

Highlights of Semiconductor Production Equipment Manufacturers' Financial Results for Fiscal Year Ended March 2021

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for ratings concerning financial results for the fiscal year ended March 2021 (FY2020) and earnings forecasts for FY2021 of three semiconductor production equipment manufacturers: DISCO CORPORATION ("DISCO"), SCREEN Holdings Co., Ltd., ("SCREEN HD") and Tokyo Electron Limited ("Tokyo Electron").

1. Industry Trend

According to Semiconductor Equipment and Materials International (SEMI) and other data, the world's semiconductor production equipment sales volume reached USD 71.1 billion in 2020, up 19% year on year, hitting a record high first time in two years. In the background there seems to be expanding demand for semiconductors, due to the fifth generation mobile communication system (5G) as well as teleworking and stay-home trends under the COVID-19 pandemic, which accelerates equipment users' appetite for capital spending. By application, NAND-type flash memories and foundries were sales drivers. By region, China which is pushing ahead with enhancement of the semiconductor industry as a national strategy became the largest market in the world for the first time. In terms of the market growth rate, South Korea, which has key memory manufacturers showed an outstanding expansion. In addition, Taiwan, where the world's largest foundry is located, maintained the high level it reached at in 2019.

In 2020, although there are concerns such as the U.S–China trade friction and COVID-19 pandemic, the former had only a limited impact on and the latter rather worked positively for the semiconductor production equipment industry. Looking at the quarterly sales of semiconductor production equipment, after a year-on-year turnaround in the period of October to December 2019 for the first time in five quarters, the sales has been above the same quarter last year through the October to December 2020 period.

SEMI forecasts that semiconductor production equipment sales keep growing in 2021 and 2022. According to SEMI, capital investments by DRAM manufacturers will contribute to market expansion in the two years. The DRAM market condition has recently been improving.

2. Financial Results

In this section, JCR primarily mentions the total figures of the three companies DISCO, SCREEN HD and Tokyo Electron. Among the three, the business size of Tokyo Electron is large and the total figures of the three are susceptible to those of Tokyo Electron. Tokyo Electron, as one of the world's leading equipment manufacturers, produces wide-ranging products mainly those in semiconductor front-end process and is a symbol for the domestic industry.

For FY2020, the three companies' total net sales stood at 1,902.2 billion yen, up 19.5% year on year and operating income was 398.2 billion yen, up 39.1% year on year, recording an increase both in sales and operating income. This is primarily because of the turnaround of the above-mentioned business environment. Despite the restricted mobility of people under the pandemic, its impact on equipment installation was limited. By half-year period, earnings are on a rise, hitting the latest bottom in the first half of FY2019.

Regarding each company's earnings, DISCO and Tokyo Electron recorded an increase in net sales and operating income, hitting a record high in both of them. Meanwhile, SCREEN HD recorded a decrease in net sales and an increase in operating income. However, if limited to the semiconductor production equipment business, the company achieved an increase in both net sales and operating income. It also saw improvement in profitability, which had worsened last fiscal year.

The three companies' financial structure in total is favorable. The equity ratio has been high at the 60% level since the end of FY2007, hitting 68.9% at end-FY2020, in comparison with 64.1% a year

earlier. In addition, DISCO and Tokyo Electron have been at the net cash position, and SCREEN HD moved to net cash first time as well for three periods.

3. Highlights for Earnings Forecasts

Two companies SCREEN HD and Tokyo Electron, which disclosed their full-year earnings forecast for FY2021, project an increase in net sales and operating income. Tokyo Electron expects to mark a record high, achieving a two straight yearly increase in net sales and operating income. SCREEN HD, if limited to the semiconductor production equipment business, plans to see a record high both in net sales and operating income. On the other hand, DISCO, as in the past, announced only the earnings forecasts for the next quarter. It expects a year-on-year increase in net sales and operating income for the first quarter of FY2021.

The cutting-edge capital investments for the front-end process of semiconductor production tend to focus on so-called the Big Three of the follows: Taiwan Semiconductor Manufacturing Company, Ltd., Samsung Electronics Co., Ltd. and Intel Corporation. All the three companies are setting forth an aggressive capital spending plan. Moreover, DRAM manufacturers, which had been somewhat careful about capital investments are assumed to take a more positive attitude. Although attention should be needed for trends in the U.S.–China trade friction and pandemic, the semiconductor production equipment industry is highly likely to stay solid in FY2021, supported by various technological innovation and related demand. Furthermore, given that there are no significant restrictions imposed in the business activities of each semiconductor production equipment manufacturer even under the pandemic, the possibility is high that their performances will stay strong in FY2021.

With their very strong financial bases, DISCO and Tokyo Electron will likely further solidify the stability in rating by performance turnaround. Meanwhile, on SCREEN HD, with consideration given to improvement in profitability, which had worsened in the previous period, and enhanced financial base, JCR placed the rating outlook of Positive. Yet, given the current high order volume, certain attention should be paid to possible difficulty in procuring parts and materials in the future. JCR will thus closely watch whether the direction of profitability improvement will be maintained.

While uneasy about semiconductor supply is spreading, orders for semiconductor production equipment are becoming somewhat overheated. JCR will observe the supply and demand balance in semiconductors.

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(Chart 1) Business Performance

(Yen in 100 mn)

		FY2019		FY2020			FY2021F			
		results	1st half	2nd half	results	1st half	2nd half	forecasts	1st half	2nd half
DISCO (security code: 6146)	Net Sales	1,410	678	732	1,828	832	996	-	-	-
	Operating Income	364	172	192	531	233	297	-	-	-
	Operating Income Margin (%)	25.8	25.4	26.2	29.0	28.1	29.9	-	-	-
	Net Income	276	130	146	390	166	224	-	-	-
SCREEN HD (security code: 7735)	Net Sales	3,232	1,481	1,750	3,203	1,427	1,776	3,725	1,820	1,905
	Operating Income	125	34	91	244	64	180	375	175	200
	Operating Income Margin (%)	3.9	2.3	5.2	7.6	4.5	10.1	10.1	9.6	10.5
	Net Income	50	23	26	151	33	117	240	110	130
Tokyo Electron (security code: 8035)	Net Sales	11,272	5,084	6,188	13,991	6,681	7,309	17,000	8,400	8,600
	Operating Income	2,372	1,024	1,348	3,206	1,474	1,732	4,420	2,180	2,240
	Operating Income Margin (%)	21.0	20.2	21.8	22.9	22.1	23.7	26.0	26.0	26.0
	Net Income	1,852	787	1,064	2,429	1,120	1,309	3,300	1,630	1,670
Total of 3 Companies	Net Sales	15,916	7,244	8,671	19,022	8,940	10,081	-	-	-
	Operating Income	2,863	1,231	1,631	3,982	1,772	2,210	-	-	-
	Operating Income Margin (%)	18.0	17.0	18.8	20.9	19.8	21.9	-	-	-
	Net Income	2,178	941	1,237	2,971	1,319	1,652	-	-	-

(Source: Prepared by JCR based on financial materials of above companies)

(Chart 2) Cash Flows & Financial Conditions

(Yen in 100 mn)

		End-FY2019	End-FY2020
DISCO (security code: 6146)	Operating Cash Flow	312	567
	Interest-bearing Debt	0	N.A.
	Ready Liquidity	879	1,098
	Equity Capital	2,255	2,512
	Equity Ratio (%)	82.2	76.3
	DER (times)	0.00	N.A.
SCREEN HD (security code: 7735)	Operating Cash Flow	118	572
	Interest-bearing Debt	673	437
	Ready Liquidity	377	627
	Equity Capital	1,739	2,083
	Equity Ratio (%)	50.0	54.5
	DER (times)	0.39	0.21
Tokyo Electron (security code: 8035)	Operating Cash Flow	2,531	1,458
	Interest-bearing Debt	33	N.A.
	Ready Liquidity	3,384	3,115
	Equity Capital	8,193	10,129
	Equity Ratio (%)	64.1	71.1
	DER (times)	0.00	N.A.
Total of 3 Companies	Operating Cash Flow	2,962	2,598
	Interest-bearing Debt	706	N.A.
	Ready Liquidity	4,640	4,840
	Equity Capital	12,187	14,725
	Equity Ratio (%)	64.1	68.9
	DER (times)	0.06	N.A.

(Note 1) Assuming DISCO and Tokyo Electron did not have any outstanding balance of bonds and loans as of the end of FY2020

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: DISCO CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: SCREEN Holdings Co., Ltd.

Long-term Issuer Rating: BBB+ Outlook: Positive

Issuer: Tokyo Electron Limited

Long-term Issuer Rating: AA Outlook: Stable

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