



Japan  
Display  
Inc.  
Group

# **First Quarter of FY 2014 Consolidated Financial Results**

## **Japan Display Inc.**

**August 7, 2014**

# 1. Q1 FY 2014 Financial Results

## 2. Small- to Medium-Sized Display Market Environment and JDI's Strategy

# Q1-FY 2014 Financial Results Highlights

- Sales, op. income close to May 15 guidance
- Total sales: Y125.2 bn (-13.9% YoY); Sales up a strong 2.4x in China but down in US/EUR/other
- WQHD<sup>(1)</sup> shipments underway, continuous high resolution improvements centering on China progressing as expected
- Y12.7bn op. loss due to one-time Y8.5bn loss (revaluation of inventory standard costs & sales of low-margin products etc.)

(1) WQHD: 1440 x 2560 pixels

# Q1-FY 2014 Consolidated Results of Operations

(Billion yen)	1Q-FY14	1Q-FY14	YoY Chg.	4Q-FY13	QoQ Chg.
Net sales	125.2	145.4	- 13.9%	131.8	- 5.1%
Gross profit	(0.9)	17.5	-	15.7	-
Operating income	(12.7)	6.3	-	5.5	-
Ordinary income	(16.9) <sup>(1)</sup>	4.7	-	0.4	-
Net income	(16.8)	24.4 <sup>(2)</sup>	-	0.4	-
EBITDA	4.3	18.6	- 76.6%	23.4	- 81.5%
Depreciation & amortization(1)	17.1	12.5	+ 36.9%	18.0	- 5.2%
R&D expenses(2)	3.5	3.7	- 5.2%	3.5	- 0.5%
Avg. FX rate (JPY/USD)	102.2	98.8	-	102.8	-
Mobile Category sales ratio	72%	78%	-	76%	-
Unit shipments			-4%		+1%
Blended ASP			-11%		-6%

(1) Foreign exchange loss of Y3.3bn was recognized as a non-operating expense in Q1-FY14.

(2) Deferred tax assets of Y20bn related to NOL carried forward was recognized in Q1-FY13.

\*1: Depreciation cost includes amortization of goodwill and non-operating depreciation cost.

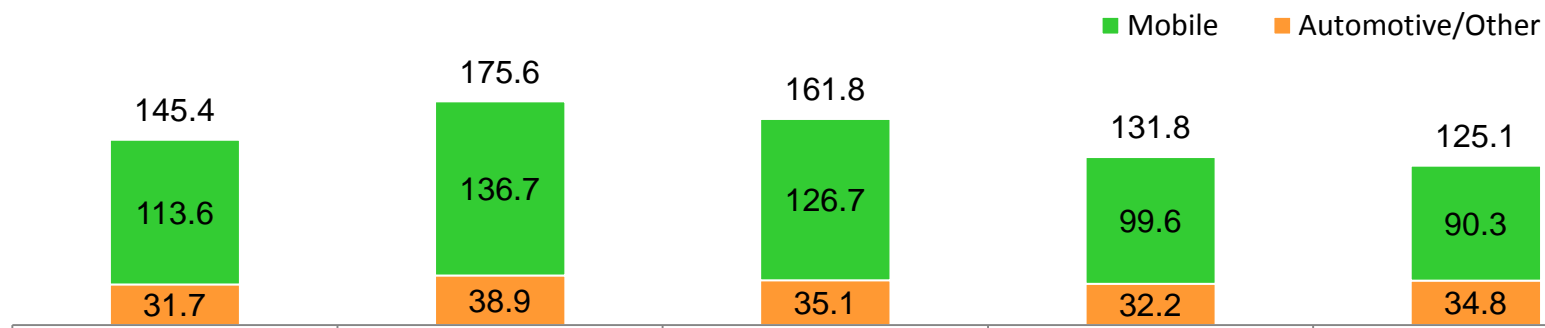
\*2: R&D expenses are a total of expenses booked in COGS and SG&A.

# Quarterly Results of Operations

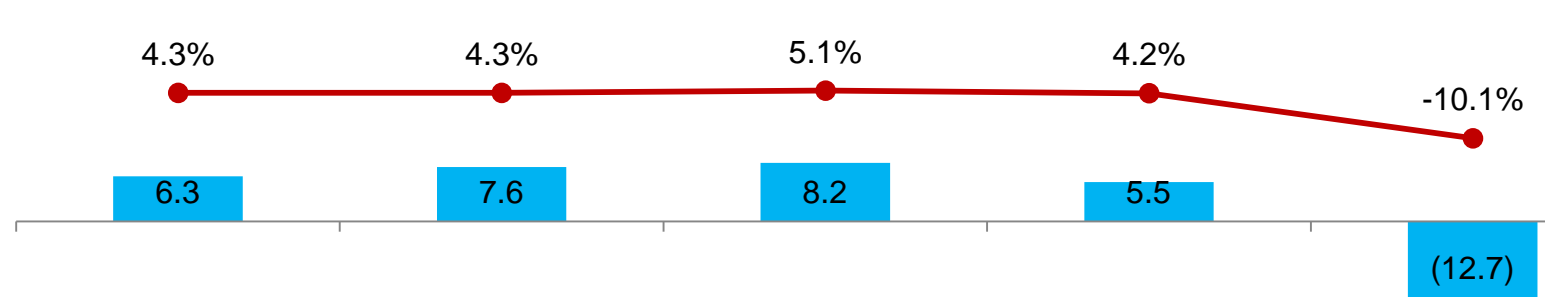
Quarterly results

(Billion yen)

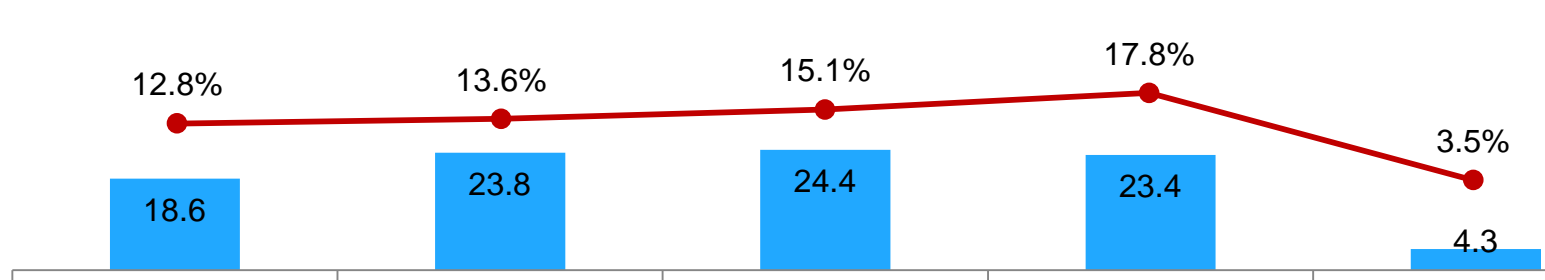
Net sales



Operating income

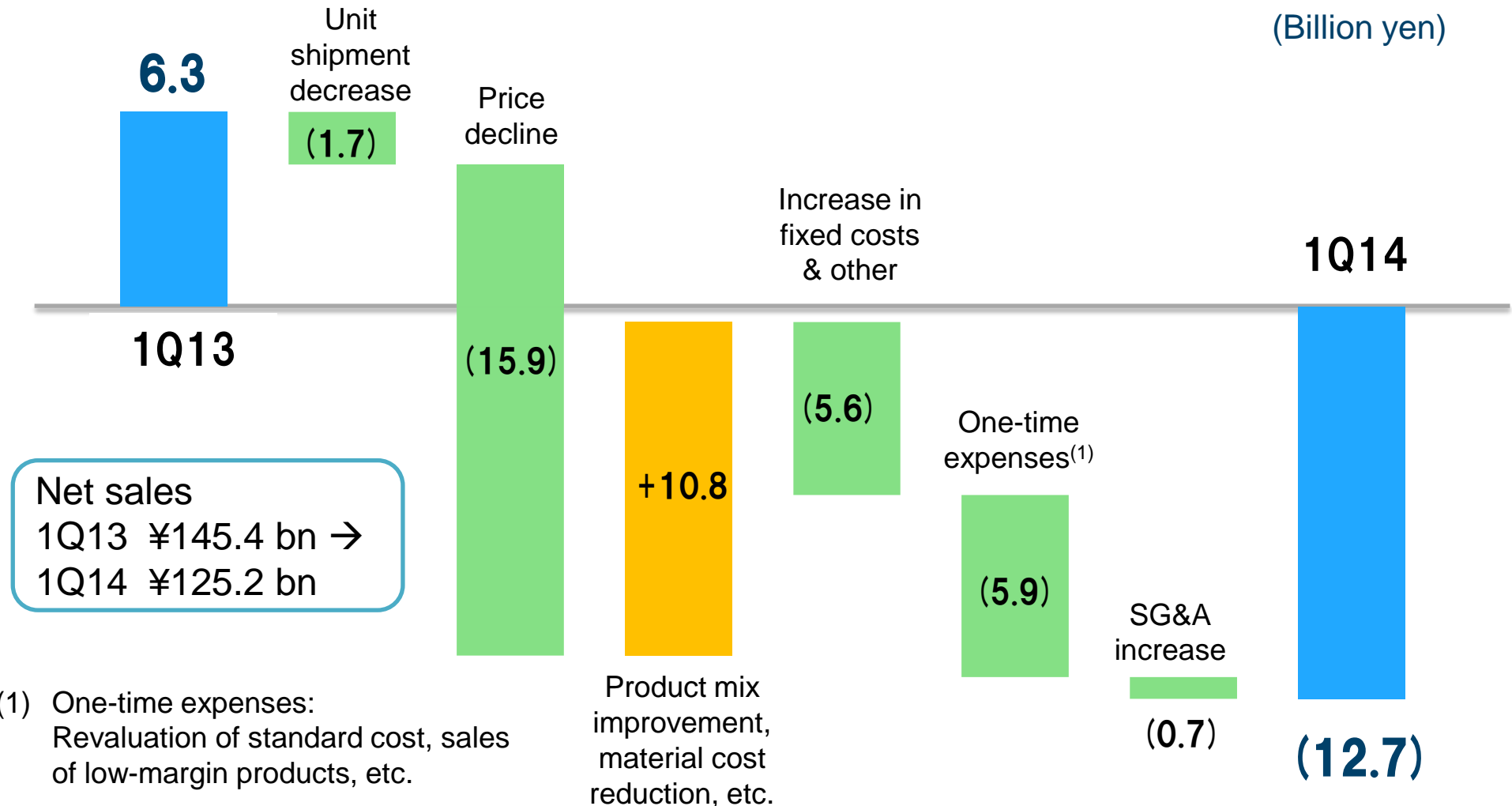


EBITDA



# Q1-FY2014 Operating Income Analysis (YoY)

## Operating income



# Q1-FY2014 Balance Sheet

(Billion yen)	6/2014	3/2014	Increase/Decrease
Cash and deposits	91.2	141.4	(50.2)
Accounts receivable	97.7	97.1	0.6
Inventories	99.9	90.6	9.3
Total current assets	339.4	378.5	(39.1)
Property, plant and equipment	354.9	343.8	11.1
<b>Total assets</b>	<b>731.0</b>	<b>759.0</b>	<b>(28.0)</b>
Accounts payable	100.3	101.6	(1.3)
Interest-bearing debt	91.2	102.5	(11.3)
Advance payments	61.6	66.8	(5.2)
<b>Total liabilities</b>	<b>344.5</b>	<b>353.8</b>	<b>(9.3)</b>
<b>Total net assets</b>	<b>386.5</b>	<b>405.1</b>	<b>(18.6)</b>
Shareholders' equity ratio	52.7%	53.3%	
Net debt to equity ratio	— 0.0%	— 9.6%	

# Q1-FY 2014 Cash Flow

(Billion yen)	1Q-FY2014	1Q-FY2013	Increase/Decrease
Income before income taxes	(16.9)	4.8	(21.7)
Depreciation and amortization	17.1	12.5	4.6
Working capital (1)	(12.0)	(19.1)	7.1
Cash flow from operating activities	(13.3)	9.0	(22.4)
Acquisitions of property and equipment	(23.6)	(44.0)	20.4
Cash flow from investing activities	(22.9)	(45.6)	22.8
Cash flow from financing activities	(13.5)	17.4	(30.9)
Other, net	(0.4)	1.5	(1.9)
Beginning balance, cash and cash equivalents	141.4	23.5	117.9
Ending balance, cash and cash equivalents	91.2	52.1	39.1
Free cash flow (2)	(36.2)	(36.6)	0.4

Note: \*1: Working capital = + Accounts receivable + Inventories + Accounts payable

\*2: Free cash flow = Cash flow from operating activities + Cash flow from investing activities



# Progress of FY 2014 Earnings Forecast

(Billion yen)	1Q-FY14 (Actual)		1H-FY14 (Forecast)		FY14 (Forecast)	
Net sales	125.2	100.0%	310.0	100.0%	750.0	100.0%
Operating income	(12.7)	-10.1%	1.0	0.3%	40.0	5.3%
Ordinary income	(16.9)	-13.5%	(3.2)	-1.0%	31.5	4.2%
Net income	(16.8)	-13.4%	(3.2)	-1.0%	26.8	3.6%
EBITDA	4.3	3.4%	38.3	12.4%	118.4	15.8%
Depreciation and amortization <sup>*1</sup>	17.1		37.3		78.4	
R&D expenses <sup>*2</sup>	3.5	-			22.9	
Avg. FX rate (JPY/USD)	102.2		101.0		101.0	
Mobile Category sales ratio	72.2%		77.0%		81.0%	

- Earnings forecast ---- • No change from May 15 forecast
- Q2 guidance ----- • Shipments to China to remain solid
- Annual demand from large customers as expected, but Q2 shipments may be delayed

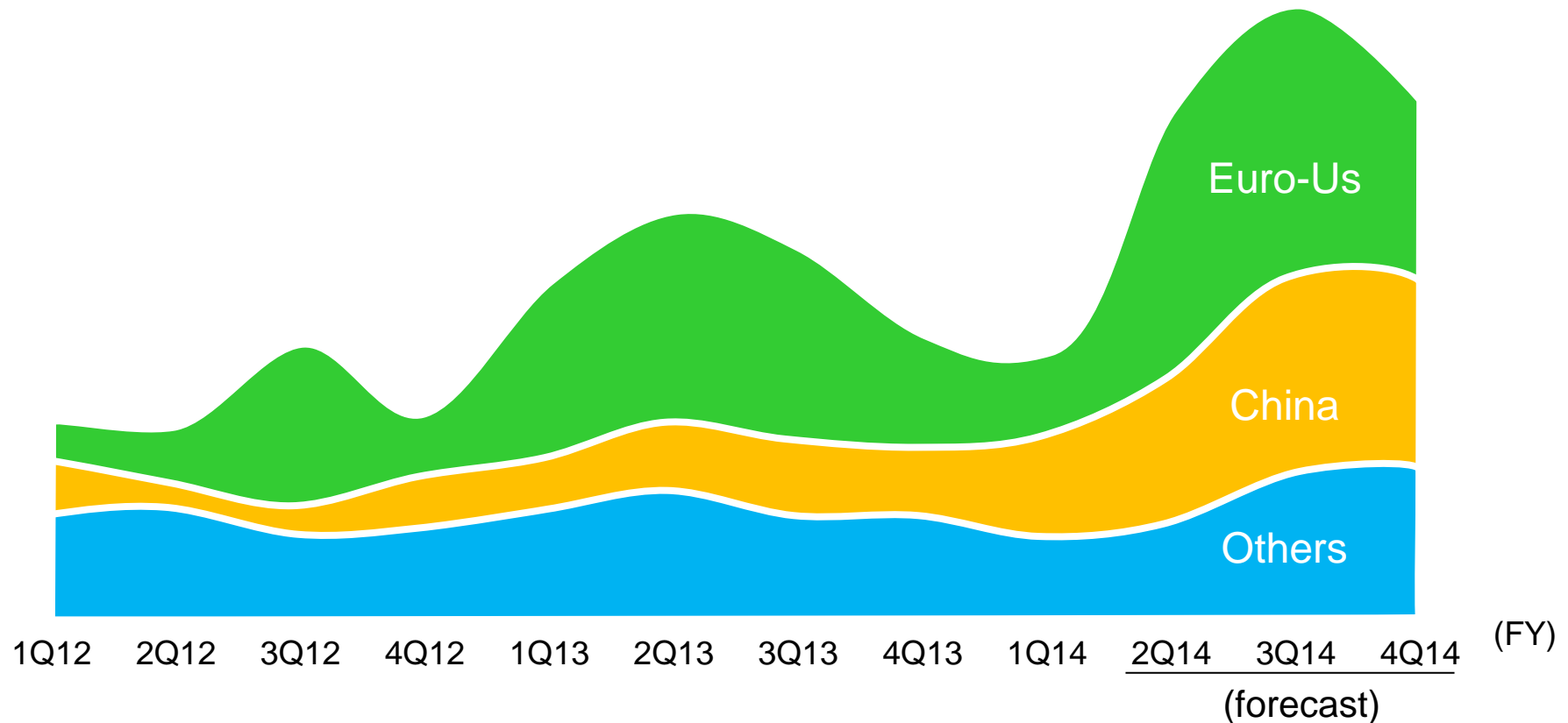
\*1: Depreciation cost includes amortization of goodwill and non-operating depreciation cost.

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# Mobile Category Sales by Customer Region

## JDI quarterly mobile category sales by customer region

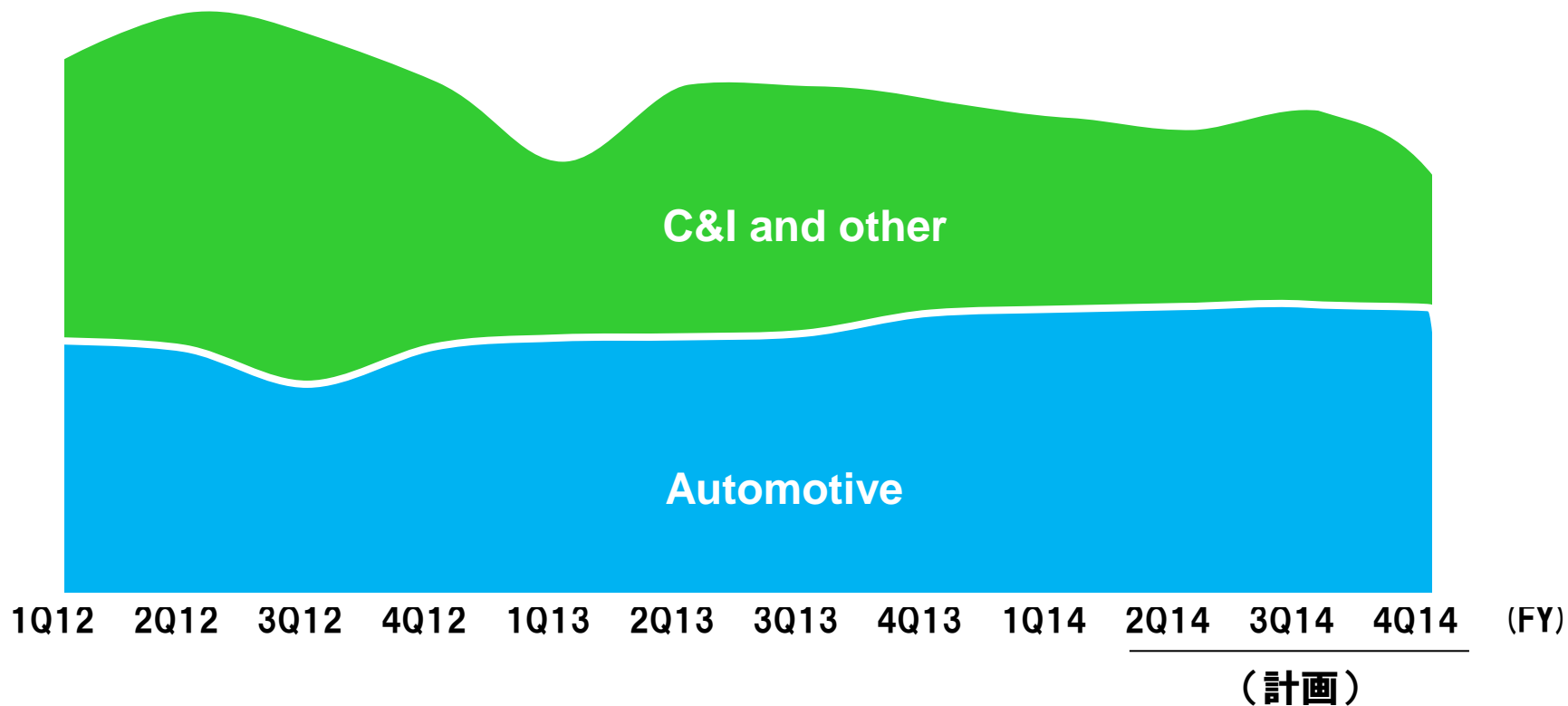
- Sales to China customers see robust growth. Expect reduced total sales volatility going forward.



# Automobile, C&I and Other Category Sales

## JDI quarterly automobile, C&I and other category sales

- With new design-ins, automotive display sales will increase from FY 2015



1. Q1 FY 2014 Financial Results

**2. Small- to Medium-Sized Display Market Environment and JDI's Strategy**

# Global Smartphone Market & JDI's Strategic Moves

## Global smartphone market

- China smartphone market likely to see continued growth
  - CY2014 LTE smartphone growth forecast  
Jan-Jun: 25mn units } Huge increase  
Jul-Dec: 75-130mn } expected
  - HD720 & Full HD to become standard for middle price range smartphones
- High resolution WQHD increasing for premium price smartphones
- Pricing pressures continue

## JDI's strategic moves

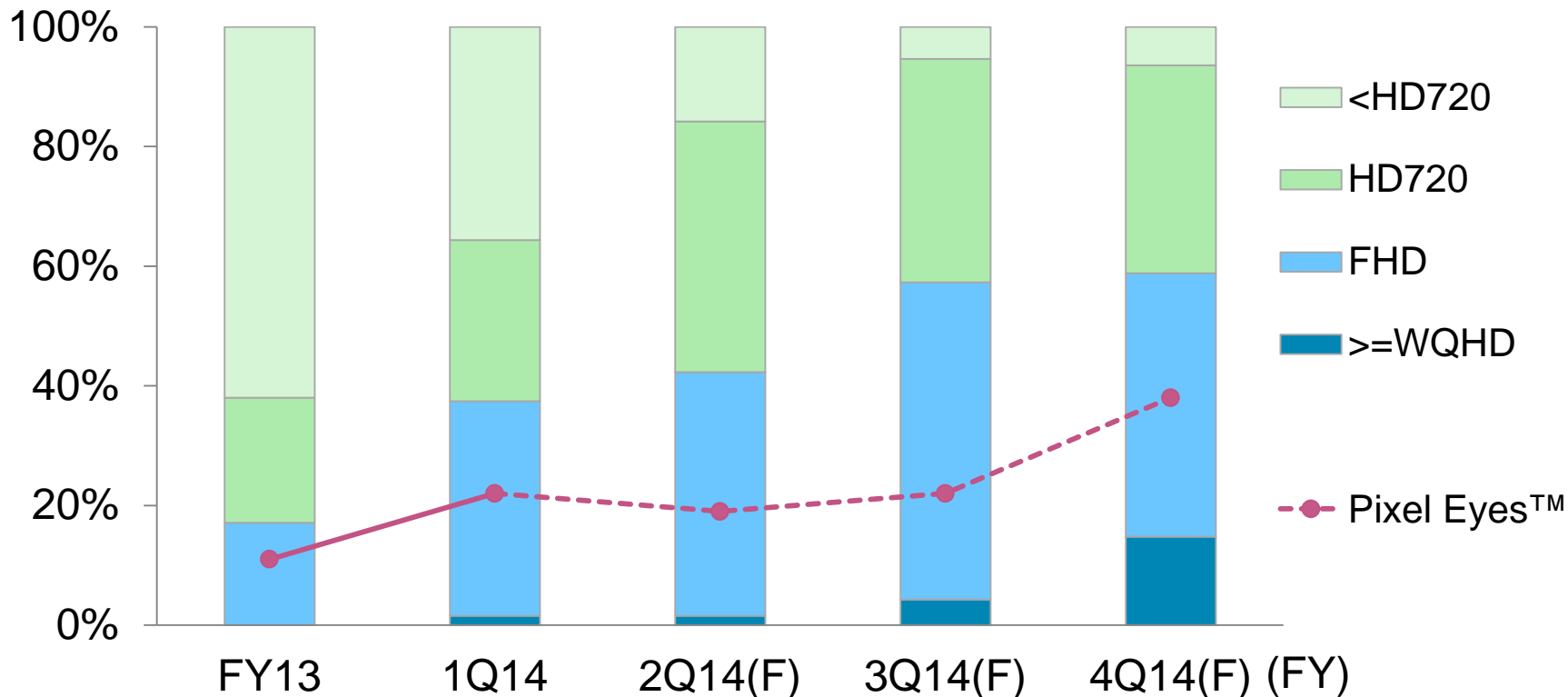
- JDI meeting FY2014 China customer sales goals
  - Design-ins for large customers gained
  - TDI\*<sup>1</sup> launch is on track.  
STC\*<sup>2</sup> acquisition done; June start of mfg. & shipments; sales to ODM growing
- JDI's goal: 50% of WQHD mkt share
- Acceleration of broad cost-reduction measures
- Aggressive release of Pixel Eyes™

\*1: TDI (Taiwan Display Inc.): 100% subsidiary of JDI focusing on China market.

\*2: STC (Star World Technology Corporation.): Company with module assembly line in Zhuhai, China

# Sales Breakdown by Resolution and Ratio of Pixel Eyes™

## JDI smartphone display sales breakdown by resolution and Pixel Eyes™ ratio



- Smartphone market is steadily shifting to high-resolution consistent with JDI's estimates.
- Shipment of Pixel Eyes™ is increasing as expected.

# Recent Activities

(Announcement date)

## July 1: Corporate structural changes and new COO take effect (June 24)

- Changes to accelerate strategic/policy actions & strengthen account mgt. functions

## Expand platform technologies

- Started mass mfg of IPS-NEO™ for mobile, prepping to mass mfg Pixel Eye™ for high-res tablets

## Agreement to create/invest in JOLED (new OLED company) (July 31)

- Thru leveraging technologies centralized at JOLED OLED displays expected to have future potential

## Opened new office in Detroit to strength automotive business (June 12)

- Develop new US customers; FY2018 automotive sales goal: more 2x FY2013 sales

# July 1 Restructuring Goals/Key Points

## Goals

- Accelerate strategic actions (esp. sales growth, cost reduction)
  - Strengthen business unit account mgmt. functions
- 

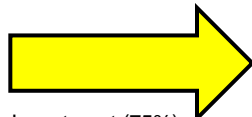
## Structural change goals / key points

- Active CEO involvement in sales promotion
- COO appointed to strengthen operations (product strategy/design, supply, mfg., business mgmt.)
- Total improvements from design to cost cutting
- Accelerate development of platform technologies & strategic products

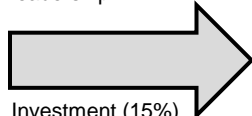
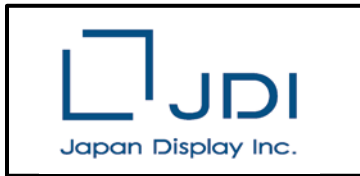


# JOLED (Integrated Company) Created to Focus on OLED

Target: JOLED Inc.  
Outline: R&D and early commercialization of OLED display panels  
Investment: Undisclosed



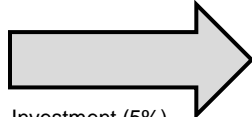
- Investment (75%)
- Integration support
- Proactive management leadership



- Investment (15%)
- Development and business support
- Joint research



- Investment (5%)
- Personnel, technology, IP, development facilities, etc.



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## ■ Business Overview

- R&D/manufacturing/sales & marketing of OLED display panels
  - ✓ Invest R&D resources to accelerate commercialization of OLED products
  - ✓ Focus on development of OLED displays for applications that leverage the unique features of OLED displays (e.g. lightness, thinness and flexibility)

## ■ Key Target Applications (focus on medium size OLED displays)

- ✓ Tablets
- ✓ Mobile PCs
- ✓ Signage

Tablets



Mobile PCs



Signage



- Bring together world leading Japanese OLED display panel technology and resources
- Leverage funding from INCJ and JDI to accelerate commercialization of advanced OLED products through focused R&D

# Purpose of Investment in JOLED

## **Comment by Shuichi Otsuka, President and CEO:**

OLED presents considerable technological challenges, including difficulties in developing materials and manufacturing equipment. However, we believe this display technology contains substantial advantages for the future with respect to thinness, lightness and flexibility. Given these exciting possibilities, JDI has decided to invest in JOLED.

JOLED will centralize the world-leading OLED display technologies and resources developed over many years by Sony and Panasonic, including printing technology for OLED production, transparent amorphous oxide semiconductors, and flexible display technology. By creating a strong working relationship with JOLED, JDI will explore opportunities for development of applications that will lead to greater lightness and thinness for medium-sized displays for tablet PCs and notebook PCs, and digital signage.

Our investment in JOLED does not affect our ongoing business strategy for creating a high-resolution "LTPS World" in the small and medium-sized display market. Furthermore, our high-resolution OLED, sheet display and other development plans have not changed and will continue. In fact, we aim to accelerate our overall R&D by creating a synergy with JOLED.

(Excerpted from JDI's July 31 press release)



### **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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