I am very pleased that we have reached record-high profit for a second consecutive year. I believe this is a result of the initiatives we’ve been advancing under the medium-term management plan. Tokyo Electron aims to grow in fields where technological innovation and market growth are expected, and where we can leverage our strengths. Based on this policy, we have already built an unassailable position in coater/developers. Furthermore, in 2015, we designated etch, deposition and cleaning as key fields. By stepping up product competitiveness, responsiveness to customers and operational efficiency, we have been striving to achieve a “Best in Class” position in the industry.
Interview with the CEO

Looking at the past three years, the wafer fab equipment (WFE) market has seen unprecedented growth, expanding from around US$30 billion to more than US$50 billion. In this environment, we have built a framework for nimble, efficient development, reorganizing our development and production groups and business units, establishing the Process Integration Center, and integrating the strengths and best known method (BKM) of each product. In addition, by advancing joint development with customers, we have worked to provide high-value-added products more rapidly than ever before.

Net sales, profit margins, and market share in all our key fields have increased significantly as a result of these efforts. Moreover, sales in the field solutions business (encapsulating sales of parts and used equipment, modifications and maintenance services) grew to 22% of total net sales. This was bolstered by our number of units installed among the highest in the industry—and outstanding support capabilities. Going forward, backed by market expansion as well as our industry-leading technological prowess and highly competitive products, we will achieve even greater growth.

26.5% even if the WFE market contracts to US$55 billion due to shifts in the semiconductor supply balance or other temporary changes.

Although we revamped the financial model, the medium-term management plan basic strategy of becoming “Best in Class” is unchanged. To connect expanding business opportunities to the greatest possible growth, we have raised our targets for capital expenditure and R&D spending and are increasing our development and production capacity. In the etch system business, we will introduce an automated warehousing system and an additional production line at our factory and begin operations at a new development building, thereby accelerating the development of next-generation technologies. In the deposition equipment business, we are building new production buildings, increasing capacity to be ready for future demand growth. At the same time, we are working to effectively control fixed costs and the ratio of SG&A expenses to consolidated net sales. In these ways, we will achieve the targets of the new financial model as well as our medium-to-long-term ROE and operating margin targets.

With the arrival of the IoT and AI era, the semiconductor and flat panel display (FPD) industries are entering a new period of growth; in a few years, Tokyo Electron expects the WFE market to surpass US$60 billion. We see this as an excellent growth opportunity and are aiming for world-class ROE and an operating margin of 30% or higher in the medium to long term.

The roadmap to these targets is the new financial model for fiscal 2021. The new model raises the assumed size of the WFE market to US$62 billion and sets targets of ¥1,700 billion in net sales and a 28% operating margin. At the same time, we will build a management structure with downward cost flexibility that can secure ¥1,500 billion in net sales and an operating margin of 26.5% even if the WFE market contracts to US$55 billion due to shifts in the semiconductor supply balance or other temporary changes.

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New Financial Model (Fiscal 2021)

<table>
<thead>
<tr>
<th>WFE market size</th>
<th>US$ 55 billion</th>
<th>US$ 62 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥1,500 billion</td>
<td>¥1,700 billion</td>
</tr>
<tr>
<td>Operating margin</td>
<td>26.5%</td>
<td>28%</td>
</tr>
<tr>
<td>ROE</td>
<td>30–35%</td>
<td></td>
</tr>
</tbody>
</table>

Question 02

What factors went into the new financial model you announced in May 2018?

With the arrival of the IoT and AI era, the semiconductor and flat panel display (FPD) industries are entering a new period of growth; in a few years, Tokyo Electron expects the WFE market to surpass US$60 billion. We see this as an excellent growth opportunity and are aiming for world-class ROE and an operating margin of 30% or higher in the medium to long term.
Interview with the CEO

Question 03

Please elaborate on the new growth phase the semiconductor and FPD industries are entering.

The world is now at the start of a fourth industrial revolution (Industry 4.0), centered on IoT and big data. As systems for analyzing and utilizing the vast amounts of data generated by network-connected “things” are created, numerous new services are expected to emerge that will change industrial structures and society itself.

The core of these new services will be data processing and analysis, namely, cloud computing and AI. Furthermore, autonomous driving, smart fabs and other services with low tolerance for data transmission delays will require edge computing, in which data is processed somewhere physically closer to the user than in conventional cloud computing. Technological innovation in semiconductors is an absolute necessity for the development of these services. In FPDs, in addition to TVs and mobile devices, new applications like augmented reality (AR), virtual reality (VR) and flexible displays are emerging. Accordingly, improving display resolution and energy efficiency is of growing importance.

As the technological requirements of semiconductors and FPDs grow more sophisticated and their applications broaden, our customers’ needs are taking on new dimensions. We must now advance product development looking not only to the challenges posed by next-generation technologies, but the next several generations, and work not just to enhance the performance of individual machines, but provide solutions that optimize entire production processes. Expectations are now rising for production equipment manufacturers to innovate on all fronts—from shortening lead times between R&D and mass production to creating new services using AI and big data.

One of Tokyo Electron’s greatest strengths is that it deals in not just hardware, software, process technology or services, but all four. Leveraging this strength, we will help customers improve their entire production processes and thereby enhance their production line operations.

First, using our diverse product lineup and process technologies, we will advance joint development with customers from an early stage to quickly provide solutions that take the entire production process into account. Last year, we established the new Process Integration Center as part of these efforts, and its initiatives are already generating positive feedback.

Second, by reinforcing support at customer factories and seamlessly linking them with our R&D divisions and business units, we will help our customers shorten lead times between semiconductor device development and mass production.

Third, building on the insight and data gleaned from our installed base of 66,000 units—among the largest in the industry—we will offer new services that present high added value for customers by, for example, increasing equipment uptime and production yields.

As customers’ needs grow on multiple fronts, very few production equipment manufacturers worldwide can meet their growing expectations.

Question 04

As customer needs change, how will Tokyo Electron leverage its strengths?

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Interview with the CEO

Tokyo Electron is one of the few that can. If we leverage our innovative technological and support capabilities, I am confident the opportunities for Tokyo Electron to grow and excel will only expand.

Question 05

Please tell us about Tokyo Electron’s sustainability initiatives.

Employees are the source of sustainable corporate value creation and growth. Since I was appointed CEO, I have sought to ensure that Tokyo Electron enriches the lives of its employees and their families. To ensure that every employee is highly motivated and to secure outstanding people, we have introduced a new global human resources system and continue working to make job responsibilities clearer and evaluations fairer. Furthermore, we have adopted an incentive plan linked to medium-term performance as part of efforts to enable employees and management to work as one toward increasing corporate value I have also visited factories and overseas Group companies to speak with our people there, actively seeking to deepen engagement with front-line employees. I am confident that these initiatives to bring out the very best performance in each employee will contribute to sustainable growth.

In addition, as the social responsibilities incumbent on companies increase, we hope to draw inspiration from the United Nations’ Sustainable Development Goals (SDGs) and other standards to step up our ESG initiatives. Seeking to enhance governance efficacy, we have brought in a new outside director and are discussing long-term strategy from diverse viewpoints. Turning to the environment, in addition to reducing the environmental footprint of our own products, we are advancing initiatives to help reduce the power consumption of the semiconductor devices manufactured using our products. Through such measures, we aim to ensure that Tokyo Electron is highly sustainable and fulfills its corporate social responsibilities.

For details on Tokyo Electron’s ESG-related initiatives, please refer to pages 11-14 and our Sustainability Report 2018.

Question 06

What is your approach to using cash on hand?

Our greatest priority for cash on hand is investment in growth aimed at the ongoing creation of innovative technologies. We will focus on areas where we can effectively utilize Tokyo Electron’s technologies and strengths and expect future market growth. Furthermore, we will put increased effort into R&D related to promising core technologies to maximize their potential.

Turning to shareholder returns, we have adopted a performance-linked dividend scheme and set a target dividend payout ratio of 50%. For fiscal 2018, we paid an annual per-share dividend of ¥624, marking a record high for a fourth consecutive year. We will flexibly consider stock repurchases, taking a comprehensive view of such factors as investment needed for growth, cash on hand and the macroeconomic environment.

Going forward, we will continue to strive to sustainably increase corporate value and maximize shareholder value through profit growth.