

# **SCREEN Holdings Co., Ltd. (DINRF) Q4 2024 Earnings Call Transcript**

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**Body**

SCREEN Holdings Co., Ltd. (DINRF)

Q4 2024 Earnings Conference Call

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Company Participants

Chiho Otobe - Executive Officer and Head of Corporate Communications

Toshio Hiroe - Representative Director, President and CEO

Yoichi Kondo - Representative Director and CFO

Akihiko Miyagawa - Senior Executive Officer and Head of the Financial Strategy

Conference Call Participants

Masahiro Shibano - Citigroup Global Markets Japan

Takashi Shimamoto - Okasan Securities

Atsushi Yoshioka - Nomura Securities

Yu Yoshida - CLSA Securities Japan

Shuhei Nakamura - Goldman Sachs Japan

Presentation

Chiho Otobe

Hello, everyone. It's time to start the earnings call for the financial year that ended in March 2024 of SCREEN Holdings. Thank you very much for taking the time to attend today. My name is Chiho Otobe, and I'm an Executive Officer and Head of the Corporate Communications Department.

Thank you very much again for being here today. The documents for presentation today will be announced on the website, at half past 3 or have been have also already been posted. And we will also post a recording of today's earnings call later on. Please use it for your convenience. This earnings call is also being interpreted into English. So we have an English conference room set up on Teams.

We would use English interpretation to have people from other countries and other languages followed with the conference. There are three things in terms of housekeeping that I'd like to mention ahead of the conference. First of all, your cameras and microphones are muted, by the organizer, on Teams. And when it comes to doing Q&A, we will enable your microphone so you can switch it on.

This is just a measure of precaution to ensure a smooth progression of the conference. Please also refrain for mentioning specific customers or specific products of competitors or names of competitors, and please understand that we can't make comments on the situation of specific other companies. We will have time for question and answers at the end of the presentation, and we will mention details on that later.

So let me briefly introduce, the participants on the side of SCREEN Holdings. First of all, Toshio Hiroe, the Representative Director, President and CEO of SCREEN Holdings.

Toshio Hiroe

Thank you very much for taking the time today.

Chiho Otobe

Mr. Yoichi Kondo, Representative Director and CFO.

Yoichi Kondo

Hello. My name is Kondo. Thank you very much for being here today.

Chiho Otobe

Mr. Akihiko Miyagawa, Senior Executive Officer and Head of the Financial Strategy division.

Akihiko Miyagawa

Hello everyone, thank you very much for attending.

Chiho Otobe

So we would start this by a presentation from Mr. Kondo about the financials of the year that just ended. Mr. Condo, you have the floor.

Yoichi Kondo

Thank you very much. I'd like to give you the details of our business results and the forecast for the year that ended in March 2024. We've increased our revenue, operating income, operating profit margin, ordinary income, and net income and we've also exceeded the forecast that we've said in January. We were paying out another ¥140 of dividends at the end of the term, which is ¥448 before split. We've reached record highs for sales and profits, also for operating income and operating margin. For SPE, for GA, both sales and profits increased year-on-year, and we achieved a record higher op margin for FT, sales decreased year-on-year and lost and for PE, both sales and profits decreased year-on-year. Net sales for the full-year were ¥504.9 billion. Operating income, ¥94.1 billion. Operating margin 18.6%, ordinary income 94.2% and net income of ¥70.5 billion.

Net sales up 9.6% or ¥44 billion, the OP income up ¥17.7 billion, ordinary income up ¥60.8 billion and net income up ¥13 billion. Sales revenue, operating income, and operating margin are shown here. And these are the results of value up 2023. So we've improved the profitability. We've improved revenue as well.

Next page, please. This is the revenue proportion by region. 82.4% overseas, Japan, 17%, China, 12%, and so on. So we see that China has reached a very high level. Next page, please. This is the composition of the group sales by segment. SPE has reached a very high level at 82.7%. Next page, please. These are the results for the fourth quarter. SPE ¥129.6 billion. The operating income, ¥32.5 billion and operating margin 25.1%. GA net sales, ¥11.7 billion, OP income, ¥7 billion and OP margin, ¥6.7 billion. FT net sales ¥10.7 billion, 0.2 operating income and OP margin 2.2%. And PE, net sales is ¥4.1 billion.

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On the right hand side, you find the numbers for the full-year, SPE, ¥417.6 billion, GA, net sales of ¥47.7 billion, FT net sales of ¥23.2 billion and negative ¥0.4 billion operating income for FT. OP margin minus 1.8% for FT. PE net sales of ¥14.6 billion, OP margin of ¥1.8 billion, OP income ¥1.8 billion and 12.7% margin. This is the year-on-year comparison by segment. For SPE, QoQ both sales and profits increased, sales to foundries increased as well as those to China and North America.

And this exceeded our expectations in terms of profitability, because we drove down fixed cost, and some of the evaluation equipment was moved into this period. So operating income was higher than expected. Year-on-year is also an increase for sales and profits. The sales to foundries increased when sales to memory applications declined. It is similar to the QoQ situation. For GA, both sales and profits decreased. The recurring business however remained solid. In terms of year-on-year, both sales and profits increased. POD and other equipment sales as well as recurring business remained solid. And we also handed some help from FX.

For FT, both sales and profits increased, and we are profitable for the first time on a back basis since two years. We've returned to profitability on a quarterly basis. Sales decreased year-on-year and managed to reduce loss for business restructuring. For PE, both sales and profits increased and OP margin improved to the 10% range. In terms of year-on-year, both sales and profits decreased and due to the sluggish investment in package substrates. This is the [indiscernible] for our balance sheet.

The total assets are ¥676.8 billion and the cash is still quite abandoned. Some of it is included in other current assets, but the figures I see. This is the consolidated cash flow minus 31.0 operating cash flow for the fourth quarter. We've decreased the payment cycle 60 days cash, And so this is just a temporary decrease of financial cash flow and it's going to improve going forward. Financial cash flows and others, I see.

This is the analysis of operating income growth, from the ¥76.4 billion in FY 2023, March plus ¥18 billion for sales and capacity utilization, plus ¥13 billion for profitability and minus ¥15 billion for fixed cost plus ¥2 billion for exchange rates taking us to ¥94.1 billion. Increase in sales and capacity utilization is mainly attributable to SPE, and profitability to SPE and FT. Labor costs and R&D is what is being used. Exchange rates mainly impacted GA and PE. This is all the presentation from my side.

Thank you very much, Mr. Kondo for the presentation. Mr. Hiroe will now talk about the business environment and the outlook. Mr. Hiroe, our CEO, you have the floor.

Toshio Hiroe

Yes, I'd like to say a few words about the business environment and the outlook for the business environment for SPE, the market for semiconductors, for PC, smartphones, and server applications, we see expected growth especially for servers on a monetary basis. The WFE outlook forecasts a growth of investment in China and the dealers also say that the DRAM also, I suppose you could cover it in the second half. Taiwan is going to take a lead in leading edge node investments. So we see a positive outlook here. Power devices investment could become weaker going forward.

For GA, in May, there will be the drupa exhibition. And for that some customers have remained their purchases. We are going to announce new products at the drupa and we expect to recover afterwards. For displays, the demand has improved as expected and we're going to turn profitable this period. OLED is increasing gradually this financial year. And for PE, the memory demand, print circuit boards has seen a set of weaker demand, and we expect the recovery in the later half.

Yoichi Kondo

So overall focus of the business and for the full-year in comparison with the previous year, we expect increase in sales and the profit. So we would be aiming, so that renewing the record high for the four years in a row for the profit as well as the sales. And the full-year dividend, then would be achieving the record high. That would be ¥224. And this year, sort of by further 2026 and the new midterm business, management plan would be started, which would be explained later. As for the SPE business, so WFE, as I mentioned previously, so calendar year '23 will be minus 5%. That is a landing of the calendar year 2023.

And then as for the 2024, the market then would be growing by the mid-single-digit percentage and the foundry logics and the 4D leading edge asset on those investment, this would be accelerated. So this would be accelerated further. As for the memory, so the DRAM investment would be restarted in the latter half of the year. As for the application, sort of investment as for the foundry, so that due to the increase of the demand of the AI application and the mass production would be front loaded. As for the logic, and the installation of the new factories and it would be a progress in accordance with the plan.

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As for the memory, so related to the AI application in the second half of the year and the DRAM CapEx, so that would be restarted. And then we are expecting the recovery as for the NAND. So gradually, the market will be recovered. As for the image, device and the power devices, so they are relatively slowing down. As for the image item in that investment in China would go up. So as for the power device and we are -- it's a little bit sluggish. As for the Chinese market, so the existing and the emerging foundries and the memory combined, so the investment for the mature application would become active.

So on this page, so this is about the -- so that the sales by the application QoQ, so DRAM Flash would increase driven by China. Year-on-year for Q4, so that the foundry made a significant increase and the increase happened in DRAM driven by China as well. And then, so that the ¥129 billion SPE sales was a record high. And in Q4, so that is making a production to the production productivity. So that the three year, year-on-year, so the foundry made a significant increase and for the DRAM, there was an increase and driven by China as well. And posted services and the sales increased. However, relatively, the proportion or share decreased. So at the end of the last year, it was the 18% of that is a share of the post sales service.

Next, please. So this is by the focus by region. So QoQ, so that the sales to China will increase and so is the sales to North America. So year-on-year, and the sales to China as well as sales to United States doubled. So that the full-year year-on-year the sales to China more than doubled. And then the sales to North America made a significant sales. So the trend is very similar to the 4Q, year-on-year.

So next page is about the sort of focus of the H1 of this year. So as you can see the situation is very similar to the H2 of the last year. So the [indiscernible] is slightly increasing, but the picture is very similar to the picture of the H2 of the previous year.

So, this is by region. And again, the dependency on China, Taiwan -- excuse me, as to the dependency in China, would be continued in the H1 this year, and the ratio of the China goes up, and then the ratio of Taiwan goes up. So this is our expectation. So this tendency, so that would be the same in comparison between the H2 and the H1 of the previous year and this year.

As for the GA, I mentioned about the drupa, so in the ink business, so the recurring business has been starting up, and this is going to be stabilized. And for the full-year, OP margin would be the same as the last year. This is our target.

As for the FT, so display demand made a turnaround as we expected, so that the order of the audit will be gradually increasing, but sales is mainly coming from the LCD for this year. So for the full-year, we expect a return to profitability.

As for the PE, so the investment in package would be recovered in the second half of the year and the post-sales service is solid and the OP margin of the 10% would be maintained. Next, please.

So this is about the forecast of the business on the H1. So our overall H1, so the ¥276 billion and ¥48 billion operating income and 17.4% is the margin. And the second half was ¥52 billion 18.3%/. For the full-year, ¥560 billion of the sales and operating increased at ¥100 billion this is the first time for us. And the margin is the 17.9%, and then current ordinary profit is ¥100 billion and the net income is at ¥72 billion.

By segment, SPE is driving. So that is the ¥460 billion of net sales, and the operating income is ¥106 billion at 23%. And the GA is in a ¥48.3 billion and the 6.3% of the margin. And the FT ¥36 billion of the sales and the profit would be happening with ¥1 billion at a 2.9 percentage. And the PE net sales would be ¥15 billion and the 2% of the OP income and 13.3 percentage. And the others, net sales would be 3 percentage and a minus and the ¥12 billion this is the adjustment of the growth investment.

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As for the CapEx, some of the CapEx have been already completed, and the R&D will be ¥27 billion and the CapEx it would be ¥39.8 billion, and then depreciation would be ¥10.8 billion. And then January, our forecast as for the CapEx. So we explained this would be ¥30 billion, but that is increased by the ¥9.8 billion as you can see at the commentary at the bottom. So this is due to the acquisition of the building and the land in order to expand the capacity of the production of SPE.

So in anticipation of the next midterm business plan starting in the March of the 2028, we made a strategic investment. And this year, so this fiscal year R&D at ¥33 billion and CapEx is ¥30 billion, and then depreciation would be ¥13 billion. So the R&D is coming from the SPE strategic investment as well as the investment in the new business this is our plan.

As for the CapEx, so the centering around the SPE, so that we will -- so they establish the facilities and for the R&D and then as well as the manufacturing, and then we will build a new buildings for the SPE. So this is in for the CapEx plan.

So FY 2024/03 as well as the forecast of the 2025/03. Sales and capacity utilization, there would be a plus of the ¥28 billion and the profitability improvement is ¥1 billion. And then fixed cost then would be going up at the minus ¥22 billion. And exchange of the exchange rate is minus ¥1 billion. And then overall end, would it be ¥100 billion as for the sales as well as the capacity utilization increase is driven by the SPE. Improvement of the profitability is coming from the SPE and the FT as well as the increase of the fixed assets, this is due to the growth investment in the SPE. And then as the GA and PE are influenced by the exchange rate.

So as for the dividend, so that the FY 2024/03, we will be renewing the record high. As Mr. Kondo has already explained, I will be skipping the explanation. So the FY 2025 March is our focus, then we'll be renewing the record high. So the ¥224 was already explained. So then the before and the converting it into the spirit, this is going to be the ¥448 it is kind of going to be increasing the record high by ¥1.

So later, I would be explaining. So and then 30% of the payout ratio has been the policy. And then, so that, we are -- so that the continuing this policy of the 30% or above of the payout ratio.

So next is the value up further 2026, and the outline would be explained. Please go.

Toshio Hiroe

First of all, let's look at the highlights of value up between '23. In July 2022, we revised the targets, but we've achieved all the new targets. And I'm not going to read out all the figures, but you can see for yourselves. And looking at it by segment the values by segment, SPE, far exceeds the original target. For GA and PE, we have still reached the target. FT had the issue that the display industry saw lower investment, so it's under the target. However, we see a recovery or we are targeting recovery within this period, the current running period, and the new MTP.

Let's take a look at the economic value outcome. We have three basic strategies. One of us creating innovation, and increasing corporate value through a same cycle, and we've wrote this out within the company and innovation management was introduced, we've set the topics and we've revised the R&D strategy. So we've ingrained this in the company culture. And for the existing markets, increasing the market share and working on the new scale of new businesses. It's still lagging behind in terms of the results, so this is the challenges that we see. We are going to continue investing in this part.

On the bottom, generating cash flows equivalent to profits by improving both profitability and efficiency. This is a target that we've worked on. We've introduced ROIC management, and it has penetrated the company. We have a ROIC hurdle rates for our portfolio management which is the X axis, and the Y axis is the revenue growth rate. So we see how the different business are performing. And we've established this new framework, and it has taken root of the company.

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We've also, leveraged S-Cube 3 and S-Cube 4 investments. S-Cube 3 is now fully operational, and it helps us to improve profitability. We've also restructured underperforming businesses, and currently, most of the businesses are turning a profit in the last year of the plan. We've also shifted the focus to cash flow management based on ROIC. And this new structure has also been rolled out over the company and is taken up.

On the next page, we talk about the social value. I'm not going to go into the details, but you can see this at your convenience.

And let's look at the major markets during the next midterm plan. This is the prerequisite for our plans, and this will of course have an impact on our own results. For WFE, the compound annual growth rate is expected to be 5.8%. For GA, the digital printing market is expected to exhibit a growth rate of 3.3% annually. FT is somewhat difficult, 2023 had little investment. So we hopefully can jump on the recovery in '24 or '25. CAGR is 21%.

In '26, we expect to see a normalization for, PA print circuit boards. The annual growth rate compound growth rate is 0.6%, as of the forecast. So we want to leverage our market share and new products to expand new markets. As for our basic initiatives or main initiatives in the next MTP, the current value up 2023, where we've stabilized our financial foundation, this will be the springboard to go to 1 trillion revenue, and this is the growth path for this.

For business growth, as I've said, we've introduced portfolio management, and we are going to do this byproduct, portfolio management byproduct on a product basis, and also broaden our ROIC management approach. For business growth, we'd like to increase our presence in the industry and show new value to the customer with our technological capabilities. So we need products that can make this appeal and also help us increase our market share. That's our goal to receive this innovation and to increase market share by that.

In terms of innovation management, it says new technologies, new products on the market. Of course, putting new technologies, new products on the market is important for us. We are also going to use our new developments and technologies for our existing businesses as well, and the results will be creating new businesses worth ¥10 billion in terms of sales.

In terms of the intellectual property, we want to use it with the technology strategy and the R&D strategy. On the right hand side, you see the business foundation. Our approach to human resources in terms of strategy is to create vibrant corporate culture and make people feel more rewarded. These kinds of measures are going to make the whole company more vibrant. And so the key element here is to be a solution creator. For our financial strategy, we want to build a risk resilient, financial standing that that supports our endeavors in the business growth.

For digital strategy, information security has been an important topic in recent years and months, and we're going to work on this as well as DX to drive productivity. In terms of the facility strategy, it's about developing facilities that support our business growth and also that supports R&D. This time, we also have a common strategy, which is the sustainability strategy and the plan strategy, which are centered here at the middle of the page. The products that we provide and the services that we provide with our businesses have to make contribution to stability, by their performance, and they have to drive our brands, our solutions. So these two things are also contributions to business growth and they are also part of the business growth and business foundation. This talks about the financial targets. On a cumulative basis, we have introduced the targets of [indiscernible] trillion or more in terms of revenue over three years.

And an average OP margin of 19% or above, ROIC, 15% above and the shareholder return policy is more than 30% dividend payout ratio, and also a flexible share buybacks based on how progress investment in growth plays out. The left hand side is a four term program. So that's something you have to keep in mind doing the comparison. This is for each individual segment. Regarding SPE, it's ¥1.5 trillion over a term of three years, ¥1.5 trillion, average OP margin 23% to 25%. This is the range that we are aiming for. And for GA, we are aiming for ¥150 billion or more in sales committed, average OP margin of 6% to 9%. For FT, we are targeting the committed sales of a ¥100 billion or more and average OP margin of 3% to 5%.

For PE, a cumulative sales of ¥50 billion or more and an average OP margin between 12% and 15%. This committed approach is based on the fact that in the mid and long-term, we have certain growth stages. Value up further [indiscernible] is where we see this as the first step, and then to extend it to the next return plan. So I hope, I can benefit from your understanding regarding this.

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Yoichi Kondo

So those are the non-financial targets. If you have a time, please look at those and the targets. So engagement survey, would it be started this year, and the score of the 70% or higher, would it be our target as the KPI for the engagement score of the employees. So next page, please.

So on this page, so that you can see the cash allocation. So the previous midterm year for the full year cumulatively, so the investment fund was ¥406.3 billion and this is a combination of the R&D and the CapEx. And then we can answer that ¥90 billion and ¥97.3 billion for the R&D and the CapEx of ¥90 billion for the growth investment. And we paid out the ¥56.8 billion and then expecting for the advance increase of ¥126.4 billion.

We returned debt by ¥31.3 billion, so this is a cash allocation over the past four years. On the right hand side, you can see the current, the sort of midterm plan. So combining the R&D and the CapEx and the strategic, so that strategy, I said that we have a ¥360 billion, R&D would be allocated ¥110 billion and the CapEx and the ¥100 billion and the strategic investment would be ¥80 billion.

So which includes an M&A in order to grow our business. And the dividend, would it be ¥70 billion. But depending upon the progress of the growth investment, flexibility, we will contact the share buyback. So I'd like to ask for your kind of understanding. So next page, please. So the Value Up Further 2026. So this is a business growth and a strategy as for the SPE. And so that we try to increase the market share of the cleaning equipments. And then we want to provide the [indiscernible] and we want to expand the R&D capacities as well as an acquisition of the new BOR. And then we have to enhance the production capacity. So that we have to enhance the production engineering and in order to reduce the lead time.

And so that we drag to, so that enhance the production capacity and the efficiency will be going up, suppressing the investment, but we'd like to expand the production capacity. As for the reinforcement of the business foundation, so that with the DX utilization, we want to make our business efficient and we have to acquire top talent. So those are the themes of the reinforcement of the business focus. As for the GA, so the POD equipment sales should be expanded and we have to expand the recurring business and the package splitting business has to be established.

As here, so that now, so that the soft packaging initiative will be reinforced, and we are launching a label printing. So combining that, so we try to implement those initiatives for the GA. As for the FT display business, profitability has to be improved. At the same time, so the new coating technology and the new application of the coating application should be expanded.

Road-to-road product technology needs to be expanded. As well as the internal OEM business, needs to be expanded. That advanced package as well as the hydrogen related products that would be the target of the internal OEM business. As for PE, so that the direct patterning equipments, so in this area, we try to enhance the presence in the industry so that we are working on the direct patterning for the sort of the register.

There is an ongoing initiative. That we'd like to go to the circuit pattern register direct patterning and that we have to enhance the application of the direct patterning. As for the new business, sort of the ¥110 billion or further, advanced package and the hydrogen they are promising. As for the life science, sort of over the past three years, and we are still in the next three years, we would be still in the after that investment phase as I would be skipping the details. So if you have a question, please ask a question later on. As for the group news and the topics, so that I would be skipping the explanation of the group news and the address to go into the question and the answers.

So if you have a question about the related topics, then please do ask questions. As I mentioned at the beginning, so this midterm business plan, so that would be the transition to the next midterm business plan, and that we would be in the strategic investment phase as we would be taking, implementing necessary initiatives. So I'd like to ask for your kind understanding and cooperation. Thank you very much. So Mr. Hiroe, thank you very much.

Question-and-Answer Session

Operator

We're now going to move on to Q&A. [Operator Instructions]. So I'd like to start with Shibano from Citigroup.

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Masahiro Shibano

Thank you very much for the explanation. My name is Shibano from Citigroup Securities. I have two questions. The first question is about the tendencies for the Chinese market. In January at the earnings call, you said that in the next year, the forecast was pretty solid for 2025, so how does it look now three year -- three months onward? What kind of momentum do you expect for the current and next financial year and what would be the color for the market?

Yoichi Kondo

Yes. So right now, you would see our first half revenue expectation, China's proportion is 49% so it's even higher than in the second half. It might go a little bit downward in the second half of FY '25. But we largely receive many inquiries from Chinese customers and demand from Chinese customers is going to make a significant contribution and continue to do so in the current financial year. Thank you very much.

Masahiro Shibano

About the MTP targets, you are doing the MTP over three years. Maybe I shouldn't ask this kind of question. The ¥1.8 billion and 19%, it looks like OP should be 340. And then you say a 100, and so on, ¥100 billion. I think it does makes sense. It doesn't seem to be much off, but do you think, there's something that you can achieve even beyond that, and what would be the drivers? For example, simply put, would it be just WFE expansion or profitability, high profitability in SPE or share gains? What would be the main contributors, the manufacturers that came into play here?

Yoichi Kondo

Well, in terms of revenue, digital segments, the SPE would be the driving segment here. And I mentioned that for the WFE, the CHER is 5.3%. So we've calculated on that basis, but there might be a little bit more margin, depending on how initiatives play out. And we've added that basically. For OP margin, it was a little bit above 23% in the last financial year, so we see that as the starting point and based on this we're going to take you to 25%. That's our outlook or our aim. Thank you very much.

Operator

Yes, thank you very much.

Takashi Shimamoto

I'm Shimamoto from the Okasan Security. So the WFE outlook is my question. So from the previous year, so that the figures has been little bit changed. So your comments are changed as well. So that, what are the -- so that the previous, so that the forecast was lower, so that the single digit percentage. So what made, so that this kind of change this time? So in the previous forecast so that the calendar year '23 sort of would be going down further. But the answer, at the end of that, day, so that this slowing down with the reduction that the market was not so bad. So that is the reason for the division of the forecast. So that the single-digit, mid-single-digit is our expectations, but so that the immediately, so that this would be 4%. So this is reflected by the result of the 2023.

That is the reason for the change of the outlook of the WFE. So the minus 10% was the previous, sort of forecast, but the minus and a 5% was the current situation. That is why, that how about the comment of the power device -- power device? So there is a change, and the foundry was a little stronger than expected. So that, how do you see the changes in the each of the segments?

Toshio Hiroe

But as for the power devices, so I think I'm going to say in the adjustment interface so that the my impression, so that has not been changed since the last three month as for the foundry so that the investment was front loaded. So by the [indiscernible] three month and this is a new topic for the foundry so that they are combined, so that some are better, some are worse. But the current, momentum strength so that this over order, so the tone is the same. Yes. As sort of my direct feeling has not been changed so much. There is a swapping of the factors among the business segments. That's all, but the overall tone is the same.

Takashi Shimamoto

The second question, as for the midterm business plan, SPE capacity is my question. So rather, sort of next three years, what would be the increase of the capacity of the production of the SPE? What is your target? So that you have a plan to construct the new factories.

Toshio Hiroe

So S-Cube 5, so the investment has been completed so that we have to make it a 100% in full operation. So that the ¥500 million and ¥1 billion of the consolidated sales would be possible. So that, with this initiative, so that the production engineering technology would be enhanced and the capacity would go up. But it's a little bit too early for me to mention, but during this business plan of the three years, so the productivity would be our main, initiative, and then production engineering capability and the automatization would be enhanced. And then we try to increase our production capacity by the 10% or 20%. So this is my target.

Takashi Shimamoto

So let me confirm. S-Cube 6, so do you have a plan of the S-Cube 6. So that, this is going to be incorporated into this mid sort of business plan. So is it the case or that you are not able to make a comment about the S-Cube 6s?

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Toshio Hiroe

So I think this is a very dedicated question. So as for S-Cube 6, the SPE capacity, so that this wouldn't have been making for contribution to the capacity of the SPE. So FT and the hydrogen would be the target of the S-Cube 6. So engineering a space. So that would be, so that the purpose of the S-Cube 6s but that doesn't make a contribution to the capacity enhancement of the SPE so that the accrued oil facility as sort of production, so that that needs to be improved. By doing so, we'd like to increase the capacity.

Takashi Shimamoto

So thank you very much. I understand. That is all, thank you.

Operator

Thank you very much, Shimamoto. Let's move on to Yoshioka from Nomura Securities.

Atsushi Yoshioka

Hello. Can you hear me?

Operator

Yes. I can.

Atsushi Yoshioka

Thank you very much for giving this presentation. I have two questions. The first one is about the MTP, the market approach on Page 33. You say the WFE market. You say what the premises are, and this is just the WFE numbers. So what about the total addressable market for cleaning equipment? Is there a difference, in terms of the way you see the markets? You said before that the term for cleaning would go up higher or more quickly than WFE. What kind of premises have you been taking?

Toshio Hiroe

Yes. As you said, the annual growth rate, WFE is one of the basis that we look at and we expect an increase of the term for cleaning and the opportunities of cleaning for advanced packaging areas that we can capture. So in terms of that part, for us it would be something that we would try to capture properly. And -- but this is included in the things that we've talked about.

Atsushi Yoshioka

Do you have any specifics on that? What are the specific figures look like for the term of cleaning and so on?

Toshio Hiroe

Nothing to disclose at this point unfortunately, but maybe during the Investor Relations Day or from SBE, there might be some details on that.

Atsushi Yoshioka

As a follow-up to that, for the cleaning equipment, the market share you mentioned share increase in the medium term plan. Currently, what is for 2023, 2024? What's the trends been like, and what kind of share increase opportunities do you see in the future?

Toshio Hiroe

About the market share let me say this. Gartner publishes that, and according to that, as of May, late May, we will end the analysis and make an announcement. I think that's more suitable. Currently, mostly 2022, '23 the market share hasn't changed a lot in these years for asset screen. However, in terms of what we have now, what we see, we see an increase in market share, the way we understand it, but we also have the weak land yen playing a role. And the Gartner is being calculated in dollars. So we might be discounted for that in the Gartner evaluation, but there will be an official announcement at the end of May.

Atsushi Yoshioka

I see. Thank you very much. And then I'm going to the second question. Currently, 23% SPE OP margin is where you came in. In the end of March 2025, you see it being stable, more stable flat maybe because of the evaluation equipment. But maybe -- do you see any productivity increases for S-Cube 5? So why, would the OP margin look the way you forecast it to be in the year end of March 2025?

Toshio Hiroe

For the end of March 2025, the development costs is included in our strategic investments that we have to make, and this goes for challenge for people, and these strategic investments have to be made early on in order to really be able to communicate our added value to the customer. So in that sense, the 23% is what we have disclosed now, but we'd like to use this as a starting point for next period and the one beyond to make further improvements. But this is where we see it standing right now.

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Atsushi Yoshioka

I see. Thank you very much.

Operator

Thank you very much. So thank you very much, Mr. Yoshioka. So next, let's go to so [indiscernible] from the Morgan Stanley. So please unmute yourself.

Unidentified Analyst

So thank you very much for the opportunity. Thank you. So my first question is about the prospect of the China. So there are two approaches so that the United States is in a tightening the so that the restriction. So maybe your sales would be affected because of that. This is one way of the -- so that our thinking. There are some cancellation increasing so that you might be affected by the cancellation. So that what is your view about the trend in China, going forward?

Toshio Hiroe

So as for the China, restriction regulation, in July, so there is the restriction. We have to follow the restriction, in order to conduct the trade. And then going forward, very difficult to make the comments. We are not sort of in the position to make a comment so that we want to keep on watching the sort of ongoing trend. And we have to follow the restriction and the regulation in order to do the trading with China.

So the other point is about the cancellation. This is another question. So that the timing of the increase of the -- so that the order is that the way we start the production after the activity date is fixed. So this is the timing. So in that process, so the cancellation, no cancellation happened in that process. So that you want to, it is depending upon the how to increase the so that the order received.

Unidentified Analyst

Thank you very much. My second question goes about the operating profit margin. As I've been talking about your capability and the position. And then I think I know you are not ambitious enough so that the 25% of the OP margin was achieved over the previous year and that you have a greater technology as well as the -- so that you are going to make on the investment of the strategy. I hope that you will be aiming for the -- so the 30% of the OP margin. So we expected to hear very positive and ambitious target of the OP margin. But what is the reason you are not that sort of ambitious about your OP margin projection?

Yoichi Kondo

So I am not satisfied with the current projection of the OP margin, but through the strategic investment. So that next sort of stage, we try to target at the higher growth. Of course, so that, we want to compete against the competitor and we want to deliver the added values more than the competitors. So this, would it be, proceeded strategically. So this is our activities, in the coming three years of this midterm management firm.

Unidentified Analyst

So additional question. So that means so that -- what is the sort of vision, so that your vision in the operating profit personally?

Yoichi Kondo

I hope this should be 30% or higher. I have no comment. Sorry about that.

Unidentified Analyst

So I understand. Thank you very much.

Operator

Thank you. And thank you very much for the questions. We'd now like to move on to Mr. Yoshida from CLSA Securities. Please unmute yourself.

Yu Yoshida

Hello. My name is Yoshida from CLSA. On pages 19 and 20, you show the breakdowns of sales for SPE. I understand that use how to put this downturn for China and what about the region breakdown for the second half? And maybe for the calendar year '25 or for the next period. What are the directions per application on an application basis?

Yoichi Kondo

Well, for the first half, the orders will be what decides our revenue in the second half. So it all depends on the kinds of orders that come in now. As I've said, we have the feeling that China is still very strong, going very strong. Maybe less intense, but DRAM and other investment is also picking up again. So, overall, maybe the breakdown might be different, but order volumes, should be the same kind of strength, same kind of volume in the second and -- in the first half and second half. So the revenue itself should be on the same kind of scale that continues.

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Yu Yoshida

Let me just ask. So for China, it would be the same in both halves, but then we will talk about DRAM and Foundry. This gives the impression that that's a 240 for both halves. It looks like, there should be more other investments in the first half and more revenue and China should account for lower parts. So is that something that's not definite yet, or haven't you included it?

Toshio Hiroe

Well, as you've pointed out, the orders are now coming in, and the first and second quarter, depending on the orders we see there, we'd like to update our views.

Yu Yoshida

I see. The second question you have a framework of ¥80 billion for strategic investment. What kinds of investments are you interested in when it comes to M&A and what about the shareholders return? You mentioned 30% dividend payout ratio, you're also saying that you are flexibly on buybacks depending on the investment. If you don't find specific investments, M&A opportunities for ¥80 billion. Are you going to allocate that to shareholder returns?

Toshio Hiroe

We haven't made that disclosure yet, but in our grant design, we are saying these are the growth areas that we identify. So these would be the main focus areas that we search for opportunities in. Of course, the existing business areas will also be candidates. I hope you understand that. And furthermore, about share buybacks, the image or the rough idea that you expressed, I think hits the point, and Mr. Kondo will speak about this.

Yoichi Kondo

Yes. This is the implication that we intend.

Yu Yoshida

Right. Regarding M&A, are you targeting SPE as a segment, or is it just the new businesses, including SPE? How should I think about that? What kinds of areas, if you can speak more broadly, including SPE?

Toshio Hiroe

As the areas that we think about digital transformation and also mobility are areas that we focus on life science, or shall I say [indiscernible] again -- sorry. Four areas, four strategic areas that we are aware of or that we focus on in terms of the opportunities.

Yu Yoshida

Thank you very much. That's all from my side.

Operator

So thank you very much, Mr. Yoshida. So next question, would you go into the question from the internet conference room. So the conference room will be changed. So please, give me some time. So please wait for the moment. So, Adrian San, please ask your question. Yes. It looks like, there is a technical difficulty of the unmuting, so I try to go to the next person first. So please wait for a moment. The Adrian San is speaking something. Please wait.

Okay. Let's go to Mr. Nakamura from the Goldman Sachs. Due to the time limit, and Nakamura San's question will be the last question for today.

Shuhei Nakamura

Yes. Thank you very much for this opportunity. So due to the time limit, I try to ask the question very briefly. So fixed cost, so that this would be increased by the ¥250 billion [ph]. What is the breakdown? So after the FY '26, what is your view of the allocation of the fixed assets? So that the ¥100 billion would be spent and for the strategic, so that's the management and the SPE, so that investment would not be so large. But then what would it be, so that your breakdown of the strategic investment in the next three years. So ROIC of the 15% or higher at 15.9% was the previous and full-year. There would be the decrease down to this next three year. But, if -- so when is the timing to enhance the stage of the ROIC? So this is my question.

Toshio Hiroe

So as for the sort of fixed assets, Mr. Miyagawa will answer your question. So Miyagawa is speaking, so I try to answer your question. So FY '25 and the fixed cost increase what is the reason for that? So SPE is the main reason. And then when it comes to the breakdown or the contents so that the capacity of the production is one of the reason because we have to hire more people and the labor cost will go up and the S-Cube 3 and S-Cube 4 and S-Cube 5 depreciation will go up. And then as a competitive new product development, that is needed -- that is why we want to allocate more money for the R&D. So those are the factors of increase of the fixed cost.

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Akihiko Miyagawa

So thank you very much. So during the midterm, sort of management plan and the strategic and the growth, sort of investment, I'd like to talk about my image. So the first of all, SPE, so that the [indiscernible] is happening in the entire industry as for the package. And so that, there is a movement in the package. So R&D capability has to be revisited by screen. So and together with the SPE business units so that we are developing the development strategy. And we are reviewing our position and our direction. So that the CapEx as well as the R&D, we try to allocate more money. So this is the main reason for the increase of the fixed cost.

And the CapEx or the equipment, and so that for the R&D equipments and the facility would be needed. So please understand this. Of course, and we have other sort of team target, so that which requires some cash allocation, but the main target is allocation of the facility of the R&D.

Toshio Hiroe

Yes. Thank you very much. I want to make another one more comment. In the area, so that we don't have the -- so that we are really full. We don't have the -- any, so that the available, so that the area. And we have to look for the other, so that the lands other than Hikone. So this is our plan in the future.

Shuhei Nakamura

So thank you very much.

Toshio Hiroe

So thank you very much, Mr. Nakamura. So you might have more questions, but due to the time limit, I try to close the meeting. We are a little bit behind the schedule. I'm so sorry for that. But with this, so we'd like to close the 2024 March full-year financial briefing meeting would be finished and for the screen forwardings. Thank you very much for your attendance.

Chiho Otobe

Thank you very much for your kind participation. Please support our company in the future. Thank you.

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