

# FY2016 1Q Financial Results and FY2016 Forecasts

## DISCO CORPORATION

### **DISCLAIMER**

Statements in this PowerPoint with respect to DISCO's current strategies, plans, estimates, and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of DISCO. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them.

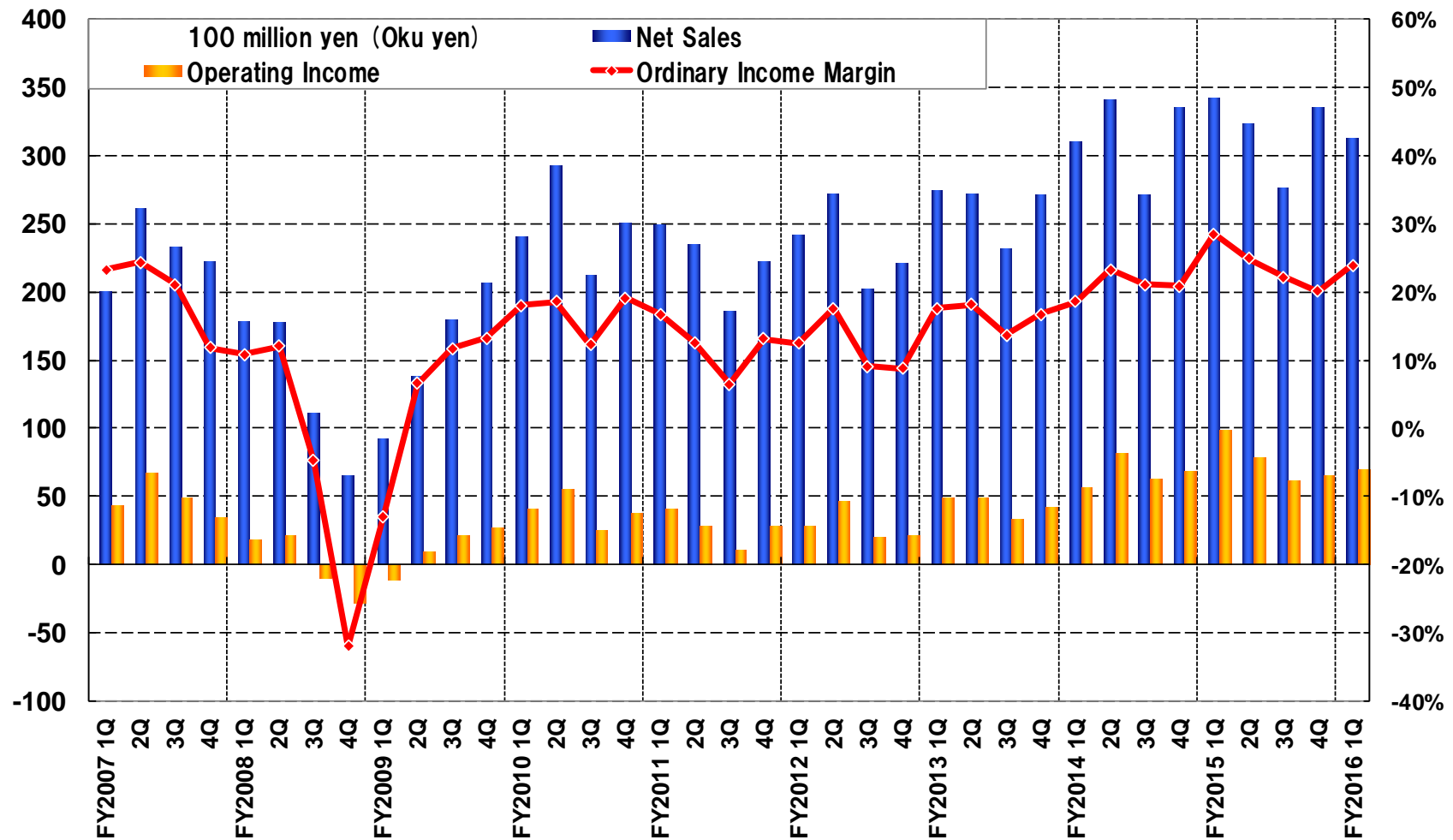
DISCO cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements, and you should not make decision on your investment thoroughly based on these statements. Such factors include, but not limited to, (i) general economic conditions and levels of demand in DISCO's markets; (ii) developments in technology and resulting changes in semiconductor and/or electronic component manufacturing process; (iii) levels of capital investment for manufacturing semiconductors and/or electronic components; (iv) expansions of the area for products and technologies using semiconductors and/or electronic components and its expanding speed; (v) DISCO's ability to continue to offer products and services corresponding to developments of new semiconductors and/or electronic components and new technologies for manufacturing them; (vi) exchange rates, particularly between the yen, the U.S. dollar, and the euro, and other currencies.

# FY2016 1Q Earnings Results

Millions of Yen	FY2016 1Q	FY2015 4Q	QoQ		FY2015 1Q	YoY	
			Amount	(%)		Amount	(%)
Net Sales	31,273	33,557	-2,285	-6.8%	34,197	-2,924	-8.6%
Gross Profit	17,001	18,011	-1,010	-5.6%	19,797	-2,795	-14.1%
Gross Profit Margin	54.4%	53.7%	0.7p	-	57.9%	-3.5p	-
SG&A	10,072	11,542	-1,470	-12.7%	9,890	183	1.8%
Operating Income	6,928	6,469	460	7.1%	9,906	-2,978	-30.1%
Ordinary Income	7,493	6,733	760	11.3%	9,754	-2,260	-23.2%
Ordinary Income Margin	24.0%	20.1%	3.9p	-	28.5%	-4.5p	-
Income before income taxes and minority interests	7,014	6,711	304	4.5%	9,742	-2,727	-28.0%
Net Income	5,794	6,636	-842	-12.7%	6,501	-707	-10.9%

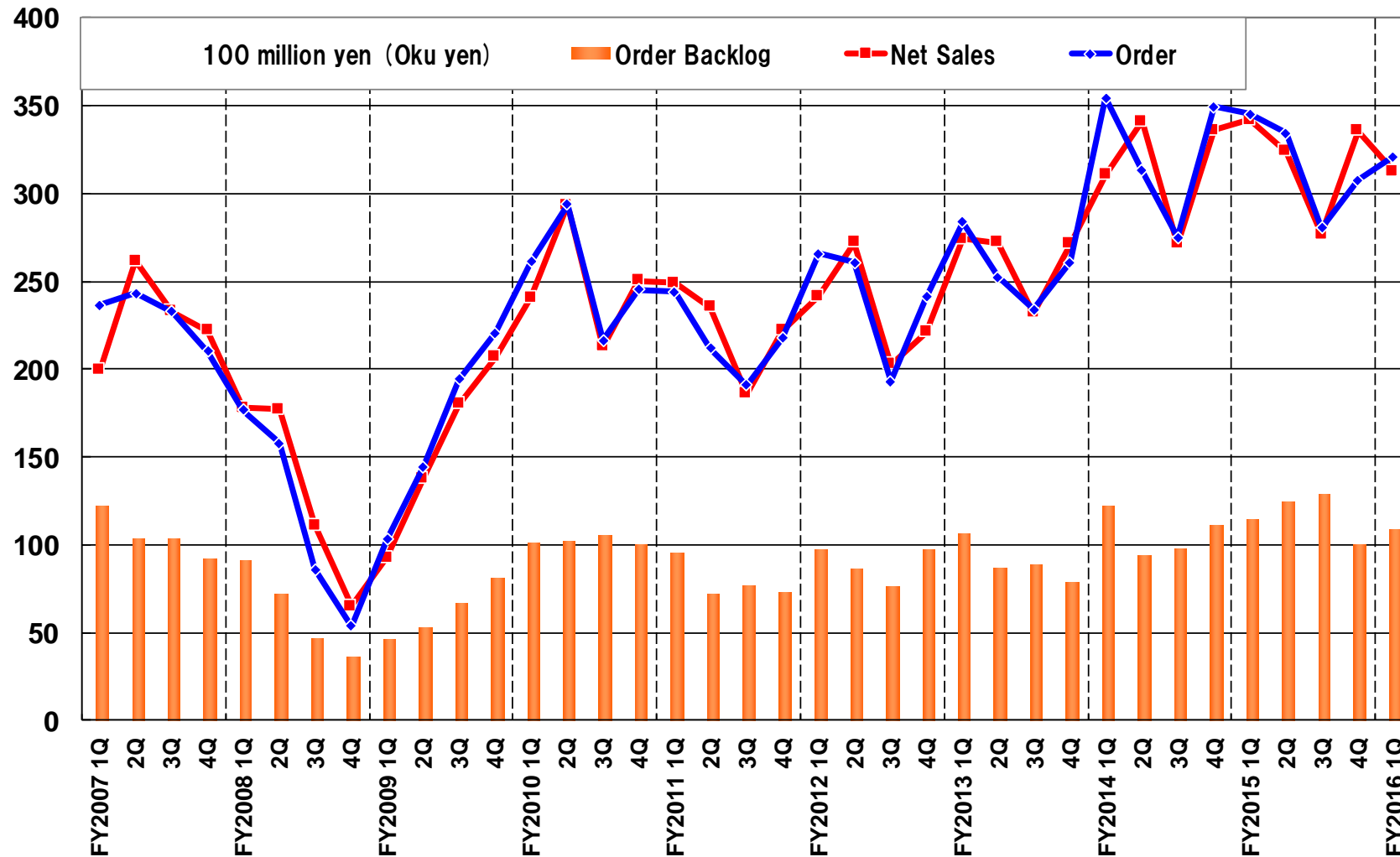
- Although there were some investments from Asia, the investments from Japanese, European and American companies slowed down and decreased both YoY and QoQ.
- GP Ratio: The YoY was worse mainly due to exchange rate fluctuations. However, the QoQ rose because the cause of the temporary cost increase disappeared.
- Sales and Administrative Expenses: In the YoY, Personnel expenses were lower and R&D expenses were higher. In the QoQ, end-of-quarter were lower (e.g. Depreciation, R&D, etc.).
- Despite several influencing factors, the operating income exceeded 20%.

# Quarterly Consolidated Financial Results



- In spite of the effect from exchange rate fluctuations, the ordinary income margin remained at over 20% for eight consecutive quarters.

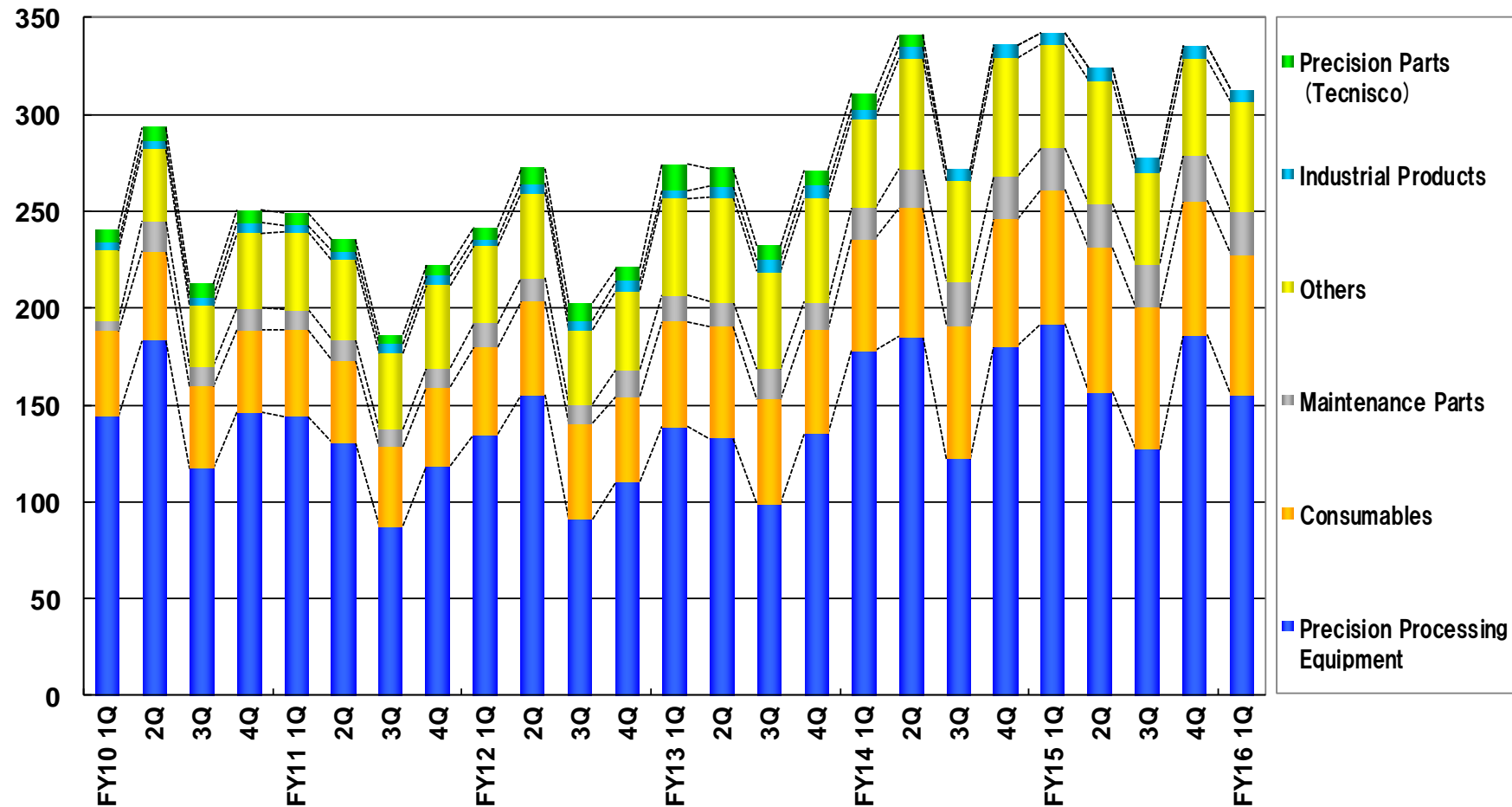
# Quarterly Consolidated Sales/Orders



- Although OSAT capital investments were not so strong, the amount of orders received was approximately ¥32 billion.
- Recently, inquiries from Taiwanese, Chinese and other Asian companies are increasing gradually.

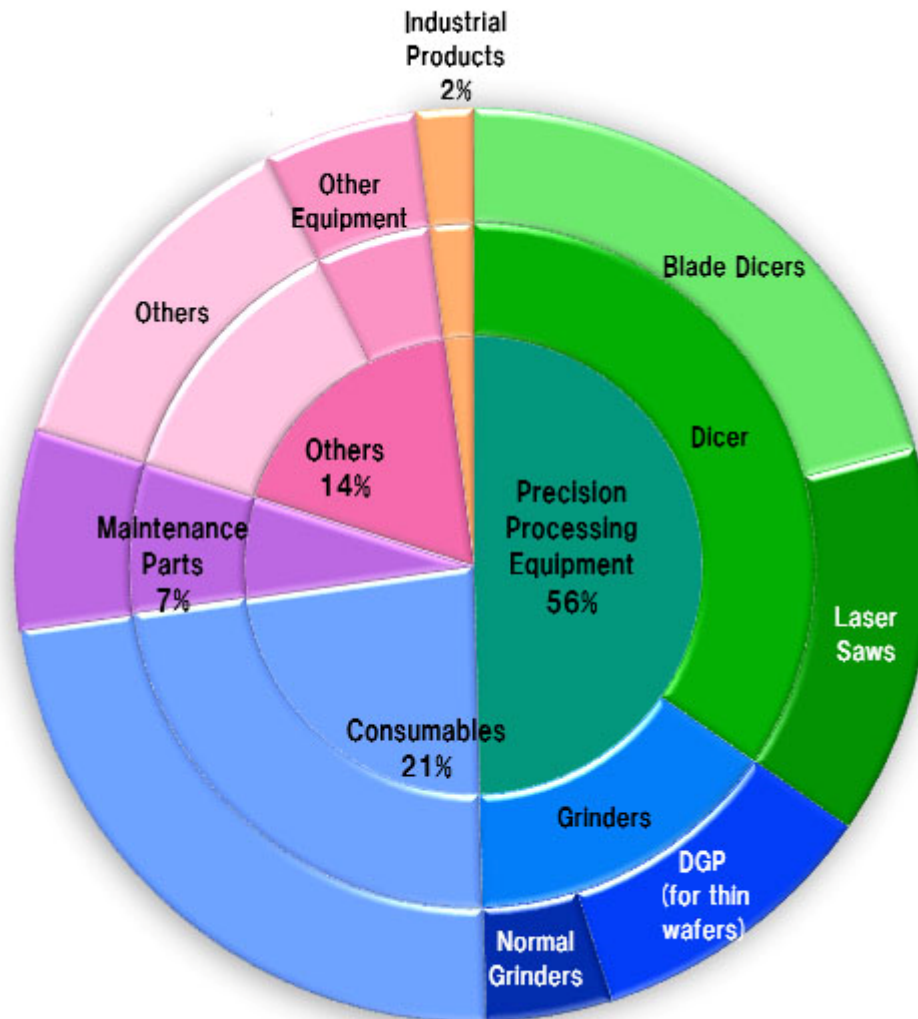
# Quarterly Consolidated Sales Breakdown by Product

100 million yen (Oku yen)



- Precision processing equipment (consumables) decreased by approximately 20% QoQ in both dicing saws and grinders.
- Precision processing tools increased QoQ due to an increase in shipments.

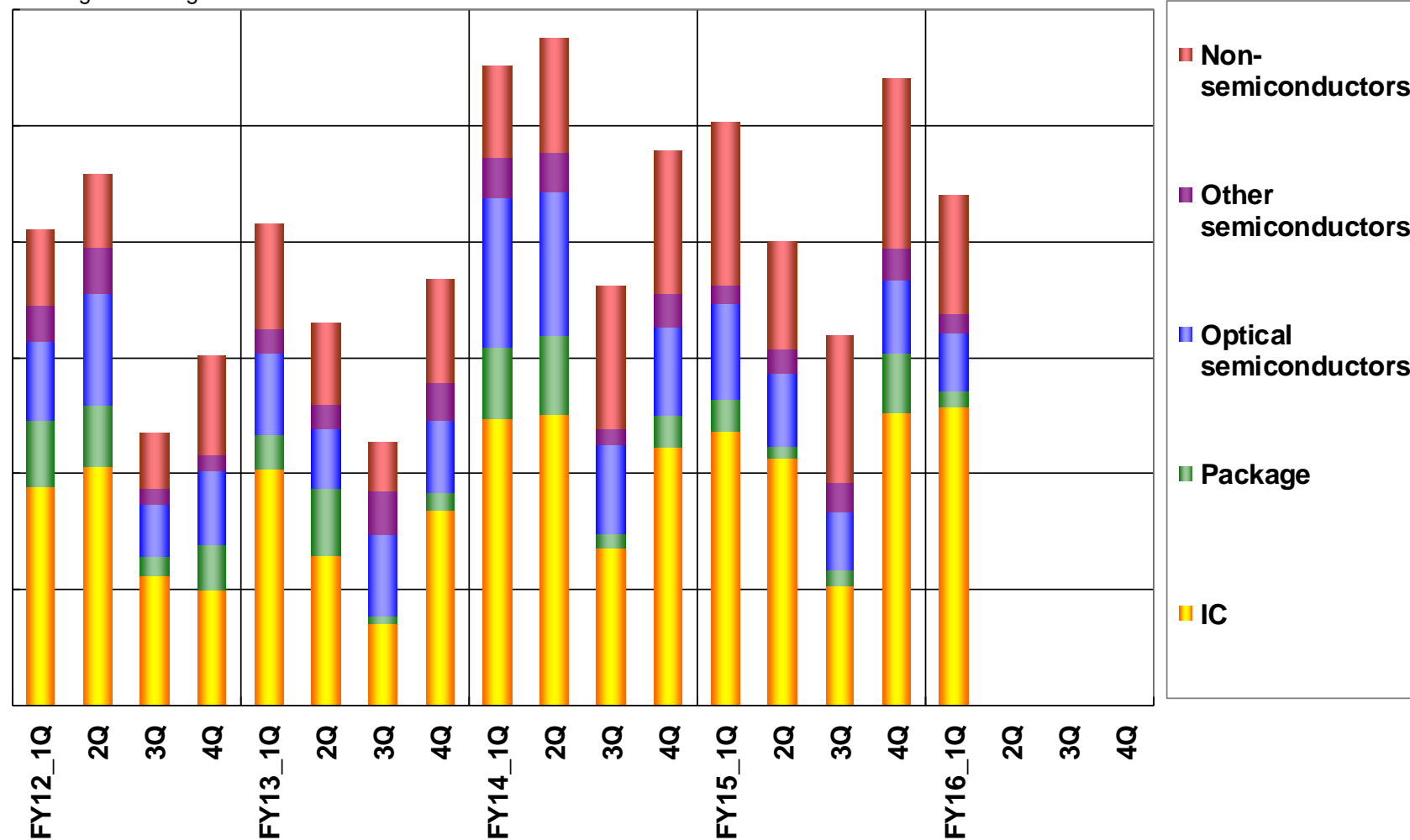
# Product and Equipment Sales Breakdown



<b>FY16_1Q</b>	
<b>[Product Sales Breakdown]</b>	
Precision Processing Equipment	50%
Consumables	23%
Maintenance Parts	7%
Others	18%
Industrial Products	2%
<b>[Precision Processing Equipment Breakdown]</b>	
Dicing Saws	70%
Grinders	30%
<b>[Dicing Saws Breakdown]</b>	
Blade Dicers	60%
Laser Saws	40%
<b>[Grinders Breakdown]</b>	
DGP (for thin wafers)	70%
Normal Grinders	30%

# Equipment, Non-consolidated Cutting and Dicing Saws\* Sales Breakdown by Application

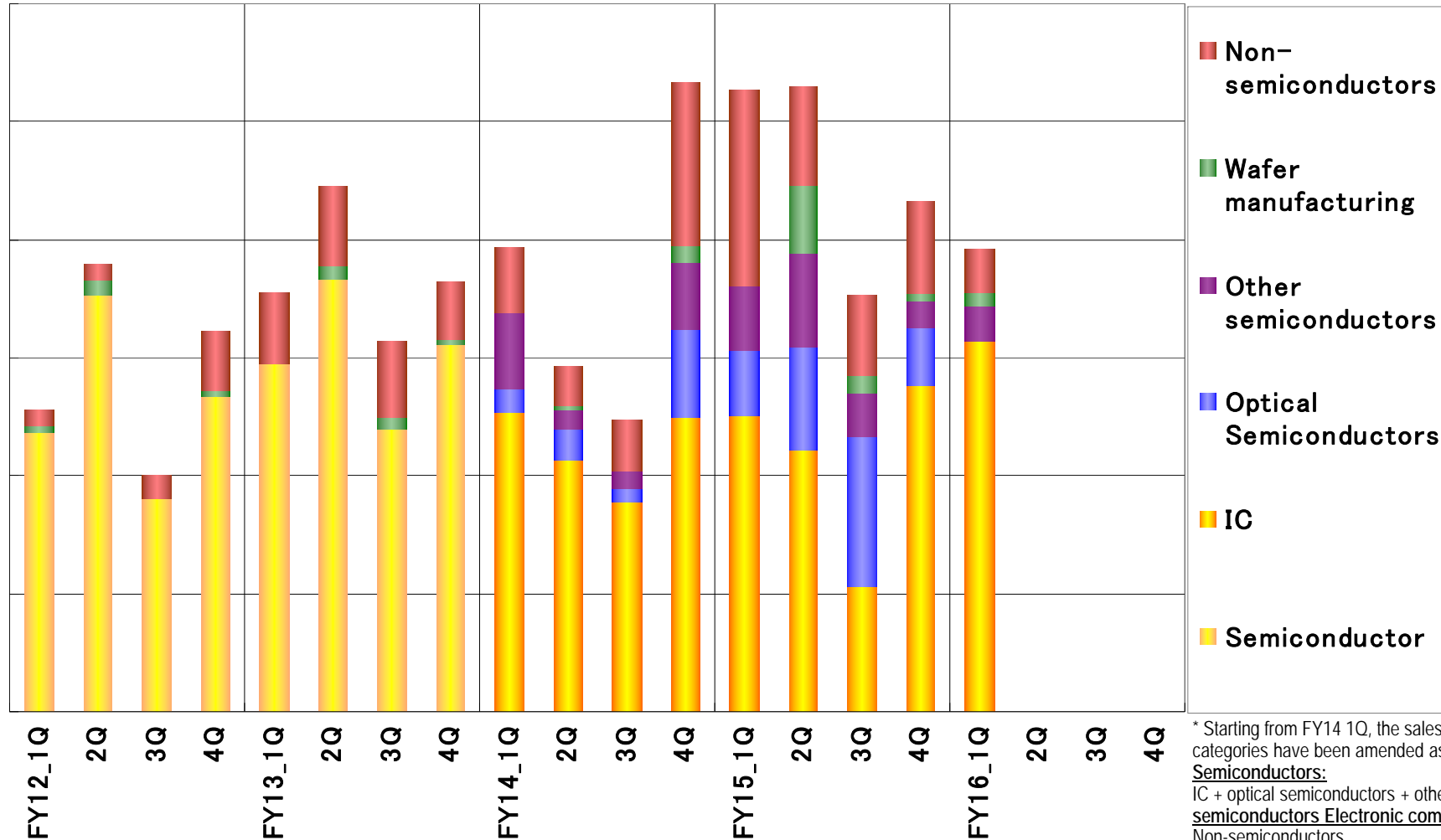
\*Cutting and dicing saws include blade dicers and laser saws



- In sales for IC devices, on the one hand, memory application sales remained low, but logic application sales were steady, increasing overall YoY.
- Investments in optical semiconductors and electronic components (non-semiconductors), which were vigorous in other applications, slowed down, decreasing overall YoY.

# Equipment, Non-consolidated Grinders and Polishers\* Sales Breakdown by Application

\*Grinders and polishers also include surface planers and grinder/polishers

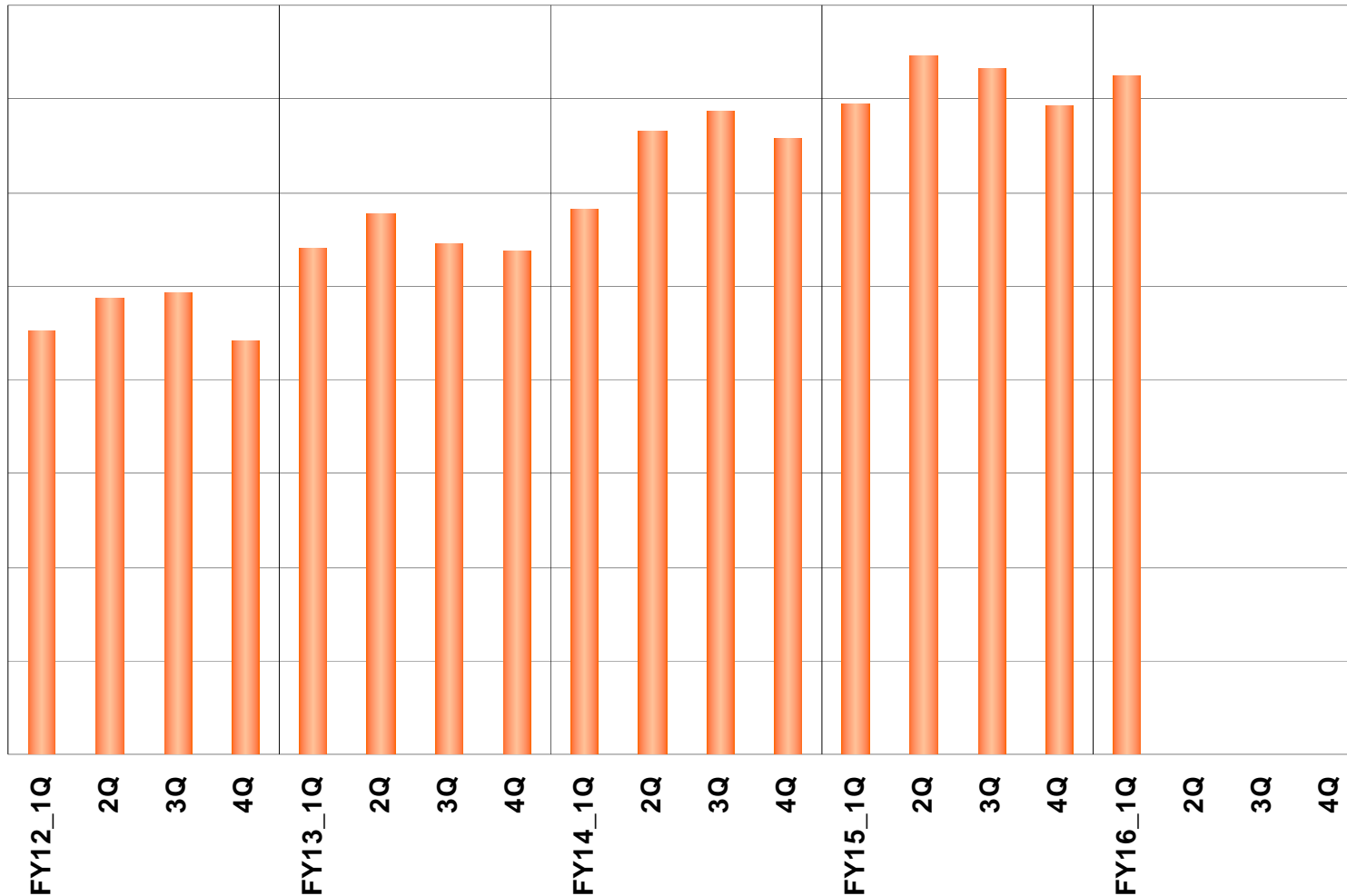


- As with dicing saws, in sales for IC devices, memory application sales were low, but logic application sales were firm, increasing overall YoY.
- In other applications, the trend was the same as dicing saws. (Optical semiconductor and electric component application sales decreased YoY.)



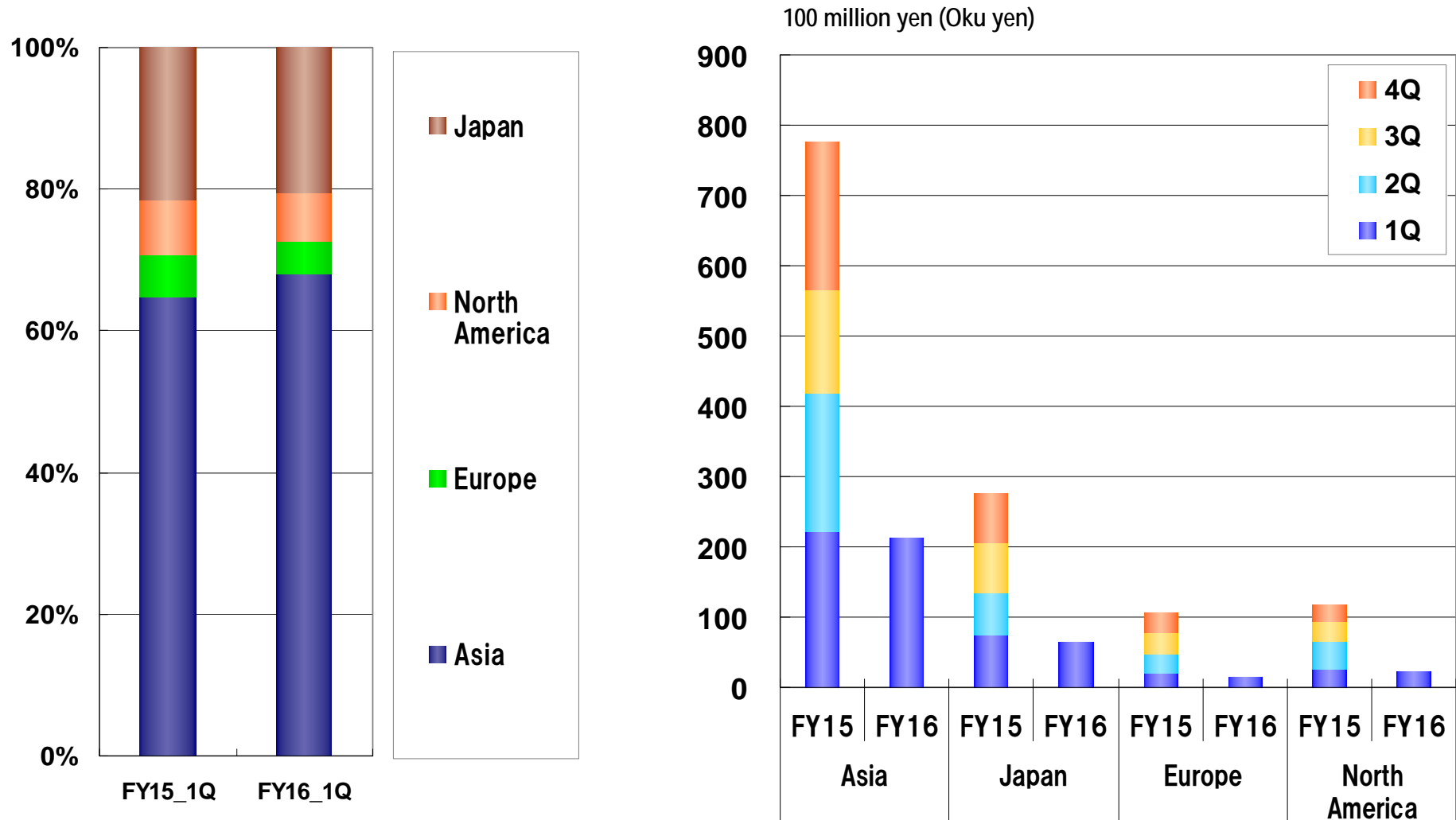
# Consolidated Consumables\* Sales

\*Consumables include dicing blades, grinding wheels, and dry polishing wheels, etc.



- Sales of DISCO's consumables increased both YoY and QoQ due to an increase in shipment quantity, despite the effect of exchange rate fluctuations.

# Sales Breakdown by Region Consolidated



- Capital investments from semiconductor and electronic component manufacturers in Japan, the US and Europe, which were lively in the previous fiscal year, have slowed down, and Asia's capital investment ratio has increased.
- In Asia, while investments decreased in Singapore, Korea and China, investments significantly increased in Taiwan.

# Balance Sheet (Summary)

Millions of Yen	FY2016 1Q	FY2015 4Q	Amount
Cash and deposits	63,676	67,188	-3,512
Notes and account receivable	33,582	33,465	117
Inventories	28,211	30,692	-2,481
Total current assets	130,106	138,333	-8,228
Property, plant and equipment	62,894	64,834	-1,940
Total noncurrent assets	67,982	69,619	-1,637
<b>Total assets</b>	<b>198,088</b>	<b>207,953</b>	<b>-9,864</b>
Current liabilities	25,727	30,246	-4,519
Noncurrent liabilities	8,878	9,671	-794
Total liabilities	34,605	39,917	-5,312
Total net assets	163,483	168,035	-4,552
<b>Total liabilities and net assets</b>	<b>198,088</b>	<b>207,953</b>	<b>-9,864</b>
<b>Equity Ratio</b>	<b>82.1%</b>	<b>80.4%</b>	<b>1.7p</b>

## Comparison to Previous End-of-Quarter

- Assets: Cash and deposits decreased, and the total assets decreased approximately ¥9.8 billion due to the depreciation of physical fixed assets.
- Liabilities: The total liabilities decreased by approximately ¥5.3 billion. This resulted mainly from reductions in corporate tax payable and provision for bonuses.
- Net assets: The shareholder equity ratio rose by 1.7 points to 82.1%.

# Earning Forecast FY2016

100 million yen (Oku yen)	Actual	Earning Forecast	
	1Q	2Q	3Q
FY2016			
Net Sales	313	303	286
Operating Income	69	58	56
Ordinary Income	75	59	58
Net Income	58	42	43
Operating Income Margin	22.2%	19.0%	19.6%
Ordinary Income Margin	24.0%	19.5%	20.3%
Net Income Margin	18.5%	13.9%	15.0%

FY2015	(Reference) Previous year's results				
	1Q	2Q	3Q	4Q	Full Year
Net Sales	342	324	277	336	1,279
Operating Income	99	78	61	65	303
Ordinary Income	98	81	61	67	307
Net Income	65	56	44	66	231
Operating Income Margin	29.0%	24.2%	22.1%	19.3%	23.7%
Ordinary Income Margin	28.5%	24.9%	22.2%	20.1%	24.0%
Net Income Margin	19.0%	17.1%	15.9%	19.8%	18.1%

- Predicted exchange rate US\$1 = 100 yen, 1 Euro = 110 yen
- Impact of 1-yen fluctuations to the exchange rate (consolidated, annualized) US\$: Approx. 500 million yen, Euro: Approx. 30 million yen

# Dividend Policy and Dividend Payment

(Yen)	FY2016		(Reference)
	Previous forecast	Forecast	FY2015 Actual
Intermediate dividend	54	70	85
Year-end dividend	-	-	230
Annual dividend	-	-	315

**FY2016 Intermediate dividend: ¥70**

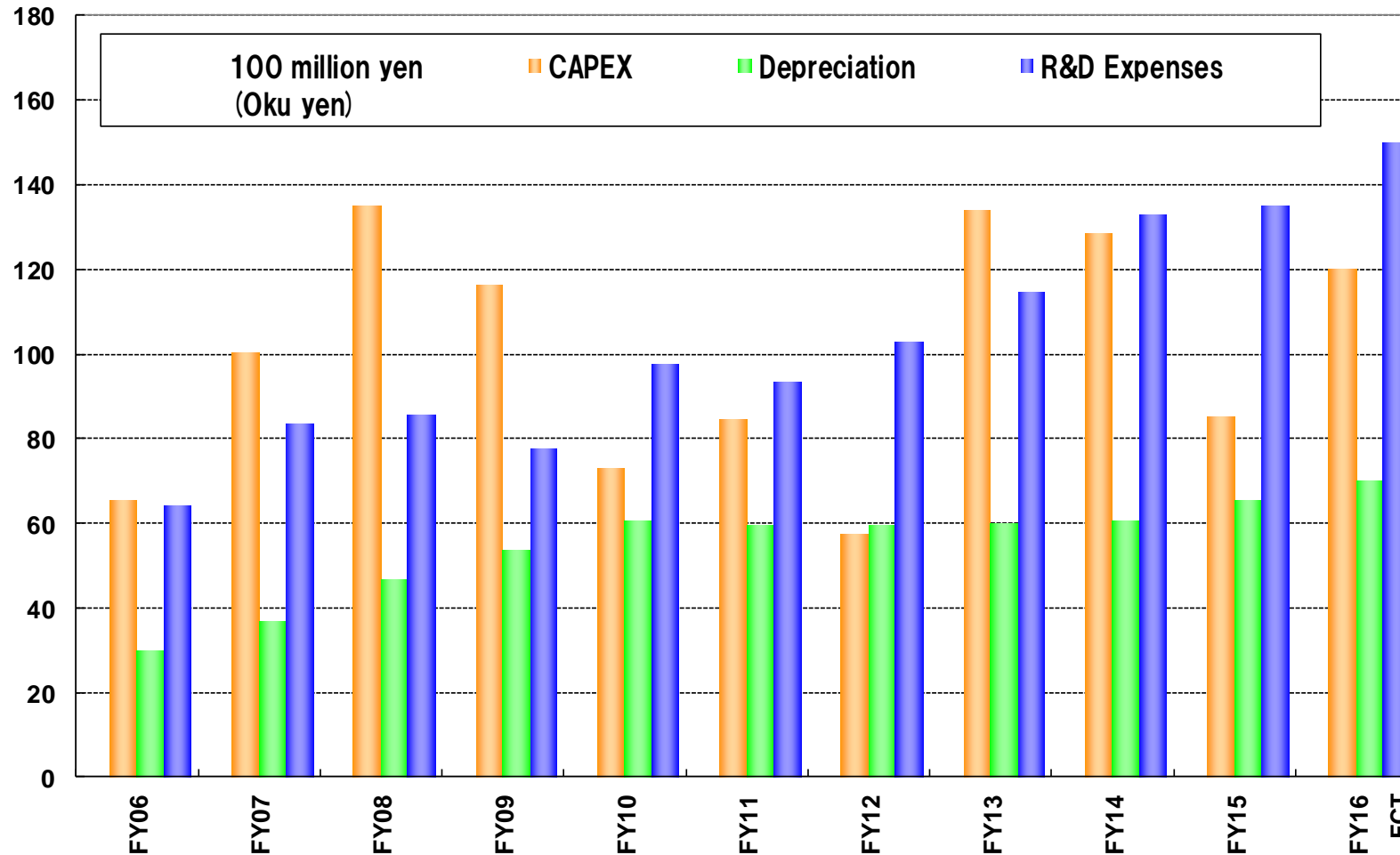
(Based on FY2016 half-year earnings forecast)

(End-of-year dividend N/A)

## Dividend Policy

- Decisions concerning the distribution of surpluses are made by the general meeting of shareholders, in the case of the final dividend, and by the Board of Directors, in the case of the interim dividend.
- 1. Adopting a performance-linked dividend policy and aiming at giving clearer priority to shareholder returns, our target dividend payout ratio is 25% of the consolidated half-yearly net income. There will be interim and final dividends, each of which will be equivalent to 25% of the half-yearly consolidated net income.
- 2. Irrespective of the level of income, we will maintain a reliable dividend of ¥10 per half-year. This means that the minimum yearly dividend will be ¥20.
- 3. Except when there is a loss, if the year-end balance of cash and deposits after payment of dividends and income taxes is greater than projected funding requirements for the acquisition of technology resources, such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes, one-third of that surplus will be added to dividends.
- [Remarks]
- The ¥20 payout stipulated in our stable dividend policy may be reviewed if there are consolidated net losses in three consecutive years.

# Consolidated R&D/CAPEX Forecast



**Same as previous forecast**

- R&D: We plan to invest aggressively in R&D. Expenditure will increase from ¥13,500 million in FY2015 to around ¥15,000 million.
- Capital spending: We plan to invest around ¥12,000 million, compared with ¥8,500 million due to the construction of a new factory building.
- Depreciation: As in the previous year, depreciation expenses are expected to be less than ¥7,000 million (¥6,500 million in FY2015).

# FY2016 1H Sales Forecast Breakdown by Product

FCT

	FY15 Full Year YoY		FY15 1H YoY	FY16 1H YoY
Precision Processing Equipment	-1%		-4%	-10%
Dicers	-10%		-20%	-5%
Non-laser	-20%		-20%	-10%
Laser	10%		-10%	10%
Grinders	30%		60%	-20%
DGP ( for thin wafers )	20%		30%	±0%
Normal Grinders	60%		110%	-50%
Precision blades and wheels	10%		20%	±0%
Other products, subsidiaries	Slight decrease		10%	-5%

# DISCO

Kiru · Kezuru · Migaku Technologies

