

**Briefing Summary of the Analyst/Investor Meeting  
for the 2nd Quarter (July to September 2014) Financial Results  
for the Fiscal Year Ending March 31, 2015**

Tokyo, October 30, 2014

*Note: This memo is posted for reference purposes for the convenience of those who were unable to attend the meeting and is not a verbatim record of all statements made at the meeting. Please be aware that it has been compiled in a concise form at the judgment of the Company's IR Group. Please also refer to the cautionary notes on the final page.*

**Overview of Financial Results by Mr. Ryo Hirooka, CFO**

**Overview of Financial Results**

- I will begin my explanation with the Quarterly Consolidated Statement of Comprehensive Income on page 7 of the Quarterly Report. Sales amounted to ¥121,242 million, which represented an increase of ¥19,007 million, or 18.6%, over the same quarter of the previous year. Profit before tax for the quarter under review was ¥34,256 million, which represented an increase of ¥18,285 million, or 114.5%. Profit for the quarter was ¥27,323 million, which was ¥14,551 million, or 113.9%, higher than in the same quarter of the previous year. Therefore, both sales and profit increased from the same quarter of the prior year.
- The impact of the translation from foreign currencies into yen on the performance of consolidated subsidiaries overseas, together with the exchange rates for principal currencies, is shown in a note located at the bottom of page 7 of the Quarterly Report. The figure for sales includes ¥4,614 million due to translation into yen. If this is excluded, the real increase in sales was ¥14.3 billion, or 14.1%. Similarly, profit before tax includes ¥1,472 million owing to translation into yen. When this is excluded, real profit before tax for the quarter rose ¥16.8 billion, or 105.3%, from the same quarter of the previous year. The figure for profit for the quarter includes ¥1,254 million due to translation into yen. If this is excluded, the real increase in profit for the quarter was ¥13.2 billion, or 104.1%.
- Among special items, from the end of June through the end of September, the U.S.

dollar strengthened against the yen and the euro. As a result, in the second quarter, a gain amounting to ¥6.8 billion, mainly in the value of deposits denominated in dollars when translated into yen, was reported. In addition, impairment losses of ¥1.3 billion were recorded in the second quarter of the previous year, but, during the second quarter under review, no such losses were reported, and this acted as a factor contributing to income. Moreover, the net effect of income in affiliates accounted for under the equity method (share of loss of associates), finance costs, and other factors combined was income of ¥8.7 billion. If these special items are excluded, the real increase in profit was ¥8.0 billion, or 40%.

- Looking next at segment results, which are shown on page 9 of the Quarterly Report, revenues of the Information Technology segment were ¥45,042 million (an increase of ¥6.0 billion, or 15.6% year on year). Segment profit amounted to ¥14,819 million (an increase of ¥7.4 billion, or 100.6%. After the exclusion of the effects of foreign currency translation, the real increase in revenues was ¥4.0 billion, or 10.5%, and the rise in segment profit was ¥6.7 billion, or 91.8%. After the exclusion of special factors, the increase in segment profit was ¥5.5 billion.
- In the Life Care segment, revenues were ¥75,493 million (an increase of ¥12.8 billion, or 20.5%, and segment profit amounted to ¥13.1 billion (an increase of ¥2.2 billion, or 20.5%). After the exclusion of foreign currency translation effects, the real increase in segment revenues was ¥10.2 billion, or 16.4%, and the rise in segment profit was ¥1.6 billion, or 15.3%. In addition, after the exclusion of special factors, the increase in segment profit was ¥2.5 billion, or a more than 20%.
- Taking an even closer look by sub-segment, electronics-related products showed revenues of ¥33.4 billion (an increase of ¥5.7 billion, or 20.9%). After the exclusion of foreign currency translation effects, the real increase in segment revenues was ¥4.1 billion, or 15.0%.
- Revenues from imaging-related products amounted to ¥11.6 billion (an increase of ¥0.3 billion, or 2.7%), but, on a real basis, revenues decreased ¥60 million, or 0.6%.
- Revenues of Health Care related products were ¥56.9 billion (an increase of ¥10.2 billion, or 21.8%). On real basis, revenues were up ¥8.4 billion, or 18.2%. Revenues from eyeglass lenses expanded due to the consolidation of Seiko Optical Products Co., Ltd. (SOP) and other factors. Revenues from medical-related products were ¥18.5 billion (an increase of ¥2.6 billion, or 16.5%), and, on a real

basis, they increased ¥1.7 billion, or 11.1%.

- Turning next to the Quarterly Consolidated Statement of Financial Position, which may be found on page 4 of the Quarterly Report, inventories as well as trade and other receivables rose as a result of foreign currency translation effects, but, in real terms, they increased only a few percent and remained virtually unchanged.
- Among equity items, treasury shares decreased from ¥32.6 billion to ¥7.8 billion. From May to July, own shares were repurchased and then retired in August. Interest-bearing short-term debt was reduced through the redemption of outstanding bonds amounting to ¥25.0 billion.
- Next, let us review the Quarterly Consolidated Statement of Cash Flows, which may be found on page 6 of the Quarterly Report. Among cash flows from financing activities, payments for redemption of bonds amounted to ¥25.0 billion, and payments for repurchase of own shares were ¥5.2 billion. Cash and cash equivalents decreased as a result of payments for repurchase of own shares, which amounted to ¥30.0 billion, and an increase in dividends during the first and second quarters (the interim period).
- Dividends to be paid for the interim period will be ¥30 per share, the same amount as in the interim period of the previous year. The dividend payout ratio will be 28.5%.

### **Overview of Operations by Mr. Hiroshi Suzuki (CEO)**

From an overall perspective, I think the results this time represent something of an overachievement. It appears that there may be no circumstances at present that would suggest a deterioration in performance. However, some of our achievements during the period were the result of the positive effects of foreign currency fluctuations. Therefore, in the medium term, I do not think this level of performance will be sustainable.

## **Eyeglass Lenses**

- On a local currency basis, sales in Europe rose 20%, and sales in the rest of Asia and North America expanded in the latter half of the range from 5% to 10%. In Japan, it appears sales have still not made a comeback following the increase in the consumption tax, and the market itself is shrinking. The decrease in sales was at the one-digit level.
- Profitability in this business in the second quarter improved to just under 17%. Some of the positive effects of the merger with SOP are beginning to emerge, but with profitability still only about 1.5%, I think we have to improve on this. I would like to see us reach the goal of 18% in the first quarter of next year.

## **Contact Lenses**

- Sales in the first quarter weakened because of the increase in the consumption tax, but, in the second quarter, sales returned to the level of the same quarter of last year.
- Our existing stores are reporting slightly negative growth because of the effects of the consumption tax rise, and, although a half year has passed since the consumption tax hike, recovery in performance has been sluggish, and we have not fully recovered.
- As the market shrinks, sales are returning to the same levels as in the previous year.

## **Endoscopes**

- Conditions in Europe, where the market is shrinking, are tough. There was a reactionary decline in sales in Turkey, Iraq, Russia, Eastern Europe, and neighboring countries where we expanded sales last year. This year, sales have fallen substantially, and sales in Europe as a whole have declined from the same period of last year.
- In the United States, we mounted a drive to sell to large hospitals, but results were lower than in the same quarter of the previous year because some sales slipped beyond the cutoff date of the second quarter.
- Overall, sales have moved from being flat with the previous year to showing a slight decline. It was not a very good quarter for this business.

- We had issues related to top-line performance in the second quarter, but profitability was stable.

### **Intraocular Lenses**

- Although we temporarily stopped sales and recalled some products in this business, sales are slowly recovering.
- In Japan, epidemiological research of a sample of 9,000 yielded good results. In the second half of the fiscal year, we are scheduled to widen the scope of and expand marketing activities. Along with this, we expect that sales will recover.

### **Review of Performance by Mr. Eiichiro Ikeda (COO)**

#### **Mask Blanks for Semiconductors**

- The semiconductor market is holding firm and activities to develop cutting-edge devices are continuing. As a result, our sales of high-priced, advanced products are expanding, and overall revenues in this segment increased.
- In the extreme ultraviolet (EUV) lithography area, there are differences among semiconductor manufacturers, but progress is being made, and now sales of blanks are steady. Companies working to increase yields in double patterning are apparently having difficulties, which may mean that the spotlight is on EUV. At any rate, conditions are favorable for HOYA.

#### **Photomasks for Large Liquid Crystal Displays (LCDs)**

- Conditions are continuing to be favorable, and we reported a major increase in sales in the second quarter.
- Conditions in the smartphone and TV sectors are favorable. Although demand for tablets slumped compared with the first quarter, this was offset by expansion in demand from the TV sector.
- Demand for high-resolution, high-precision masks is continuing to rise, and we are expecting stable earnings in this business.

## **Glass Memory Disks for Hard Disk Drives (HDDs)**

- Sales showed a major increase year on year for the quarter.
- Overall, the outlook for continued shrinkage in the notebook PC market remains unchanged, but, in the second quarter, as in the first quarter, demand for replacement of XP PCs, accompanying the suspension of manufacturer support for these units, continued, and demand for game consoles and external HDDs remained strong. Especially in the case of external HDDs, the disk per drive ratio is on an increasing trend, which is a favorable development for HOYA.
- During the second quarter, we fully shut down our plant in the Philippines, concentrated this production in our plants in Thailand and Vietnam, and are now conducting efficient operations there. All three of our plants in this business are now operating at full capacity. Thus, by exercising greater selectivity and sharpening the focus of our activities, we are now maintaining good profitability.
- Since the notebook PC market is expected to continue to shrink, the outlook is for a drop in demand in the second half of the fiscal year.
- Looking to the future, we are aiming to achieve further growth by drawing on the special strengths of glass in business domains where growth is anticipated. A specific example is the production of HDD glass substrates for nearline servers.

## **Imaging-Related Products**

- To break away from the dependence on the digital camera market, we are gradually taking initiatives to market products in other fields.
- In the field of aspheric lenses, which is a business highly dependent on compact digital cameras, we are expecting further significant declines.
- As we announced in a news release in July, our new product NRP contributes to cutting costs in our customers' polishing processes, and the number of companies adopting this product is gradually increasing. Plans call for investing in a new NRP production facility in China.
- In the CCTV field also, requirements for high-resolution units are rising. We are expecting the emergence of demand for glass lenses that can capture images at night and in dark places.

## **Information Technology Segment as a Whole**

- Beginning in the second half of last year, as a result of our initiatives to increase and maintain profitability, we reported good results in the first and second quarters of this fiscal year. Next, we want to take initiatives for attaining further growth.
- In the semiconductor field, as a result of the progress toward double patterning, demand for cutting-edge blanks is rising. In the area of LCDs also, trends toward higher resolution and higher precision are likely to continue. In addition, in the field of disks, growth is expected in the market for nearline servers. Similarly, in the field of optical glass, we will proceed with the expansion of sales of CCTV lenses and NRPs.

## **Questions and Answers Following the Briefing**

***Q: In view of the cutting-edge development activities in the semiconductor market, could you please indicate the growth opportunities you see going forward?***

A: Mr. Ikeda (COO): The semiconductor companies are continuing the development of EUV lithography and in other advanced areas. In the case of double patterning, they are also focusing on technological development. As a result, the outlook is for growth in HOYA's semiconductor-related products. We are making sufficient investments needed for supporting their cutting-edge development activities.

A: Mr. Suzuki (CEO): In the cases of double patterning and quadruple patterning, since the number of processes and the number of masks required increases, there are concerns that with a one-unit decrease in nodes, the capacity of the production line at the foundry may become insufficient. Equipment manufacturers will also most likely become busier as a result. This will also be a positive factor for HOYA.

***Q: What is your outlook for the decline in the digital camera market, particularly in the single lens reflex (SLR) market? Also, has progress been made in the new CUBE product for smartphone lens modules?***

A: Mr. Ikeda (COO): Sales of compact cameras have been on the decline since last year. Recently, sales of SLR cameras have also fallen significantly. We think that sales of the

latter cameras may decline further, to about half the current level. It appears that we will begin to report sales of CUBE products beginning about February 2015.

A: Mr. Suzuki (CEO): HOYA sells lenses to other interchangeable lens manufacturers, and consumers in the market for these lenses tend to be people who have a very strong interest in photography. That is why demand has held firm. Compared with the decline in the digital camera market as a whole, the decline in HOYA's sales in this area has been relatively small.

**Q: What are the domains within the semiconductor market where cutting-edge development activities are taking place?**

A: Mr. Ikeda (COO): These activities are in the domain where a shift is occurring from single-digit nanometer node products to 10nm.

***Q: You mentioned that the European market for eyeglass lenses was expanding year on year. Is the market also growing on a quarter-to-quarter basis? What about expansion in the North American market?***

A: Mr. Suzuki (CEO): There was not much change from the previous quarter. Around this time last year, sales at major chains were added to overall sales, and, as a result, sales in the first quarter and second quarter rose about 20% over the same period of the previous year. However, in the second half, the rate of expansion will be diminished. Even if we exclude the contribution from major chains, organic growth was between 4% and 5%. In North America, the market itself is expanding. HOYA's share in North America is still small. However, higher-priced items, such as AR (anti-reflective) coated lenses, which are still not in wide use, and Free-Form lenses (designed to customer specifications) are selling well. Also, the resulting increase in the average price per lens is contributing to the increase in sales.

***Q: In the memory disk field, what were the trends in prices and volumes compared to the immediately preceding quarter? What is HOYA's outlook for the HDD market as a whole? If capacity runs short, how much leeway will you have for expanding production?***

A: Mr. Ikeda (COO): Sales expanded over the immediately preceding quarter. Prices were flat, but unit volume of sales expanded. If we run short of production capacity, we will deal with that, as necessary, by installing equipment in our Vietnam plant where space is available.



***Q: What progress has been made on the new eyeglass lenses plant in the Philippines?***

A: Mr. Suzuki (CEO): Since capacity at our plant in Thailand is expanding, it is not necessary to hurry work on the Philippine plant, and we are thinking of starting up production somewhat behind schedule.

***Q: What is your view of the current level of interest-bearing debt?***

A: Mr. Hirooka (CFO): I think that we should not maintain the current status, but there would be no advantage in redeeming our outstanding bonds ahead of schedule; so, we will repay them according to the current maturity schedule.

***Q: You described the results for the second quarter as “something of an overachievement.” In what sense was it an “overachievement”?***

A: Mr. Suzuki (CEO): I meant that the profit for the second quarter was influenced positively by foreign currency fluctuations and effective tax rates; so, these figures were an “overachievement.”

***Q: In your (online) video annual report message, HOYA’s CEO said, “My job is to use the cash.” At present, your competitors are moving forward steadily with M&A. I am worried that HOYA may be missing some opportunities.***

A: Mr. Suzuki (CEO): In the eyeglass lenses business, we want to continue to give positive consideration to M&A deals because we think the environment is going to improve. From an overall perspective, especially in the healthcare field, M&A activities have not moved forward as much as we expected because of the obstacles presented by high valuations. Even under these circumstances, however, I think that finding good deals is my job; so, we want to continue to do our best to conclude M&A deals.

***Q: What is your outlook for the third quarter?***

A: Mr. Suzuki (CEO): Compared with the second quarter, I do not see any major risk factors. Therefore, after excluding the effects of foreign currency fluctuations and other special factors, I think performance will be close to that of the second quarter.

*Certain statements contained in this report constitute forward-looking statements regarding the Company's future performance and environment of the industry in which the Company is involved. Forward-looking statements are based on the judgments of the Company and corporate group obtained based on information obtainable at the time the statements are made and they also contain risks and uncertainties. The Company does not guarantee the completeness or accuracy of the content. Consequently, you are advised to refrain from making investment judgments relying entirely on these forecasts. Actual performance and the industry environment may differ materially from those expressed by the forward-looking statements for a number of reasons. You are requested to make final decisions regarding investment, etc., on your own. Please be aware that we cannot take responsibility for the outcome of investments.*