Financial Review

Sales and Income

Operating Environment
The overall world economy in fiscal 2020 continued to gradually expand, with the United States economy remaining solid and the recovery continuing in Europe, despite slowing growth due to such factors as Brexit-related concerns and weakness in China and other parts of Asia.

Demand for memory chips, which had been a major factor behind slowing investment in semiconductor production equipment (SPE), gradually improved. Although investment in memory chip underwent adjustment, as memory chip prices bottomed out, investment began to pick up near the end of the fiscal year. In contrast, investment by logic chip manufacturers and foundries grew considerably, reflecting growth in demand for high-performance microprocessors for personal computers and data centers as well as next generation application processors for 5G smartphones in conjunction with efforts to realize a data-driven society, which are expected to ramp up from 2020. Furthermore, demand for power devices, discreet devices and other semiconductors that utilize mature technologies increased. Accordingly, although investment in memory chip was restrained, the wafer fab equipment market remained strong, at over US$50 billion for a third consecutive year.

In the display market, although investment in large generation 10.5 panels for LCD TVs remained strong, a slowdown in shipments of mobile devices led to adjustment in investment in small- and medium-sized panels for OLED display. Accordingly, the market for flat panel display (FPD) production equipment shrank approximately 25% year on year. As with semiconductors, however, demand for displays began to recover in the second half of the year. In 2020, the FPD production equipment market is expected to grow driven by demand for OLED displays for mobile.

Sales
Net sales in fiscal 2020 came to ¥1,127.2 billion, down 11.8% year on year but surpassing the forecast despite concerns about the impact of COVID-19 in early 2020, reflecting recovery in capital investment for semiconductors and FPDs. By segment, net sales in the SPE segment fell 9.1% year on year to ¥1,060.9 billion. Net sales in the FPD production equipment segment decreased 40.6% year on year to ¥660.0 billion. For details on performance by segment, please refer to Review of Operations and Business Outlook on page 7. Furthermore, net sales in the field solutions business (encompassing sales of parts and used equipment, modifications and maintenance services) rose 5.7% year on year to ¥304.8 billion, accounting for 27.0% of consolidated net sales.

Gross Profit and Operating Income
Gross profit in fiscal 2020 was down 14.1% year on year to ¥459.1 billion, reflecting the decrease in net sales. The gross profit margin fell 11 percentage points to 40.1%, due to an increase in the production cost ratio as a result of the decrease in net sales. The operating margin similarly declined 3.3 percentage points to 21.0%. This was mainly due to an increase in the R&D expense ratio as a result of continued aggressive investment to maximize future growth opportunities even during this period of customer investment adjustment.

R&D Expenses
R&D expenses were up ¥6.2 billion year on year to ¥220.2 billion, a record high, due in large part to the continued reinforcement of R&D in the fields of etch, deposition and cleaning systems, in which the Company is working to expand its market share. The ratio of R&D expenses to net sales rose 1.8 percentage points to 10.7%. The Corporate Innovation Division also engaged in the development of equipment and processes in new fields in order to create markets. Furthermore, we are proactively developing new applications leveraging IoT and AI technologies to provide better customer service.

In FPD production equipment, while promotion of the PICO™ plasma etch system, which offers superior processing uniformity, has been progressing, Tokyo Electron is developing a new generation of the PICO™ in response to demand for higher resolution. In addition, the inkjet system is being evaluated to manufacture OLED displays, not only for large-size TVs, but also for high-resolution, rapid response gaming displays.

Other Income (Expenses) and Net Income Attributable to Owners of Parent
During fiscal 2020, net other expenses came to ¥0.3 billion, reflecting ¥0.5 billion in extraordinary loss due mainly to a loss on sales and disposal of property, plant and equipment, offsetting ¥0.1 billion in extraordinary income due in part to gain on change in equity. Income before income taxes came to ¥244.6 billion, down 23.9% year on year. As a result, net income attributable to owners of the parent totaled ¥185.2 billion in fiscal 2020, down 25.4% from fiscal 2019. Net income per share (basic) declined 22.7% year on year to ¥1,170.57.

Dividend Policy and Dividends
It is the policy of Tokyo Electron to pay dividends on the basis of business performance. The Company aims for a payout ratio of 50% of net income attributable to owners of the parent. Furthermore, with an eye to ensuring stable dividends, a lower limit of ¥150 per share has been set on annual dividends. Accordingly, although the Company’s markets were undergoing adjustment, Tokyo Electron paid annual dividends for fiscal 2020 of ¥398 per share (for a payout ratio of 50.2%), its third highest ever. Going forward, the Company will seek to build world-class profitability and reciprocate the support of shareholders by delivering profit growth.

1 This lower limit may be revised in the event that the Company does not generate net income for two consecutive fiscal years.

Financial Section
Investor Information
## Financial Review

### Financial Position and Cash Flows

#### Assets, Liabilities and Net Assets

**Assets**

Current assets decreased ¥20.4 billion from the end of the previous fiscal year to ¥962.4 billion, reflecting a ¥27.7 billion decrease in cash and deposits, a ¥26.5 billion decrease in short-term investments included in securities, and a ¥37.8 billion increase in inventories. The turnover period for trade notes and accounts receivable in fiscal 2020 was 49 days, compared with 42 days in fiscal 2019, and the inventory turnover period in fiscal 2020 was 127 days, compared with 101 days in fiscal 2019.

Net property, plant and equipment increased ¥25.5 billion year on year to ¥755.5 billion. This was largely due to an increase in construction in progress reflecting the new production buildings being built at the Yamanashi and Tochigi plants, and the acquisition of new evaluation tools. Investments and other assets increased ¥13.9 billion year on year to ¥259.3 billion. Intangible assets increased ¥1.8 billion year on year to ¥10.9 billion, reflecting decreases due to depreciation and amortization (including of goodwill), as well as an increase related to the core business systems to be introduced from fiscal 2022. As a result, total assets as of March 31, 2020 stood at ¥1,278.4 billion, up ¥20.8 billion year on year.

**Liabilities and Net Assets**

Current liabilities increased ¥77.6 billion from the end of fiscal 2019 to ¥382.5 billion at the end of fiscal 2020. This was mainly due to a ¥58.0 billion increase in customer advances and a ¥20.4 billion increase in trade notes and accounts payable. Non-current liabilities increased ¥15.8 billion year on year to ¥66.2 billion. Net assets came to ¥826.9 billion at the end of fiscal 2020, down ¥84.8 billion from the end of fiscal 2019. This was mainly due to ¥154.0 billion in repayment of treasury stock and ¥95.5 billion paid in cash dividends (the fiscal 2019 year-end dividend and fiscal 2020 interim dividend), despite the recording of ¥185.2 billion in net income attributable to owners of the parent.

#### Financial Position

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>¥6,174.6 billion</td>
<td>¥7,773.9 billion</td>
<td>¥9,456.9 billion</td>
<td>¥982.9 billion</td>
<td>¥962.4 billion</td>
</tr>
<tr>
<td>Net property, plant and equipment</td>
<td>¥963.7 billion</td>
<td>¥100.4 billion</td>
<td>¥125.9 billion</td>
<td>¥150.0 billion</td>
<td>¥175.8 billion</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>¥793.6 billion</td>
<td>¥81.0 billion</td>
<td>¥120.2 billion</td>
<td>¥124.6 billion</td>
<td>¥140.4 billion</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥8,862.9 billion</td>
<td>¥871.4 billion</td>
<td>¥1,093.1 billion</td>
<td>¥1,004.4 billion</td>
<td>¥1,087.6 billion</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>¥6,174.6 billion</td>
<td>¥7,773.9 billion</td>
<td>¥9,456.9 billion</td>
<td>¥982.9 billion</td>
<td>¥962.4 billion</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥8,862.9 billion</td>
<td>¥871.4 billion</td>
<td>¥1,093.1 billion</td>
<td>¥1,004.4 billion</td>
<td>¥1,087.6 billion</td>
</tr>
<tr>
<td>Total net assets</td>
<td>¥0</td>
<td>¥0</td>
<td>¥0</td>
<td>¥0</td>
<td>¥0</td>
</tr>
</tbody>
</table>

Note: From fiscal 2019, the Company applied the Accounting Standards Board of Japan’s “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASAB No. 28, revised on February 18, 2018). Total current assets, total investments and other assets, total assets and total liabilities for fiscal 2018 have been restated in accordance with the revised accounting standard.

---

### Capital Expenditures and Depreciation and Amortization

Capital expenditures totaled ¥34.6 billion in fiscal 2020, a 9.9% year on year increase. Major expenditures included the acquisition of equipment and measurement instruments for R&D in order to strengthen key areas in the SPE business as well as the construction of new production buildings at the Tochigi and Yamanashi plants to meet rising demand for deposition equipment and the seismic reinforcement of buildings at subsidiaries. Depreciation and amortization increased 10.7% to ¥29.1 billion.

1 Capital expenditures represent only the gross increase in property, plant and equipment.
2 Depreciation and amortization does not include amortization of goodwill or losses on impairment.

#### Cash Flows

The balance of cash and cash equivalents at the end of March 2020 stood at ¥247.9 billion, an increase of ¥18.3 billion from the end of fiscal 2019. The combined balance including ¥90.4 billion in deposits and short-term investments with original maturities of more than three months that are not included in cash and cash equivalents decreased ¥54.2 billion year on year to ¥233.4 billion at the end of March 2020. Cash flows during the fiscal year under review were as follows.

- Net cash provided by operating activities came to ¥253.1 billion, up ¥63.5 billion from fiscal 2019. Major contributors were ¥244.6 billion in income before income taxes, a ¥58.6 billion increase in customer advances and ¥29.1 billion in depreciation and amortization. Major outflows included a ¥44.0 billion increase in inventories and ¥4.8 billion in income taxes paid.
- Net cash provided by investing activities came to ¥250.3 billion, compared with ¥239.7 billion in fiscal 2019. This was mainly attributable to ¥154.0 billion in payment for purchases of treasury stock and ¥95.5 billion in dividends paid.
- Net cash provided by financing activities came to ¥232.6 billion, compared with ¥250.3 billion in fiscal 2019. This was mainly attributable to ¥185.2 billion in net income attributable to owners of the parent.

#### Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>¥9,598.0 billion</td>
<td>¥15,456.8 billion</td>
<td>¥18,686.4 billion</td>
<td>¥18,957.2 billion</td>
<td>¥253,117 billion</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(150.0) billion</td>
<td>(188.3) billion</td>
<td>(1,183.1) billion</td>
<td>(840.3) billion</td>
<td>(15,951 billion)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(138.6) billion</td>
<td>(192.8) billion</td>
<td>(82,450) billion</td>
<td>(129,761) billion</td>
<td>(250,374) billion</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>¥9,568.0 billion</td>
<td>¥16,436.6 billion</td>
<td>¥25,787.7 billion</td>
<td>¥23,634.6 billion</td>
<td>¥247,959 billion</td>
</tr>
</tbody>
</table>

#### Selling, General and Administrative Expenses and Ratio to Net Sales

<table>
<thead>
<tr>
<th>Selling, General and Administrative Expenses and Ratio to Net Sales</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling, General and Administrative Expenses</td>
<td>¥4,372.4 billion</td>
<td>¥4,770.1 billion</td>
<td>¥4,875.8 billion</td>
<td>¥4,984.9 billion</td>
<td>¥5,175.0 billion</td>
</tr>
<tr>
<td>Ratio to Net Sales</td>
<td>11.5%</td>
<td>11.5%</td>
<td>11.9%</td>
<td>11.6%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

---

## Note

- Note: As of March 31, 2020, the Company applied the Accounting Standards Board of Japan’s “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASAB No. 28, revised on February 18, 2018). Total current assets, total investments and other assets, total assets and total liabilities for fiscal 2018 have been restated in accordance with the revised accounting standard.

---

## Summary

As a result, the equity ratio fell 5.9 percentage points year on year to 64.1% at the end of March 2020. ROE remained high at 21.8%, despite the decrease in net income attributable to owners of the parent due to market adjustment.
(1) Changes in the Semiconductor Market

The semiconductor market is influenced by a wide range of factors, including overall economic conditions, demand for end products, trade and tariff policies, and geopolitical factors. As a result of such factors, supply and demand can change, which can affect the semiconductor companies' performance in the short and long term. Unforeseen rapid contraction of the semiconductor market could cause inventory, production capacity, and demand decreases in raw materials, or losses from bad debt resulting from the insolvency of a customer's financial position, or otherwise adversely affect Tokyo Electron’s business performance. In addition, a rapid increase in demand that exceeds the Company’s assumptions could lead to an inability to produce products to customers in a timely manner resulting in lost sales opportunities or otherwise adversely affect Tokyo Electron’s business performance.

The semiconductor market is expected to expand over the medium and long terms, reflecting ongoing technological innovation and development. Tokyo Electron incorporates such technologies, resulting in new products that meet customers' technological needs or products that meet future needs ahead of its competitors. Tokyo Electron has established a Corporate Innovation Division, which develops innovative technology and makes groundbreaking semiconductor-related technical proposals that integrate the products and technologies of other development divisions, as part of a Groupwide development framework. In addition, the company incorporates new short-term technology generations into leading-edge customers in order to capture market opportunities resulting in decreases in demand or losses from bad debt, or otherwise adversely affect Tokyo Electron’s business performance. Tokyo Electron’s performance tends to be impacted by changes in the semiconductor market and Tokyo Electron’s business performance.

(2) Concentration of Transactions on Particular Customers

Tokyo Electron’s sales are concentrated among a few major customers, including its semiconductor manufacturing products, all of which have high market shares in their respective categories and are mutually reinforcing.

(3) Safety

Damage to customers or order cancellations due to safety-related issues or other problems related to Tokyo Electron’s products could result in liability for damages, decrease sales, diminish trust in the Company, and adversely affect Tokyo Electron’s business performance.

Tokyo Electron’s “Safety First” approach entails the constant verification of safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this approach, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. Measures to this end include thoroughgoing safety design at the product development phase, safety training and maintaining an accident reporting system.

(4) Production and Supply

Tokyo Electron’s key production sites are located in Japan, and it supplies products to customers in and outside Japan. As such, earthquakes or other natural disasters, war, acts of terrorism, infectious disease outbreaks or other unavoidable events occurring in Japan could cause interruptions in production that, if not promptly resolvable, could delay the supply of products to customers. Furthermore, the stable supply of components, especially as the adoption of 5G, next-generation mobile communication (5G) telecommunications standards, AI, and other technologies related to semiconductor manufacturing equipment, or other factors, may cause production delays in semiconductor manufacturing processes, resulting in a decrease in production capacity, a delay in the delivery of new products, or otherwise adversely affect Tokyo Electron’s business performance.

Tokyo Electron formulates and periodically reviews business continuity plans in advance and maintains alternate production structures; develop multiple sources of important parts, seismically reinforce its plants, maintain backups of important information systems, and implement appropriate inventory control. Through these and other measures, the Company strives to maintain stable product supply.

(5) Safety

Damage to customers or order cancellations due to safety-related issues or other problems related to Tokyo Electron’s products could result in liability for damages, decrease sales, diminish trust in the Company, and adversely affect Tokyo Electron’s business performance.

Tokyo Electron’s “Safety First” approach entails the constant verification of safety and health in the execution of business activities, including development, manufacturing, sales, services and management. In accordance with this approach, Tokyo Electron works actively and continuously to improve the safety of its products and to eliminate any harmful impact on health. Measures to this end include thoroughgoing safety design at the product development phase, safety training and maintaining an accident reporting system.

(6) Quality

Tokyo Electron’s products are based on the integration and optimization of numerous leading-edge technologies. Defects or other problems resulting from the introduction of new products to the Company, or otherwise adversely affect Tokyo Electron’s business performance.

Tokyo Electron’s business performance is evaluated by the overall Groupwide quality control policy. Tokyo Electron provides quality training for its employees and suppliers and strives to maintain a quality assurance system, including ISO 9001 certification, as well as a world-class service system. The Company also seeks to sell customer products by working with customers from the early stages of product development and design. When defects occur, the Company investigates the root of the problem and takes thoroughgoing measures to prevent recurrences and similar issues. Moreover, in order to increase the quality of procured components, the Company constantly monitors supplier quality, reliability, and performance and provides support for suppliers in accordance with its regulations.

(7) Laws and Regulations

Tokyo Electron operates globally, and is therefore subject to the laws and regulations of the countries and regions with respect to where it does business, including those regarding imports and exports, the environment, competition, labor, the prevention of corruption and bribery, and transfer pricing. Tokyo Electron strives to ensure compliance with such laws and regulations. However, violations of such laws or regulations could result in diminished public confidence in the Company, fines, damages or restrictions on business activities, or otherwise adversely affect Tokyo Electron’s business performance.

Furthermore, unanticipated future legal amendments or tightening of regulations could, if the Company is unable to provide for such changes, further result in liabilities for costs related to such response or restrictions on business activities, or otherwise adversely affect Tokyo Electron’s business performance.

Tokyo Electron has built a system for monitoring compliance activities at key sites in and outside Japan under the direction of a Chief Compliance Officer. The Company conducts internal inspections and maintains the identified risk issues are reported to the CEO, Board of Directors and Audit & Supervisory Board so that they can be dealt with quickly and effectively.

(8) Intellectual Property Rights

Tokyo Electron’s intellectual property rights are crucial to the integration and optimization of numerous leading-edge technologies. Obtaining and maintaining these intellectual property rights and preventing infringements of such rights by third parties is crucial to differentiating and reinforcing the Company’s competitive position and business activities, or otherwise adversely affect Tokyo Electron’s business performance.

By advancing R&D strategy, business strategy and intellectual property strategy in an integrated manner, Tokyo Electron strives to build an appropriate intellectual property portfolio and obtain exclusive rights to numerous proprietary technologies to compete against third parties and achieve high profit margins in each of its product fields.

(9) Information Security

In the course of its business activities, Tokyo Electron obtains, holds and utilizes confidential information, customer information and personal information. The unintentional leak of such information could result in diminished public confidence in the Company, damage to the Company’s reputation, or otherwise adversely affect Tokyo Electron’s business performance.

Problems with these systems and networks due to cyberattacks, unauthorized access, natural disasters, power outages, equipment malfunctions and human error, or otherwise adversely affect the Company’s ability to execute business effectively and can cause interruptions to operations or a loss of trust.

Tokyo Electron has established regulations and systems for appropriate information protection in management. In addition, the Company reinforces its information security by monitoring the reliability of its security through such means as security assessments.

(10) Securing Human Resources

Tokyo Electron highly values human resources in and outside Japan; its continued innovation and growth of Tokyo Electron’s global businesses. The inability to hire and retain highly-skilled employees or an increase in the number of the loss of important human resources could lead to staff shortages, affecting the Company’s business performance and capability or support customer support quality and adversely affecting Tokyo Electron’s business performance.

Tokyo Electron believes that its employees are the source of ongoing value creation and that increasing employee engagement is one of the most important factors in increasing corporate value. The Company has introduced a globally unified human resources system and incentive plans linked to medium-term business performance, and is implementing ongoing measures to improve work environments as well as health and productivity management, including steps to prevent excessively long work hours and workplace harassment.

(11) Environmental Issues

Requests from Tokyo Electron’s stakeholders related to reducing environmental burdens are growing. This includes difficulties in adequately conforming to environmental laws and regulations, or meeting industry standards of conduct or customer needs, costs arising from related issues or other problems related to Tokyo Electron’s business activities, or otherwise adversely affect Tokyo Electron’s business performance.

Tokyo Electron’s businesses are influenced by many factors, including economic conditions worldwide and in specific regions, financial and stock markets, product and real estate markets, foreign exchange rates, the spread of COVID-19 and other infectious diseases, the success or failure of new corporate acquisitions, major lawsuits, and competition over standardization. The Company expects that such factors will affect the Company’s business performance and takes appropriate measures to counter such risks.

Tokyo Electron has established a Groupwide environmental management system and various environmental management systems to reduce environmental loads and develop environmentally friendly products. In addition, the Company prioritizes reducing the environmental loads of its products, based on the various laws and regulations of the countries and regions of sale and export, the environment, competition, labor, the prevention of corruption and bribery, and transfer pricing.

Tokyo Electron’s business performance.

Tokyo Electron’s businesses are influenced by many factors, including economic conditions worldwide and in specific regions, financial and stock markets, product and real estate markets, foreign exchange rates, the spread of COVID-19 and other infectious diseases, the success or failure of new corporate acquisitions, major lawsuits, and competition over standardization. The Company expects that such factors will affect the Company’s business performance and takes appropriate measures to counter such risks.