

**Briefing Summary of the Analyst/Investor Meeting  
for the 2nd Quarter (July to October 2016) Financial Results**

**Ending Mar 31, 2017**

**Tokyo, October 28, 2016**

*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]

Quarterly Revenue and Profit

- HOYA Corporation reported quarterly revenues of ¥114.9 billion, a decrease of ¥15.3 billion (11.8% decrease) compared to the same period in the prior fiscal year.
- Profit before tax was ¥31.6 billion, down ¥2.2 billion (6.6% decrease) year on year.
- Quarterly profit was ¥24.8 billion yen, down ¥2.3 billion (8.6% decrease).  
(Reference: Quarterly Report, Supplementary Data, Quarterly Consolidated Statement of Comprehensive Income, P.7)

Impact of Foreign Currency Translation

- Compared to the same period in the prior fiscal year, the Japanese yen was 10% to 15% stronger versus the main currencies used by our consolidated subsidiaries overseas (US dollar, euro, Thai baht).
- Foreign currency translation resulted in a reduction in revenues of ¥13 billion. In real terms, revenues were down ¥2.3 billion (1.8% decrease) when excluding the impact of foreign currency translation.
- Quarterly profit before tax increased by ¥400 million (1.1%) year on year in real terms when excluding the ¥2.6 billion negative impact of foreign currency translation.  
(Reference: Quarterly Report, Supplementary Data, Notes 1 and 2, P.7)

Differences between Profit from Ordinary Operating Activities and Profit before Tax  
(Reconciling Items)

- Hoya recorded ¥6.2 billion in gain on sale of securities, which contributed to increased financial revenues.
- Other revenue was down ¥4 billion. During the second quarter of the prior fiscal year, the Company recorded ¥3.5 billion in gain on sale of property, plant and equipment.

- There was no similar transaction during this fiscal quarter.
- Other expenses and personnel expenses include costs related restructuring, losses stemming from the earthquakes in Kumamoto, and other special factors.
  - Reconciling items to arrive at profit from ordinary operating activities amounted to a ¥1.6 billion increase in profit.
  - Hoya recorded ¥400 million in increased profit before tax after eliminating the impact of foreign currency translation. Considering this and the ¥1.6 billion in reconciling items resulting in increased profits, we can conclude that profits from operating activities were lower ¥1.2 billion in real terms compared to the prior fiscal year. (Reference: Quarterly Report, Supplementary Data, P.11)

## Results by Business Segment

Description by business segment (Reference: Quarterly Report, Supplementary Data, P.9)

### Information Technology

- The Information Technology segment reported revenues of ¥38.3 billion, a ¥9.3 billion decrease (19.6% decrease) year on year.
- In real terms, revenues were ¥4.8 billion lower (10% decrease) when excluding the ¥4.6 billion negative impact of foreign currency translation.
- Segment profit (profit before tax) amounted to ¥12.9 billion, ¥6.9 billion lower (35% decrease) year on year.
- In real terms, segment income was down ¥5.6 billion (28.1% decrease) when excluding the ¥1.4 billion negative impact of foreign currency translation.
- As mentioned earlier, HOYA recorded ¥3.5 billion in gain on sale of non-current asset during the second quarter of the prior fiscal year. This was a major factor contributing to year-on-year profit declines for the second quarter of the current fiscal period. In real terms, HOYA recorded lower profits of slightly more than ¥2 billion for the segment when excluding the impact of foreign currency translation.

### Life Care

- The Life Care segment reported revenues of ¥75.6 billion, down ¥6 billion (7.3% decrease) year on year.
- In real terms, revenues increased ¥2.4 billion (3% increase) when excluding the ¥8.4 billion negative impact of foreign current translation.
- Segment profit (profit before tax) amounted to ¥14.2 billion, down ¥500 million (3.4% decrease) year on year.
- Excluding the ¥1.3 billion negative impact of foreign currency translation, segment profit in was up ¥800 million (5.2% increase).
- In other words, segment revenues and profits were higher after excluding the impact of foreign currency translation.

## Revenue from Major Products

### Electronics-Related Products

- The Company recorded ¥29.2 billion in revenues for electronics-related products (semiconductors, LCD-related products, glass substrates for HDDs) for the second fiscal quarter. This represented a ¥5.4 billion decrease (15.5% decrease) compared to the same period in the prior fiscal year.
- In real terms, revenues decreased ¥1.9 billion (5.4% decrease) when excluding the ¥3.5 billion negative impact of foreign currency translation.
- Revenues of mask blanks for semiconductors continue to grow at a strong pace.
- As with the first quarter, sales of photomasks for LCDs were down more than 20% year on year. This result was mainly due to the continued impact of the earthquakes in Kumamoto on reduced production capacity.
- Sales of glass substrates for HDDs for the second quarter were down slightly year on year when excluding the impact of foreign currency translation.

### Imaging-Related Products

- HOYA recorded ¥9.1 billion in revenues for imaging-related products, down ¥4 billion (30.4% decrease) year on year.
- In real terms, revenues were down ¥2.9 billion (22.3% decrease) when excluding the ¥1.1 billion negative impact of foreign currency translation.
- As with the first quarter, the market for digital cameras continues to contract.

### Healthcare-Related Products

- HOYA recorded ¥56.9 billion in revenues for healthcare-related products (eyeglass lens, contact lenses), down ¥4.6 billion (7.5% decrease) year on year.
- In real terms, revenues were up ¥1 billion (1.7% increase) when excluding the ¥5.6 billion negative impact of foreign current translation. Given the high ratio of overseas sales for eyeglass lenses, foreign currency translation has a significant impact on revenues for this product.
- Revenues for eyeglass lenses were slightly higher, due to ongoing weakness in the Japanese market. Most of our business in South America is in the Brazilian market, which is also experiencing a contraction. Meanwhile, we have concentrated efforts in North America, where revenue growth has reached nearly 10%. Revenue growth in Europe was slightly higher year on year. In Asia, we saw a swing to revenue growth after experiencing some temporary challenges.
- Sales of contact lenses continued to advance, with year-on-year growth in the mid-single digits. An increase in the number of stores contributed to revenue growth.

### Medical-Related Products

- HOYA recorded ¥18.7 billion in revenues for medical-related products (endoscopes, intraocular lenses, etc.), down ¥1.3 billion (6.7% decrease) year on year.
- In real terms, segment revenues were up ¥1.4 billion (6.9% increase) when excluding the ¥2.7 billion negative impact of foreign currency translation.
- As one positive factor, revenues for endoscopes were higher on a local currency basis. After trending downward for some time, sales declines for endoscopes in North America have appeared to hit a bottom.
- Sales of intraocular lenses continue to be strong, generating increased revenue growth in the high double-digits. Intraocular lens sales are up more than 20% in Japan. This product is also experiencing strong growth in Europe and Asia.

### Balance Sheets

- As of September, HOYA Corporation had ¥39 billion in treasury stock. In October, the company canceled an equivalent of ¥30 billion in treasury stock.
- As a total of ¥35 billion in bonds will be redeemed in September of next year, we have moved interest-bearing long-term debt balances to interest-bearing short-term debt.  
(Reference: Quarterly Report, Supplementary Data, P.5)

### Cash Flows

- Included in cash from investing activities is ¥5.8 billion in proceeds from the sale of investments. This represents proceeds received during the second quarter related to the ¥6.2 billion in gain on sale of securities mentioned earlier.
- Cash outlays for the purchase of treasury shares resulted in ¥30 billion of net cash used in financing activities.  
(Reference: Quarterly Report, Supplementary Data, P.6)

### Other

- As we published in our press release today, HOYA has passed a resolution declaring a ¥30 interim dividend.
- As announced in our release dated October 12, we have agreed to acquire Performance Optics, a US eyeglass lens company. This acquisition will be finalized after it receives clearance. We expect to receive clearance toward the end of this fiscal year. The acquisition will not have a material effect on our earnings (profit/loss) for the fiscal year. The acquisition amount will be ¥47.6 billion, paid from funds on hand.
- HOYA does not have any plans to make changes in capital policy in the future. We intend to use cash and deposits for this type of growth investment, when the opportunities present themselves. At the same time, we intend to return profits to our shareholders from surplus funds, reflecting a balanced approach to short-term and long-term cash flows.

[Overview of Operations in the IT Segment by Mr. Eiichiro Ikeda, COO]

- Excluding the impact of foreign exchange rates, revenues in the Information Technology Segment were down approximately 10% year on year, with operating profits down by approximately 10%. Profitability remained more or less constant.  
The main factors contributing to the decline in profits in the Information Technology segment included a decline of over 20% in sales in the company's mask business due to reduced production capacity associated with the Kumamoto Earthquake. Another factor was the nearly 20% decline in sales in the company's imaging business as a result of market contraction.
- There were, however, two bright spots compared to the same period last year. The first positive is that the company's blanks for EUV products are coming closer to becoming a reality, with gradual increases in both sales and volume. The second positive factor is that HOYA has been able to increase its share of the HDD substrate market in the near term, despite a contraction in the market. Sales have been more or less flat with no decrease in the quantity of sales compared to last year.

Mask Blanks for Semiconductors

- Year- on- year revenues decreased by several percentage points. Revenue growth increased in the low-single digits when excluding the impact of foreign exchange rates. Both profits and revenues grew when excluding the impact of foreign exchange.
- One of the factors underlying this increase in revenues is the vigorous and ongoing development of cutting-edge products by the semiconductor manufacturing companies and HOYA's ability to capture this demand.
- Our ability to capture this demand for cutting-edge products including EUV has contributed to improvements in our product mix, which in turn has led to improved profitability. It appears that this trend will continue in the second half of this fiscal year.
- We are aware that it is crucial to achieve further increases in our share of the cutting-edge products domain to build a business that can ensure consistent profits.
- Among these cutting-edge products, we forecast that we will apply multi-layer, EUV for the 5-7nm mass production of the semiconductor manufacturers between 2018 and 2019. HOYA has been supplying products for EUV to semiconductor manufacturers, and the company has doubled its EUV-related revenues in the second quarter over the same period last year. The ratio of revenues for mask blanks for semiconductors relative to overall sales has become reasonably significant. We expect that increasing revenues here will contribute to overall revenue and profit growth.

Photomasks for Large LCDs

- Revenues decreased by more than 20% year on year. Excluding the impact of foreign exchange rates, revenues decreased by approximately 20%. There was a slight deterioration in profitability associated with the decline in revenues.
- Most of the decrease in revenues was due to reduced production volume caused by damage to the Kumamoto Plant.
- Approximately half the reduced production capacity of the Kumamoto Plant has been

- picked up by overseas plants. However, repairing damaged equipment at the Kumamoto Plant has taken time. For the time being, the Kumamoto Plant will not be able to keep up.
- Moreover, in view of overall market conditions, priority is being given to mass production in the manufacturing of liquid-crystal displays, while there has been a slight decrease in mask demand for development. While the Kumamoto earthquakes are responsible for most of the decline in revenue, some of the decline is also due to this decrease in demand. We anticipate that development demand will rebound beginning in the third quarter.
  - We expect that the installation of the new mask writers we ordered for repairs of damaged equipment at the Kumamoto Plant will lead to a structure capable of producing earnings improvements beginning in the next year.

#### Glass Substrates for Hard Disk Drives (HDDs)

- Revenues of HDD glass substrates decreased in the vicinity of 15%. Excluding the impact of foreign exchange rates, revenues decreased slightly. Profitability remained steady.
- The market for 2.5" HDDs is contracting due to the decline in demand for notebook PCs as well as the increasing use of solid-state drives (SSDs). Although the market is contracting, HOYA has been able to increase its market share, leading to revenue volume level with last year. We expect this situation to continue through the second half of the fiscal year.
- We predict that the market for 2.5" HDDs will gradually contract as SSDs further penetrate the hard disk market. To compensate for the impact on our results, we are currently studying entry into the market for 3.5" near-line servers. HOYA is in ongoing talks with HDD manufacturing companies, providing these manufacturers with samples.

#### Imaging-Related Products

- Revenues decreased by approximately 30% year on year. Excluding the impact of foreign exchange rates, revenues declined by about 20%.
- More than the impact of the Kumamoto Earthquake, we believe that the main factor underlying this decline in revenues is the contraction of the digital camera market itself. Accordingly, we do not believe that this demand will return in the future.
- When HOYA released its second quarter results last year, we explained that imaging-related products had posted gains in revenues and profits year on year. At that time, however, there was relatively strong demand for lenses and lens materials for action cameras and for the lens units used in smartphones. This year's decrease in revenues is attributable to significant declines in the sales of these products.
- We will not change our strategy of compensating for decreases in products for digital cameras with products for other applications. Although we have seen steady growth in products for surveillance cameras, these products will not completely compensate for the amount of decrease in products for digital cameras. The company has undertaken initiatives to grow products for automobile-mounted cameras, but the timeline for this initiative is long, and we do not expect these products to contribute significantly to profits during fiscal 2016-2017. Accordingly, we expect to struggle with earnings related to these products for some time.
- We believe that we must maintain profitability in the face of contracting revenues.

[Life Care Segment Earnings Overview from Hiroshi Suzuki, CEO]

#### Intraocular Lenses (IOLs)

- We recorded strong sales of intraocular lenses, with double-digit growth year on year in terms of both revenues and profits. We saw strong growth in our domestic share for these products. We anticipate that slightly more growth will lead us to the top share in the market. Our efforts to develop the European market are also progressing well. At this point, deficiencies in production capacity have begun to become a bottleneck to revenue growth. While we plan for slightly higher production during the second half of the fiscal year, we plan to begin operations at our new plant between the first of next year and mid-year. This will be a step towards building a stronger based for increased production capacity. We forecast that revenue growth will reach a plateau coinciding with that timing.

#### Contact Lenses

- Any replacements/change in lease status of tenant stores for contact lens stores occur toward the end of the fiscal period. This means that new contact lens store openings will tend to concentrate toward the second half of the year. Our usual pattern is for revenues to be stronger for the second half of the fiscal year compared to the first half. We opened five new stores during the first half. While this is not a large number in terms of stores, revenue growth was strong. The typhoons in August affected customer traffic. Even so, we were still successful in growing revenues. We believe that revenue growth will accelerate during the second half of the year.

#### Endoscopes

- Endoscope revenues were nearly flat on a local currency basis. Revenues have ceased to fall in America, and we expect to see positive growth in the future. We have seen progress in business talks in Europe, which is becoming a stronger business than the numbers would indicate. Endoscopes overall have avoided being dragged down by the Life Care segment.

#### Eyeglass Lenses

- Performance of eyeglass lenses was disappointing as a whole. While growth hovered between 1% and 2% during the second quarter, this was lower than the estimated 3.5% growth of the global eyeglass lens market. We achieved solid growth in North America. However, performance was weak in Central and South America (Brazil). We were also unable to achieve growth at the levels expected in Europe. The Japanese eyeglass lens market continues to experience advancing deflation and contraction. Given our high share of the Japanese market, contraction has had a negative impact on revenues. While Japan represents a smaller portion of our global sales, performance here has been a drag on overall earnings. Internal organization issues in China had resulted in ongoing temporary revenue declines; however, revenues ceased to fall during the second quarter. While we are experiencing growth, this growth is not at a level that satisfies us. We have made steady advances in market development in Europe as a whole. However, intense competition in certain sectors has led to lower unit prices. This has resulted in less-than-

satisfactory growth for our business. We must deliver slightly more consistent growth in Europe and return to the type of strong growth we expected in Asia. None of this means that our business has structurally deteriorated during the second quarter.

[Company overview from Suzuki CEO]

- When excluding the impact of foreign exchange and the Kumamoto earthquakes, Hoya reported second quarter revenue nearly 1% higher year on year. Profit from ordinary operating activities was nearly 1.5% higher.
- Decline in demand for digital cameras was greater than forecast, leading to unexpectedly weak earnings for imaging-related products. Shortages of image sensors led to lower production of cameras. However, demand for cameras as a product category is contracting. As such, we do not anticipate a recovery in demand for image sensors, even after we resolve supply shortage issues. We have made progress in production adjustments related to single-lens reflex cameras, where we have held excessive inventory relative to the market.
- Performance related to glass substrates for hard disk drives (HDDs) was better than expected. Shortages of NAND prevented the adoption of solid-state drives (SSDs) in notebook PCs, which resulted in the production of HDDs. These circumstances are temporary. NAND supply will recover, with the market transitioning further away from HDDs in favor of SSDs. That being said, we believe HDD demand will continue now and for the next several quarters, understanding that there will be seasonality.
- We were not satisfied with performance in our Life Care segment. While we planned for Life Care to drive overall growth, gains in this segment were weak.

[Post-Briefing Questions and Answers]

Q1: While expectations are rising for EUV, to what degree do you expect the mask blanks business for EUV to grow in the future?

A1: At present, sales of mask blanks for EUV have come to represent nearly 10% of our overall revenues. We believe that this will approximately double by 2018. (Ikeda, COO)

Q2: It seems that the Life Care segment encountered difficulties during the second quarter. Can we expect sales growth to accelerate during the second half and into the next period?

A2: I believe that depends on the degree to which we can accelerate growth for our eyeglass lenses. Recently, we finalized our decision to acquire Performance Optics. We want to integrate as quickly as possible to generate synergies. Performance Optics has few product lines that overlap with ours. They are strong in channels where we are weaker, so we hope to generate mutual synergies. We plan to create these synergies by adding our products to the Performance Optics channels, and adding Performance Optics products to our channels. (Suzuki, CEO)



Q3: The purchase cost of Performance Optics is around 16 times EBITDA. How do you see this acquisition contributing to revenue growth?

A3: Our target for the eyeglass lens business is lower than 16 times. However, we believe the difference will be made up through expected synergies. Performance Optics is strong among American chains where our presence is weaker. We believe that expanding product lines in this channel and establishing a doorway to developing new customers is a major step forward for us. (Suzuki, CEO)

Q4: Are you planning for significant expenses in conjunction with the upcoming restructuring of your Information Technology segment? Also, what is the status of production in each of the Information Technology businesses? I believe that the Thailand plant making glass substrates for hard disk drives had stopped operations. What is the current status there?

A4: HDD substrate volume has increased year on year. As such, our Thailand plant in this business is currently in operation, and will continue to be in operation for the time being. Since the Chinese market is central to our imaging-related business, we are working toward moving the focus of our production to China. While we are moving equipment from our Thailand and Japanese plants to China, we believe that we must accelerate the process. However, we still see the necessity of plants in Thailand and Japan when considering customers outside China. At this point, we are not considering closing any of our manufacturing bases entirely. (Ikeda, COO)

More than five years have passed since we limited capital investment. As such, no significant losses will occur in the disposal of non-current assets when we engage in restructuring. Our production has basically already moved to Asia, which means that we will not incur restructuring costs to such a significant degree. (Suzuki, CEO)

Q5: You have mentioned that revenues for endoscopes in North America have reached a bottom, and will recover in the future. How far do you believe revenues will recover? Will you be able to fully recover the revenues that have fallen over the past year or so? Should we assume that the recovery will happen next year and beyond, rather than the second half of this year?

A5: Our struggles were due to the fact that we could not sell products we had already been selling. Because of this, we believe that revenues will recover at a certain ratio over the next two years or so as products recover gradually. In fact, revenue declines bottomed out during the second quarter as the products we could not sell recovered. Revenues will recover as products return gradually in the second half and beyond. However, since market requirements are changing, we cannot say a return of the same products as before will result in a sufficient recovery. Producing high-level growth requires the introduction of new products to the market. At present, the hurdles to FDA approval have become quite high, making it difficult to forecast the introduction of new products to the market. (Suzuki, CEO)

End

***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***

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