Q1 FY21 Financial Results of DISCO Corporation

One on One Meeting FAQ

This material:

Below are the answers to questions asked during the one-on-one meeting with analysts and investors after presentation of the financial results.

Report Conclusion

No change in customer willingness to invest compared to three months ago, and high equipment shipment is forecasted to continue into July–September.

1. Financial Performance

●Q1 (April–June) and Forecast Comparison

Sales: JPY 48.2B (+1.4B compared to the forecast)
As a whole, a slight increase from the forecast
Compared to the forecast: slightly lower for equipment and slightly higher for consumables due to inspection/acceptance timing
GP margin: 60.9%
(a little less than an approximately four point increase in comparison to the forecast)
Positive factors compared to the forecast

1. Exchange rate, with the assumed USD rate being JPY 100.0 and actual rate being JPY 109.8
2. Product mix, with an increase in consumables ratio
3. Increase in added value due to equipment price and operating profit

SG&A: JPY 13.9B (results) (slight increase compared to the forecast)
Performance-linked costs (mainly personnel costs) increased due to higher sales and profits compared to the forecast.

OP: JPY 15.4B (results) (+2.2B from the forecast)
Mainly due to exchange rate and increase in GP ratio

●Q2 (July–September) Forecast

Sales: JPY 58.1B (forecast); assumed USD currency rate of JPY 105; increase in sales is

forecasted due to progress in equipment inspection/acceptance.
GP margin: QoQ assumed to decrease; if exchange rate is flat, GP margin is forecasted to decrease.
Factors in fluctuation:

1. Assumed exchange rate, with the USD rate for April–June being JPY 109.8 and for July–September being JPY 105.0
2. Product mix, with a decrease in consumables ratio
3. Planning was conducted referencing past trends without incorporating the current situation.

SG&A: approximately JPY 14.5B (forecast)
Increase due to skew toward performance-linked expenses
OP: JPY 18.7B (forecast)
Due to increase in sales, profit margin is expected to remain high, although this will depend on inspection/acceptance status.

2. Financial Performance Forecast

●Disclosure of Financial Performance Forecast (repeat notification)
Forecasting demand for semiconductor back-end processes is difficult; thus, since April 2018, the financial performance forecast policy has been to forecast up to the next quarter.
E.g., disclosure of business forecast for April–June in the January–March financial results announcement; disclosure of business forecast for July–September in the April–June financial results announcement.

●Order Backlog
End of June: JPY 92.5B (+23.6B compared to the end of March)

Backlog for not-yet-accepted equipment: JPY 45.9B (+14.3B compared to the end of March)

Backlog for not-yet-shipped equipment: JPY 46.5B (9.3B compared to the end of March)

Since the not-yet-accepted backlog is large and the rate of high shipment is continuing into July–September, the forecasted sales are approximately JPY +60B per quarter but will depend on the timing of customer inspection/acceptance.

3. Inquiries and Orders

Continuing from the previous quarter, the level of inquiries remains high not only for smartphone-related products but also for a wide range of applications such as consumer products and automotive products. Therefore, orders have remained at a high level, exceeding +70B per quarter for the second consecutive quarter
There are no signs of inquiry slowdown, and a high level of shipment continues with our plants continuing to operate at full capacity.

●Leadtime from Order Receipt to Shipment
As conventional business practice, purchase orders were not issued with much time before the desired delivery date. Instead, the orders were placed immediately before shipment. This often meant leadtime from order receipt to shipment was very short.
However, during the past year, customers have been placing orders further in advance than before. With the strong demand for equipment driven by actual demand backed by the global

semiconductor shortage and with the lengthened delivery times for some back-end equipment, we assume customers are focusing on early procurement of dicers/grinders.
In addition, while cancellation of “oral inquiries” does occur, orders received through purchase orders generally are not cancelled. Therefore, we assume customers have been issuing purchase orders earlier than usual due to actual demand.
As a consequence, while leadtime from order receipt to shipment is conventionally one to two months, it has increased to approximately 6 months.

4. Shipping Trends

●Shipping volume (April–June): JPY 62.6B (results) (+4.1B compared to the forecast)
As a whole, the actual amount was greater than the forecasted amount due to the depreciation of the yen and increase in shipment of consumables and other products.
Without taking into account exchange rate, the actual amount was nearly the same as forecasted.
Shipment of equipment for mass production remained at a high level, centering on OSATs in Asia.

●Shipping volume (July–September): JPY 55.5B (forecast) (assumed currency rate of JPY 105)
Equipment QoQ -10% decrease, but shipment will remain at a high level
Consumables QoQ -5% decrease due to the assumed currency rate, but customer facility operation rates are forecasted to remain high
Although shipment as a whole will be -10% QoQ, shipment is likely to continue to be approximately JPY +60B per quarter considering the average in April–June and July–September and taking into account 1. exchange rate, 2. lopsided shipment in April–June for some equipment, and 3. difficulty of forecasting shipment for “other” products.

●Production Capacity
Out of “personnel,” ”space,” and “parts / raw materials,” the current bottleneck is personnel. Headquarters and affiliate offices will continue providing personnel as manufacturing support. The issue of “space” has been resolved with the completion of the new building at Kuwabata Plant in August. Regarding “parts / raw materials,” suppliers are struggling with procurement. We are paying close attention to the procurement situation as it has become increasingly severe across the whole industry.

5. Market Environment and Application Services

■Overall: Customer willingness to invest remains unchanged from the previous report.

●Logic, OSAT, etc.
In addition to 5G- and smartphone-related products, demand is forecasted to be strong for a wide range of end products, including notebooks, home appliances, etc. After increasing starting the beginning of last autumn, logic inquiries from OSATs remain at a high level.

Supplementary Information
There is increasing demand for back-end process technology, but current inquiry is limited, and volume is low.
We continue to work on R&D while closely watching trends such as cost and prospects for adoption in end products.
On the other hand, the existing demand for package singulation remains at a high level, linked to

the increase in semiconductor production amount.

●Memory
In April–June, grinder shipments for NAND increased mainly for major memory manufacturers. We are closely monitoring future continuity and DRAM trends.

●LED
Although inquiries for cutting-edge and R&D LEDs have started to come in, the investment amount is not large.
While it will depend on deployment in end products, future developments are anticipated.

●Image Sensor
Inquiry levels were relatively low after the high level of inquiries concentrated in the first half of 2020. However, currently inquiry is slowly recovering.

●Power Semiconductor
Investment in power semiconductors has been on a downward trend after concentrated investment in April–June 2020. However, inquiries started to increase in January–March 2021, continuing into April–June mainly for Si grinders.
Although shipment will not be constant on a quarterly basis, it will likely expand on a mid-term basis in the future with electrification and energy saving demands, such as the shift to EV.

■Wafer Production
Shipment remains at a high level due to capital investment by multiple companies, including start-up companies in Asia, during April–June.
Currently, there is movement toward investment from all regions, and future continuity of investment should be closely monitored.

●Electronic Component
Investment in electronic components has been relatively conservative compared to that in semiconductors, with no significant investments observed.
Customer investment trends are being monitored in addition to future market trends in the electronic components industry.

●Consumable Trends
April–June (results): Shipment of consumables remained high due to high customer facility operation rates (record high for two consecutive quarters).
July–September (forecast): high level of shipment likely to continue. However, since customer production trends are difficult to forecast, we are closely monitoring future end-product demand.

6. CAPEX

●Breakdown of Large-Scale Investment

Zone D at Kuwabata Plant: construction started in September 2019 (completed in August 2021)

Building B at Chino Plant: construction started in July 2019 (completed in January 2021)

With completion of the new buildings at Kuwabata and Chino Plants, the production space is able to handle approximately JPY 300B in production.

●Annual Capital Investment Amount
FY21 (forecast): approximately JPY 14B
Rationalized investment: JPY 7B, Kuwabata Plant: JPY 5B, other: approximately JPY 2B
Currently, no further investment in plant buildings is anticipated.
However, small investment projects may occur at any time in the future.

7. Depreciation (DEP) and Other Expenses

●DEP
FY21 (forecast): around JPY 7.5B
Includes the increase in DEP from the beginning of the year with the new Chino Plant building and the increase in DEP from the second half with the new Kuwabata Plant building.
Because the new buildings at the plants fall under facilities DEP, DEP is expected to be JPY 600M–700M per building.

●SG&A
FY21 (forecast): will continue with personnel increase and active R&D
Although it will depend on performance, SG&A is likely to shift around JPY 13B to JPY 15B per quarter due to changes in profit-linked costs.

8. Dividends Policies

FY21 interim dividend forecast: JPY 168 (performance-based dividend payout ratio: 25%)
Year-end dividend is yet to be decided (performance-based dividend + additional dividend from surplus funds).

●Review of Dividends Policy (unchanged from previous quarter)
Performance-based dividend payout ratio 25% + additional dividends from surplus funds
(Refer to the explanation materials for details.)
The major variable in necessary funds, which are related to the calculation of surplus funds, is facilities expansion, but large-scale building investment has settled.
However, small investment projects may occur at any time, and necessary funds may increase through accumulation.

9. Perspective on Future

●Supply Chain Change (unchanged from previous quarter)
DISCO has customers in various fields, including IDM, OSAT, electric components manufacturers, etc. Therefore, the annual transaction amount for even large customers is approximately 5% at maximum, and the top customers change yearly.
Moreover, DISCO supports a wide variety of applications and does not strongly rely on any specific customer or application. Considering this situation, the impact of any supply chain change would be small.

●Trade Conflict between the U.S. and China (unchanged from previous quarter)
Although the trade conflict between the U.S. and China has not had any direct impacts, any indirect impacts on the supply chain are being carefully monitored.
With the above in mind, the impact will not be significant if there is no change in semiconductor demand. However, if intense trade friction has a negative impact on the global economy, there is the risk semiconductor demand itself may decline, and customer investment trends may change as momentum gathers for review of production sites. Thus, the situation must be closely monitored.

●Continuity of Willingness to Invest
DISCO has never experienced such a constant high level of new inquiries, with the current situation continuing for close to a year, and at this time there have been no large-scale delays or cancellations. Therefore, future changes in customer willingness to invest and trends in end-product demand should be closely monitored.

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