sales of automotive products dropped sharply in 1Q, but demand is recovering steadily. 2H demand for smartphone displays requires caution.**

(Note 1) Class B preferred shares were issued in March 2020. Class D preferred shares and the stock acquisition rights, the underlying shares of which are Class E preferred shares, were issued on August 2020. (Note 2) Base dates and FX rates related to the transfer are shown on page 7.

2020 First Quarter Summary

- **Fell within range of June 30 estimates**
- **YoY comparison**
 - ✓ **Sales mostly unchanged**
 - ✓ **Based on structural reforms and cost reductions etc., achieved a gross profit turnaround, operating losses improved by JPY 20.1bn and EBITDA by JPY 17.0bn**

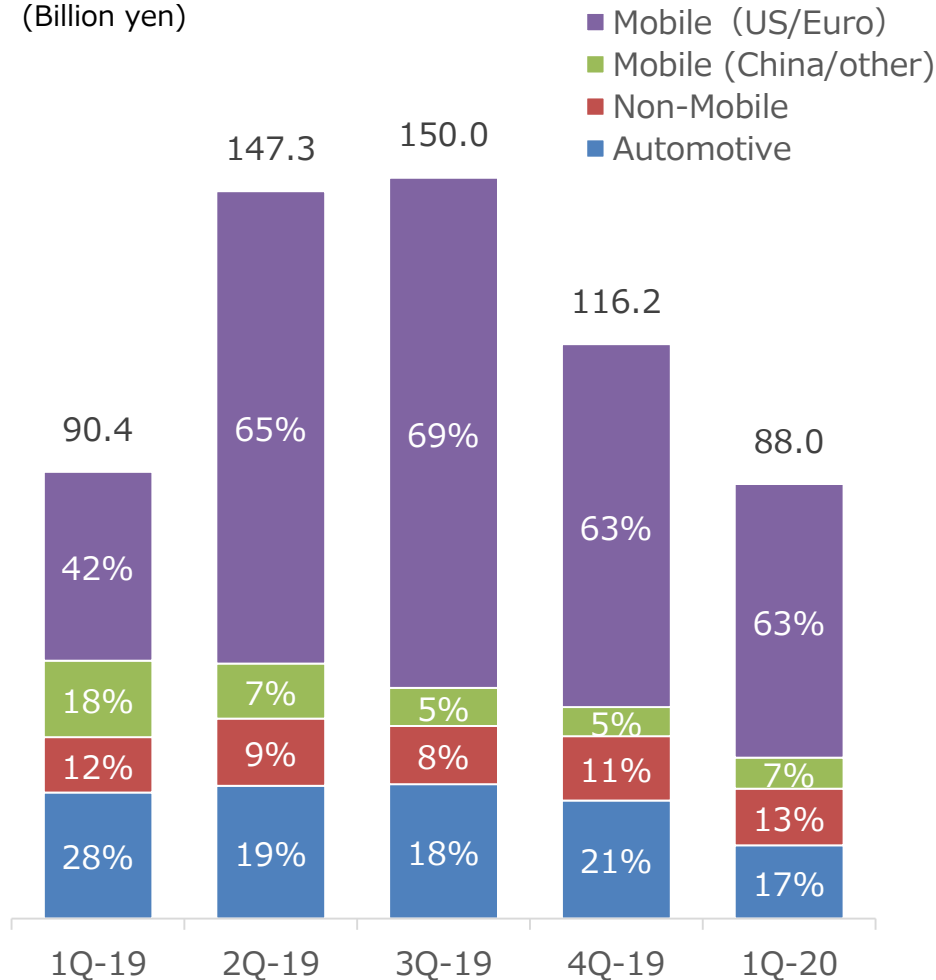
(Billion Yen)

	FY 19	FY 20	FY 20	FY 19
	1Q	1Q	Q1 (6/30 est.)	4Q
Net sales	90.4	88.0	85.0-89.0	116.2
Gross profit (loss)	(16.8)	1.0	-	3.4
Operating income (loss)	(27.1)	(7.0)	(7.0)-(9.0)	(5.9)
Net income (loss)	(78.9)	(16.3)	-	9.5
EBITDA	(20.2)	(3.2)	-	(2.0)

Quarterly Sales by Category

Quarterly net sales

(Billion yen)



Sales by category

■ Mobile (US/Europe: JPY 55.4bn, China/other: JPY 6.3bn, +15% YoY)

Sales were weak due to greater customer adoption of OLED & lower demand caused by coronavirus. Expect a QoQ sales increase in 2Q but requires caution for 2H demand.

■ Automotive (JPY 14.8bn, -42% YoY)

Display demand fell due to a major adjustment in automobile production, causing an unprecedented sales decline, but expect recovery from 2Q.

■ Non-mobile (JPY 11.5bn, +3% YoY)

Delayed recovery of back-end mfg & a sharp drop in display demand for digital still cameras were partially offset by strong demand for notebook PCs, wearables and VR. Expect improvement from 2Q on increase in wearables.

1Q-FY20 Operating Results

(Billion yen)

	1Q-FY19	1Q-FY20	YoY Chg.	4Q-FY19	QoQ Chg.
Net sales	90.4	88.0	(2.4)	116.2	(28.2)
Cost of sales	107.2	87.0	(20.2)	112.9	(25.9)
Gross profit (loss)	(16.8)	1.0	+17.8	3.4	(2.3)
SG&A	10.3	8.0	(2.2)	9.3	(1.2)
Operating income (loss)	(27.1)	(7.0)	+20.1	(5.9)	(1.1)
Net non-op. income (expenses)	(4.1)	(1.8)	(2.3)	(5.2)	(3.4)
Ordinary income (loss)	(31.2)	(8.8)	+22.4	(11.1)	+2.3
Net extraordinary income (loss)	(47.7)	(7.2)	+40.5	22.0	(29.2)
Income (loss) before income taxes	(78.9)	(16.0)	+63.0	10.9	(26.9)
Net income (loss) attributable to owners of the parent	(78.9)	(16.3)	+62.6	9.5	(25.8)
EBITDA	(20.2)	(3.2)	+17.0	(2.0)	(1.2)
Avg. FX rate (JPY/USD)	109.9	107.6		108.7	
Q-End FX rate (JPY/USD)	107.8	107.7		108.8	

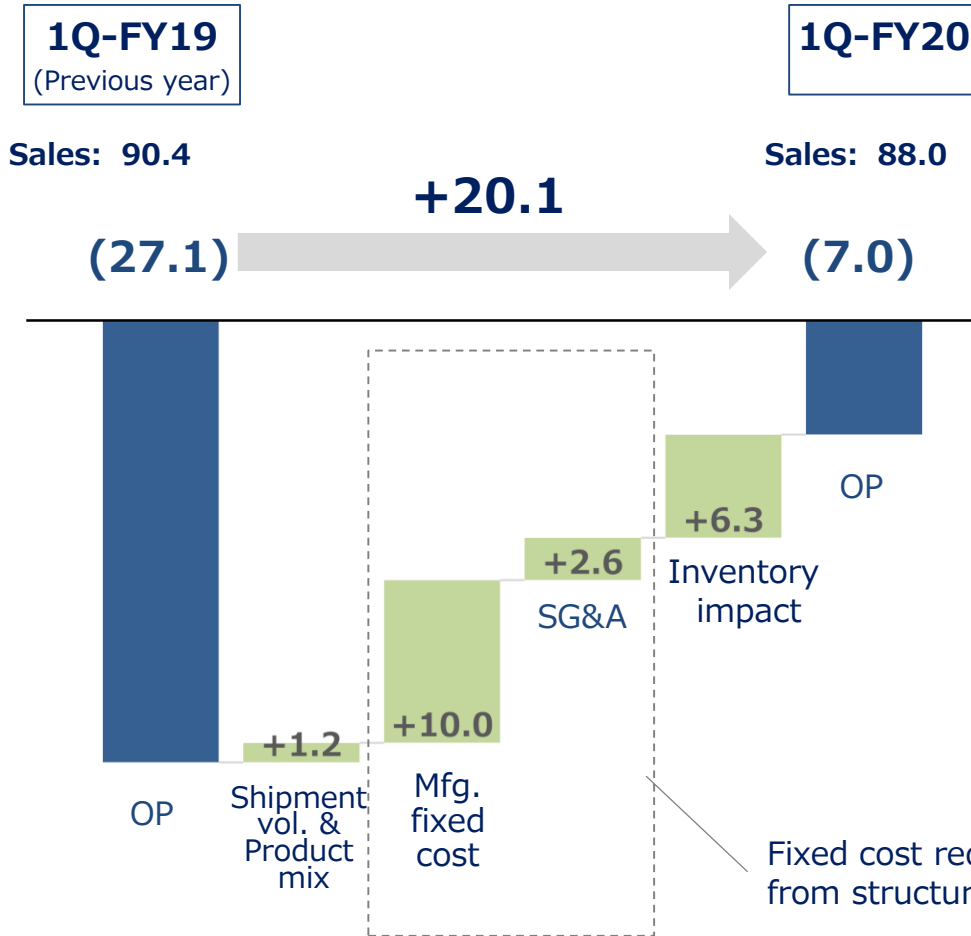
Major extraordinary profit: Reversal of business structure improvement expenses (JPY 0.7bn)

Major extraordinary loss: Business structure improvement expenses (related to the transfer of the Hakusan Plant) (JPY 7.6bn)

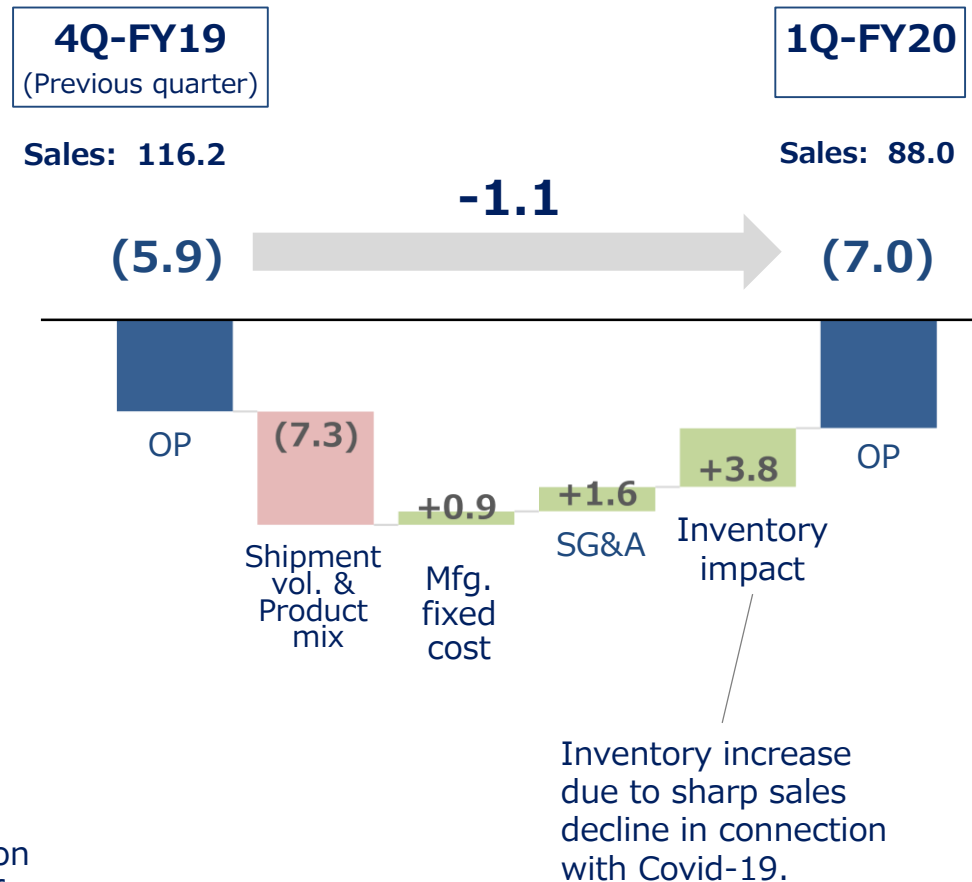
1Q-FY20 Operating Profit Change Factors

(Billion yen)

vs. Previous year (1Q-FY19)

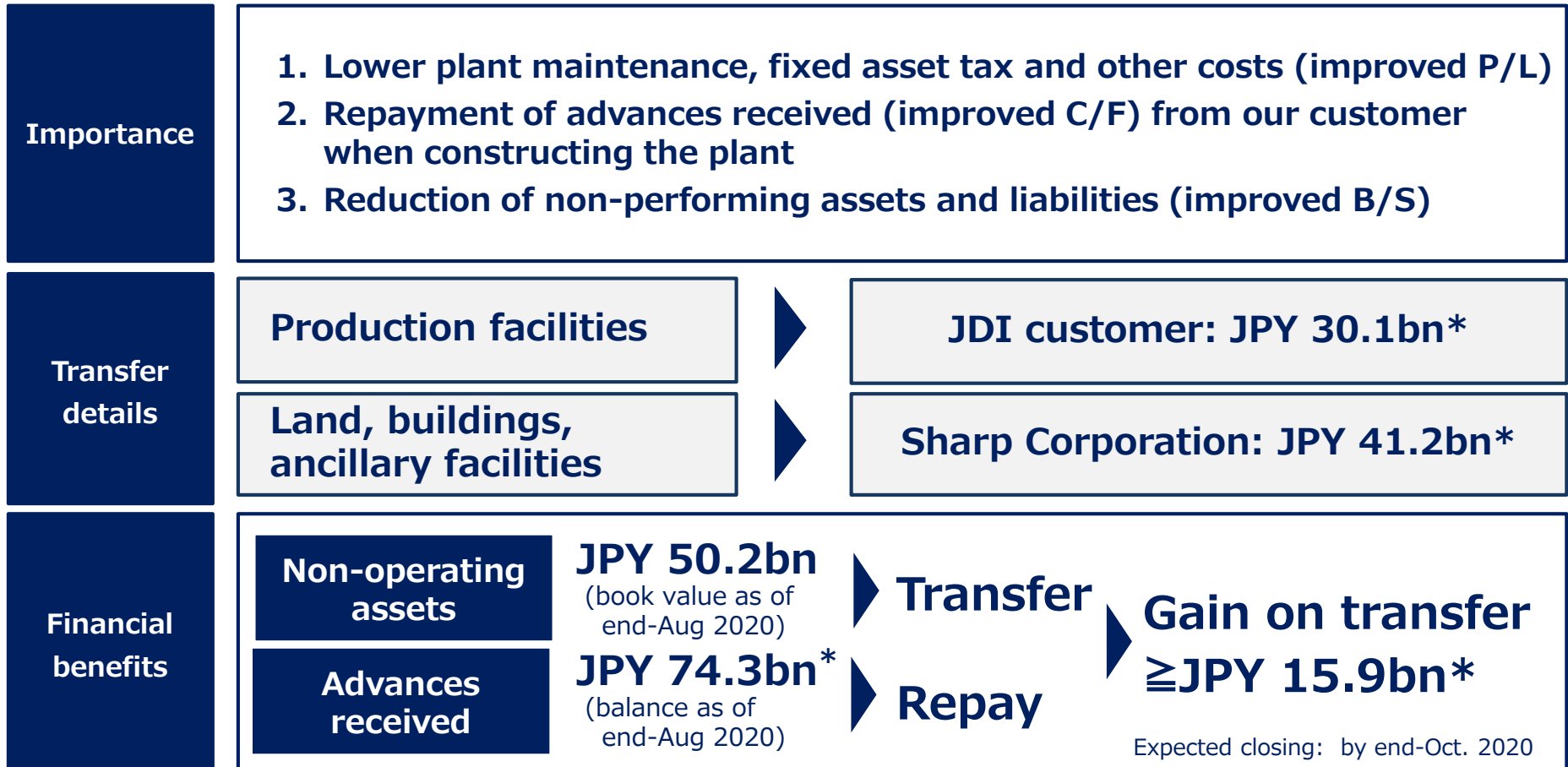


vs. Previous quarter (4Q-FY19)



Hakusan Plant Transfer (contract finalized, delivery of assets by end-October)

Hakusan Plant transfer to reduce costs & lead to healthier balance sheet. Will continue development & mfg. of high value-added products at Mobarra Plant, a key facility



*Based on US\$1=JPY 105.7

Completion of Additional Financing from Ichigo Trust

Equity financing following the third-party allotment of preferred shares in March secured large-scale funding to pursue growth strategy as a going concern

Class D preferred shares	Payment date	August 28, 2020
	Number of new shares issued	Class D preferred shares 500 shares @ JPY 10,000,000/share
	Amount of proceeds	JPY 5,000,000,000 Amount of capital increase: JPY 2.5bn Amount of capital reserve increase: JPY 2.5bn
12th series stock acquisition rights	Allotment date	August 28, 2020
	Number of potential shares due to the issuance	Class E preferred shares 5,540 shares @ JPY 10,000,000/share
	Amount of proceeds	JPY 55,400,000,000 Proceeds from issuance of the stock acquisition rights: JPY 0 Proceeds from exercise of the stock acquisition rights: JPY 55.4bn
	Exercise period	(1) Oct. 1, 2020 – Sep. 30, 2023 (JPY 13.85bn) (2) Jan. 1, 2021 – Dec. 31, 2023 (JPY 13.85bn) (3) April 1, 2021 – March 31, 2024 (JPY 13.85bn) (4) July 1, 2021 – June 30, 2024 (JPY 13.85bn)

Outlook for FY 2020

Minimize the impact of Covid-19 & rebuild earnings base to recoup earnings and grow

■ FY20 outlook

Net sales: Down 15-25% vs. FY19 (JPY 504bn) (6/30 forecast was “down 15-20%”)

Demand for auto displays recovering from 2Q. 2H smartphone requires caution.

OP: Aim for sales recovery and further cost reductions

Financial: Improve BS, PL, CF by additional financing from Ichigo Trust and Hakusan Plant transfer proceeds

CAPEX and R&D	(JPY bn)		
	FY19 (Act.)	FY20 (6/30 est.)	FY20 (9/10 est.)
Capex	16.1	13.9	12.8
Dep. & amort.	20.7	18.2	16.8
R&D	10.3	9.8	9.0

Drastic cost reductions to lead to increased efficiency in capital expenditures and R&D.

■ 2Q-FY20 Est.

(JPY billion)

	2Q-FY19 (Actual)	2Q-FY20 (Est)
Net sales	147.3	110.0-120.0
Operating profit	(8.1)	(3.0)-0.0

**Go back to basics, take pride as a "technology company"
& regain "added value"**

Strengthen governance

Applying global best practices, increase internal awareness of governance priorities, transition to a company w/committees (nominating etc.) & strengthen internal controls

Rebuild the earnings base

Optimize assets, strengthen cost competitiveness, diversify the supply chain

From "capital investment" to "R&D" company

Strategic use of our rich IP resources*

*US registered patent holdings: 5,252 (as of June 1, 2020, including joint applications)

Establish a new revenue source

Venture into healthcare by engaging the current/post Covid-19 society

Break free from the "one-horse" display business, apply core technologies to the healthcare field and form unique product groups

Progress of Carte Blanche Structural Reforms

Measures

Strengthen governance

- Based on a resolution approved at the AGM, transitioned in Aug. 2020 to a company with committees (nominating etc.) having strong oversight functions & with a majority of outside directors.
- According to report by the newly created “Governance Improvement Committee,” which has a majority of outside members, is taking action to strengthen and improve JDI's governance system and changing / improving awareness of management & employees in line with the “Improvement Report.”

Rebuild the earnings base

- As an urgent action in response to Covid-19, continuing rigorous cost reductions and reviewing all investment and fixed/variable costs without exception
- Concluded Hakusan Plant transfer agreement with support from the customer, which will enable drastic and fundamental fixed-cost reductions and balance sheet/cash flow improvement
- Supply chain diversification on the table in anticipation of the aftereffects of Covid-19 and geopolitical risk, including reshoring

Progress of Carte Blanche Structural Reforms

Measures

From “capital investment” to “R&D” company

- **OLED:** Rigorously pursue low-power consumption, long-life and high resolution displays by further leveraging our custom OLED technology
- **LCD:** Develop displays that can be used for hygienic applications by using transparent display and touchless hovering technology
- **IP:** Proactively & strategically utilize deep intellectual property resources, including legal steps, for corporate value improvement

Establish a new revenue source

- **OLED:** Achieved higher yield and stable production for current products. Aiming for further improvement as a core business
- **Medical:** Gradually expanding product lineup for medical and broadcasting applications that support ophthalmology and neurosurgical procedures (30" 8K sample shipment have started, mass production scheduled for 2021.)
Examining whole human genome business.
- **Security:** Obtained US FBI certification* and started mass production of high security fingerprint sensor modules. Scheduled to be sold in Europe and US.
*Personal Identity Verification

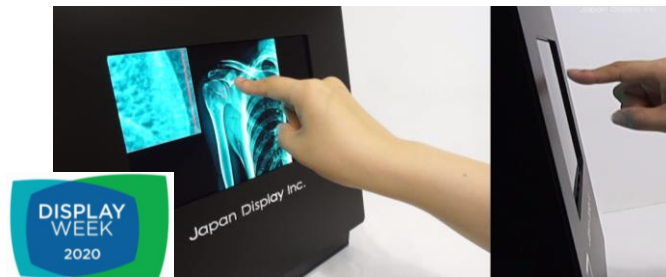
Appendix

Recent Technology Development Announcements

Creating new products by applying core technologies to new business fields such as healthcare and security

July 29 2020 release

SID DISPLAY WEEK 2020
Hover displays exhibited



JDI's in-cell hovering technology enables touchless input/output of information and robust visibility.

Ideal for facilities used by the general public and environments where strict public health controls are required.

July 31 2020 release

Development of a 30.2-inch
8K4K LCD (292ppi)

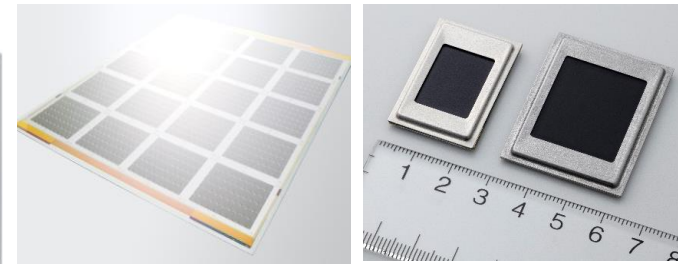


A world-class high-brightness model (1,000 cd/m²) and wide-color gamut model (BT2020, 90% coverage) are available and ideally suited to a variety of applications.

These displays can be used in medical-use applications in ophthalmology and neurological surgery that require high-precision displays and for broadcasting station and image editing applications.

Aug 24 2020 release

US FBI PIV-certified
Mass production begins of
capacitance glass fingerprint
sensors



Working with Image Match Design Inc. (iMD), a Taiwanese fingerprint sensor maker, JDI has developed and mass-produced two products that have been PIV-certified⁽¹⁾ by the US FBI.

JDI supplies sensor glass substrates while iMD manufactures and sells modules. JDI also plans to sell modules in Europe and the US through its sales network.

*1 Personal Identity Verification

Strengthen Governance

Thoroughly analyze the causes of inappropriate accounting, prevent recurrence and improve governance. Implement improvement measures based on improvement reports

Important measures

(1) Change internal awareness regarding accounting & information disclosure

- Disseminating documents and video messages throughout JDI
- Issued highly conservative and transparent accounting process rules
- Confirm and implement recurrence prevention measures among all accounting staff

(2) Transition to a company with committees (nominating etc.)

- Approved at a general meeting of shareholders

(3) Strengthen accounting controls

- Changed the inventory management method to improve the accuracy of inventory counting
- Maximum systematization of business processes (clarity and transparency)
- Prevent centralization of authority by strengthening mutual supervision

(4) Strengthen the internal audit system

- Increase the number of internal audit staff and strengthen auditing of accounting operations
- Establish an independent J-SOX office for confirmation of effectiveness evaluations
- Issued a rule for pre-approval by the Audit Committee applicable to Internal Audit Department personnel

(5) Improve the whistleblowing system

- Support whistleblowing through introduction of a leniency system and reviews of personnel evaluations
- Uncover problems via semi-annual employee surveys
- Establish a contact person who reports directly to the Audit Committee

Balance Sheet

		(Billion yen)
	March 31, 2020	June 30, 2020
Cash and deposits	66.7	45.2
Accounts receivable - trade	70.9	38.2
Accounts receivable - other	48.1	36.0
Inventories	39.1	47.1
Other	4.6	7.3
Total current assets	229.4	173.7
Total non-current assets	160.3	157.0
Total assets	389.7	330.8
Accounts payable - trade	89.3	60.0
Interest-bearing debt	98.0	97.5
Advances received	89.1	82.6
Other liabilities	59.9	53.6
Total liabilities	336.4	293.6
Total net assets	53.4	37.1
Shareholders' equity ratio	13.1%	10.5%

Cash Flow

	(Billion yen)
	1Q-FY20
Income before income taxes	(16.0)
Dep. & Amort.	4.4
Working capital	7.5
Advances received	(6.5)
Business restructuring expenses	7.7
Other	(12.1)
CF from operating activities	(15.0)
Acquisitions of P&E	(3.1)
Other	0.0
CF from investing activities	(3.1)
CF from financing activities	(3.3)
Ending balance, cash & equiv.	44.9
Free cash flow	(18.2)

- (Note) 1. Difference in balance of cash & equivalent in Cash Flows and cash and deposits in Balance Sheet as of end of 1Q-FY20: ¥0.3bn in deposits paid
 2. Free cash flow = Operating cash flow - Acquisition of Property, plant and equipment (CAPEX)