

# FY17Q4

## Financial Results

May 10, 2018@Belle Salle Yaesu  
7741.T[ADR:HOCPY US]  
HOYA CORPORATION

[With Memo]

Please be aware that this memo is  
posted for reference and is not a  
verbatim record of all statements  
made at the meeting.

## **1. Financial Results** [Ryo Hirooka, CFO]

2. IT Business Overview

3. Life Care Business Overview

4. Summary

5. Q&A

# Financial Overview

(¥bn)	Q4 FY16	Q4 FY17	YoY	YoY(%)
Revenue	126.3	135.9	+9.6	+8%
Pretax Profit	24.4	26.2	+1.7	+7%
Net Profit	19.0	19.5	+0.6	+3%
cf. Profit from ordinary operating activities*	26.9	33.0	+6.1	+23%

\*Herein after “Operating Profit”

Profits grew despite impairment losses at offshore subsidiaries.  
 Operating profit surged due to margin expansion in the Life Care Business.

## Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	135.4	135.9	+0.6	+9.1	+7%
Pretax Profit	26.1	26.2	+0.1	+1.7	+7%
Net Profit	19.4	19.5	+0.1	+0.5	+2%

Average Rates	(A)Q4 FY16	(B)Q4 FY17	Variance
US\$	¥112.85	¥107.47	+4.8%
EURO	¥120.17	¥132.29	-10.1%
BAHT	¥3.24	¥3.43	-5.9%

## Notes RE Non-operative Items

### Comprehensive Income Statement

(¥bn)	Q4 FY16	Q4 FY17	YoY
Income	127.5	137.1	+9.5
Expenditure	103.1	110.9	+7.8
Impairment Loss	0.2	5.6	+5.4
Pretax Profit	24.4	26.2	+1.7

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Mainly due to a goodwill impairment of an acquired company based in Brazil (eyeglass lens business). Weakening of BRL led to increased purchasing costs, lowering the profitability than the time of acquisition.

However, the company is steadily gaining market share in-line with the initial plan, and will remain as an important headquarter in Latin America.

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Weakening of the Brazilian real led to increased purchasing costs from group companies. Despite a temporary rebound in the Brazilian domestic economy, we are not optimistic about future growth rates. Accordingly, we have recorded write downs in connection with this company.

Our Brazilian subsidiary is growing steadily in real terms, outperforming competitors by a wide margin.

# Life Care Earnings

(¥bn)	Q4 FY16	Q4 FY17	YoY	YoY(%)
Revenue*	83.8	91.9	+8.1	+10%
Pretax Profit	12.3	10.9	-1.4	-12%
cf.Operating Profit	13.2	18.1	+4.9	+37%
cf.OP Margin	15.7%	19.7%	+4pt	

\*External revenue

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# Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	Real YoY	Real YoY(%)
Revenue*	90.3	91.9	+1.6	+6.5	+8%
Pretax Profit	10.5	10.9	+0.4	-1.9	-15%
cf.Operating Profit	17.8	18.1	+0.3	+4.6	+35%

\*External revenue

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## IT Earnings

(¥bn)	Q4 FY16	Q4 FY17	YoY	YoY(%)
Revenue*	41.6	42.6	+1.1	+3%
Pretax profit	13.6	15.7	+2.1	+16%
cf.Operating Profit	14.9	16.1	+1.2	+8%
cf.OP Margin	35.9%	37.7%	+1.8pt	

\*External revenue

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Profit before tax profit grew higher than profits from regular operating activities. This result was due to the disaster-related write downs in FY16 (Kumamoto earthquakes).



## IT Earnings (CCB)

(¥bn)	Q4 FY16	Q4 FY17	FX Impact	Real YoY	Real YoY(%)
Revenue*	43.7	42.6	-1.1	+2.1	+5%
Pretax profit	16.0	15.7	-0.3	+2.4	+18%
cf.Operating Profit	16.4	16.1	-0.3	+1.5	+10%

\*External revenue

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## Balance Sheet

(¥bn)	Q3 FY17	Q4 FY17	QoQ
Non-current Assets	219.5	204.5	-15.1
Current Assets	436.5	446.2	+9.7
Capital	540.0	530.7	-9.3
Non-current Liabilities	16.6	15.7	-0.9
Current Liabilities	99.3	104.3	+4.9
Total	656.0	650.6	-5.3

**1** Mainly due to an impairment loss and amortization of intangible assets. Also, assets denominated in foreign currencies decreased due to FX fluctuations.

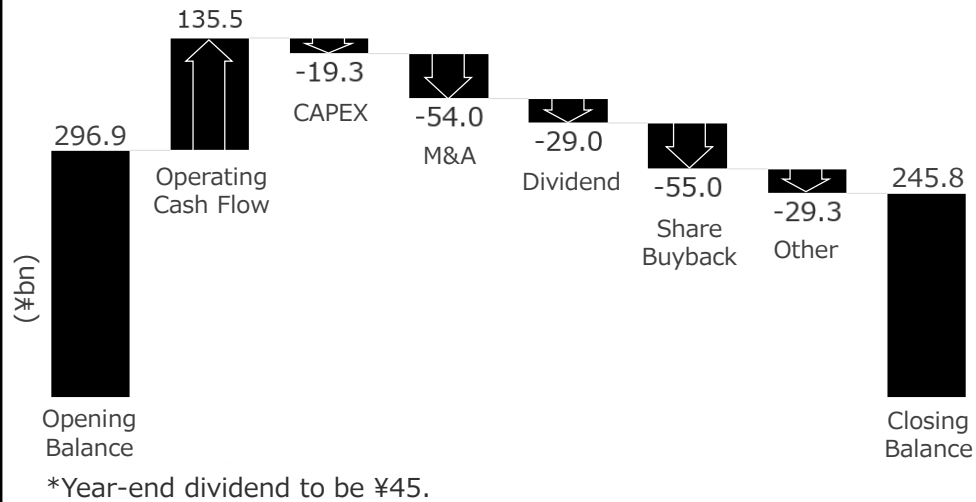
## Cash Flow

(¥bn)	Q4 FY16	Q4 FY17	YoY
Operating CF	36.9	39.5	+2.6
Investing CF	-6.3	-3.4	+2.9
Financing CF	0.3	-9.7	-10.0
Cash & Cash Equivalents at the end of the term	296.9	245.8	-51.0

**1** We purchased ¥9.7bn in stock this quarter as part of the ¥30bn share buyback; no share buybacks conducted during Q4 FY16.

## Cash Allocation

Returned all free cash flow to shareholders in FY17.  
Expect stronger cash generation going forward.



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At ¥245.8 billion, current cash on hand is somewhat high in our opinion.

We plan to continue our policy of returning free cash flows to shareholders, doing so with an eye toward the most opportune timing.

### Other Matters

We plan to add one more external director, subject to approval at the general meeting of shareholders.

(Mr. Hiroaki Yoshihara, an executive with prior experience including global managing partner at an international accounting firm)

1. Financial Results

**2. IT Business Overview** [Eiichiro Ikeda, COO/CTO]

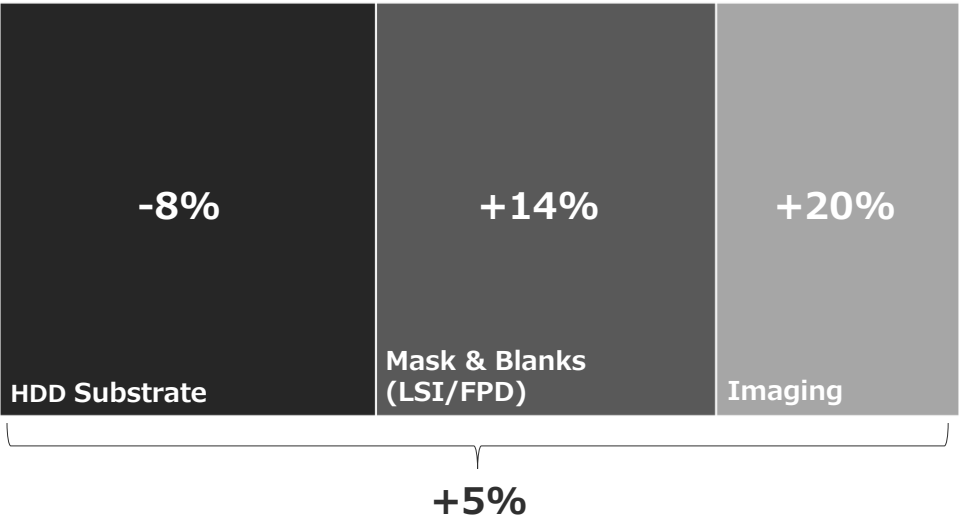
3. Life Care Business Overview

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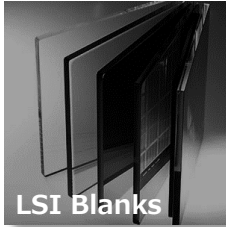
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# IT Snapshot

YoY Revenue Growth (CCB)



## Overview by Product

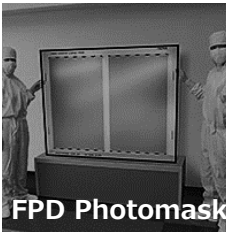


### This Quarter

All product lines showed growth. EUV blanks drove strong momentum, expanding to 18% of blanks sales.

### Going Forward

Expect continuous growth of EUV blanks, increasing CAPEX by chip makers will be a strong tail wind.



### This Quarter

Sales in Korea recovered, growth seen in China. LCD/OLED photomask for smartphones driving growth.

### Going Forward

Growth expected not only for G10.5, but also for earlier-than-G8.5 formats (which HOYA is capable of making) which are likely to grow as well. Laser-focus on high-res photomasks.

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### Mask Blanks for Semiconductors

EUV blanks grew significantly, in excess of 60% year on year.

According to information made public by an EUV exposure machine maker, nine devices are on order for the period from January through March. This indicates steady growth in exposure devices.

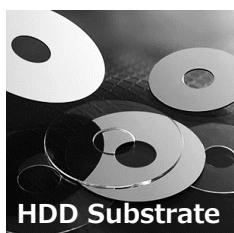
Further, the emergence of High NA and other new technologies indicate high potential for increased development demand.

### FPD Masks

FPD masks recorded double-digit growth.

Sales growth was particularly strong in China, which expanded to 30% of total FPD mask sales.

## Overview by Product



**HDD Substrate**

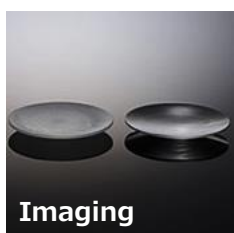
### This Quarter

2.5-inch: Impacted by seasonality, which was absent in the year-ago quarter.

3.5-inch: Expanded from 7% to 13% of division sales.

### Going Forward

Offset decline of 2.5-inch via 3.5-inch substrate growth. We expect serious growth beginning 2H this fiscal year.



**Imaging**

### This Quarter

Camera lens stable thanks to high-end point & shoots and mirrorless cameras. Security camera lens continues to grow.

### Going Forward

Digital camera market rebound from the earthquake likely to end soon. Expand new applications.

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### Glass Substrates for Hard Disk Drives

Sales of glass substrates for hard disk drives fell 8%, within the scope of our expectations. In general, Q4 is the time of the year when demand falls due to various external factors. Internally, Tet (Vietnamese New Year) in Vietnam is a time of reduced production in our Vietnamese factory.

We recorded particularly high levels of sales in Q3 and Q4 of the prior year in response to NAND shortages at the time.

At the time of our last financial results announcement (Q3 FY17), only one company had given qualification related to near-line servers. Our customer is progressing well, with five companies gave approval presently.

We expect a switchover from mainstay 10TB hard disk drive equipment to 12TB devices (including those with HOYA glass substrates) to happen some time during the second half of this fiscal year.

### Imaging-Related Products

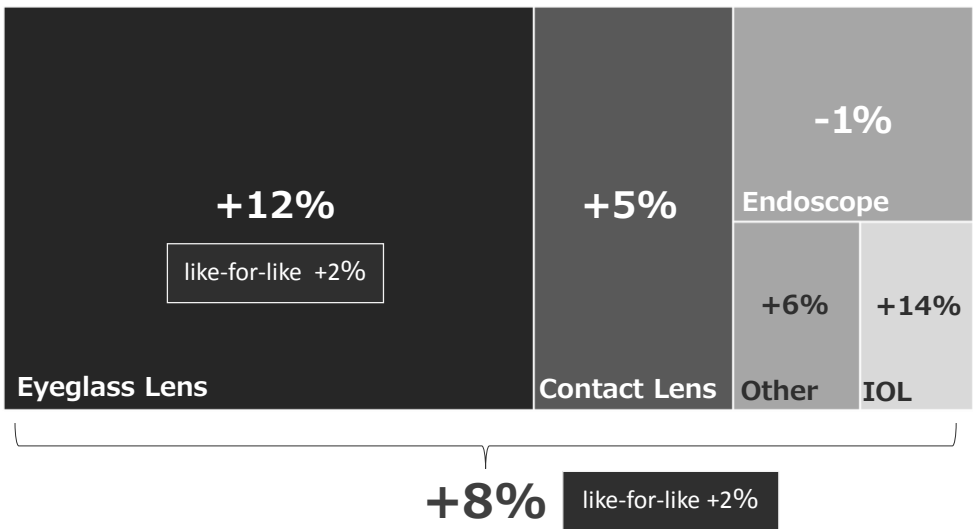
Adoption rates are growing for HOYA glass aspherical lenses (GMO) used in high-end compact digital cameras and interchangeable lenses.



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# Life Care Snapshot

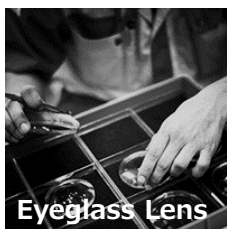
YoY Revenue Growth (CCB)



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## Overview by Product



### This Quarter

Robust growth in APAC and the Americas more than offset the decline in Japan and Europe. Profit margins improved dramatically.

### Going Forward

Expand further in APAC and the Americas.  
Pursue synergies with acquired companies.



### This Quarter

Showed stable growth. Closed some stores at the end of the year to improve efficiency.

No. of stores at year-end. 276 (New 3/Closed 8)

### Going Forward

Continue to open new stores. Improve ARPU gradually by strengthening sales of value-added products.

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### Eyeglass Lenses

Both Japan and Europe saw declines of around 2%.

APAC rose between 5% and 6%.

The Americas experienced growth of between 6% and 7%.

Japan: While we took steps to improve product mix, our efforts did not align with the direction of the market. As a result, we missed opportunities for sales.

Europe: Sales struggled as our competitors implemented fairly aggressive sales strategies. Despite the mature nature of the market, we plan to revisit our strategy, as this region accounts for a high ratio of sales.

## Overview by Product



IOL

### This Quarter

Record-high quarterly sales driven by strong growth in APAC and Europe.

### Going Forward

Maintain double-digit growth through production increase at new factory and sales growth geographically.



Endoscope

### This Quarter

Downturn in the Americas, where we won a big deal the year-ago quarter. Total sales flat due to growth in APAC.

### Going Forward

Launch new products from high-end to low-end, targeting emerging markets.

### Intraocular Lenses

Supply shortages during FY16 capped growth for the period. Now that our new factory is operating, we have removed this limitation.

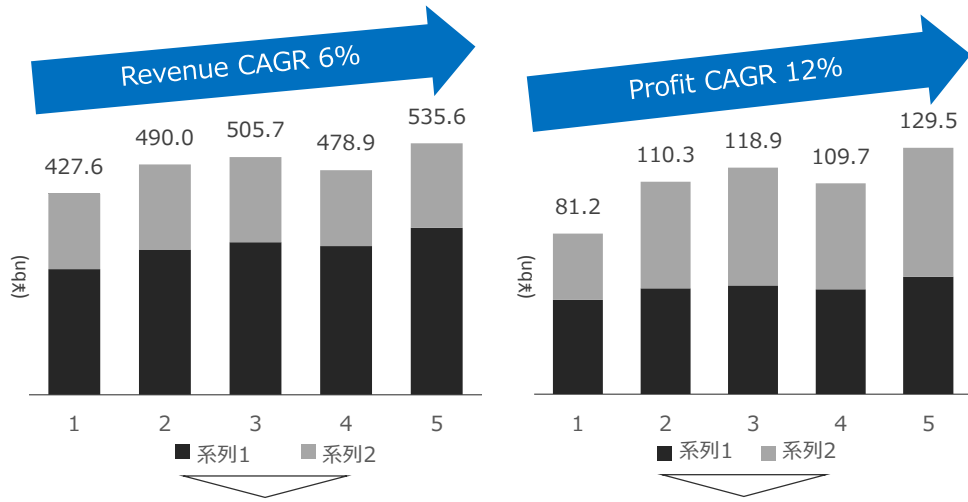
As our market share in Japan is already high at 30%, growth has slowed. Accordingly, we have turned our eyes to APAC and Europe for future double-digit growth.

### Endoscopes

Development is recovering little-by-little after a period of sluggishness. Our performance began turning upbeat in the second half of the year with the roll-out of a number of new products.

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## Summary & Future Outlook



Life Care (incl. M&A) will be a key growth driver. Focus on growing areas in the IT Business.

Outpace revenue growth due to Life Care margin expansion.

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While Life Care experienced weak sales growth in FY17, the year benefited in a major way by strong performance of Information Technology.

FY18 should have fewer issues of concern compared to FY17, as negative factors impacting the Information Technology business have largely subsided. At the same time, we see more upside factors for intraocular lenses and endoscopes in our Life Care business.

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## Q&A -1

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Q

Glass Substrates for Hard Disk Drives

What is the current situation surrounding NAND supply?

A

We have not seen an excess in supply recently. Priority for NAND is given to use in smartphones. NAND won't be used in PC storage without a significant surplus. With more high-storage smartphones coming out, NAND supply is likely to be somewhat tight.

Future supply balance will depend on how much NAND is used in smartphones. Our conservative outlook is that looser demand/supply will drive down NAND prices, as well as drive down demand for HDD and our 2.5-inch substrates. This decrease should be offset by increased sales of 3.5-inch substrates, resulting in a net-zero effect on our business.

Q

Mask Blanks

Tell us more about the scope of the market for mask blanks for EUV in the future. When will EUV mass production begin?

A

The increase of EUV exposure devices in the market is a positive for the mask blanks market.

As it stands today, predicting future mask blanks demand once EUV mass production begins is very difficult.

While predicting the timing of EUV mass production is difficult, we do not believe there will be any front loading involved.



## Q&A -2

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Q

Life Care

What is your target profit ratio?

A

We estimate our Q4 profit ratio (profit from regular operating activities) to be slightly in excess of 18%. For FY18, we have set a goal to achieve an average 20% profit ratio throughout the year.

The key here is growing sales in our Life Care core eyeglass lens business. We plan to achieve our goals by raising the efficiency of our sales activities.

Q

Cash on Hand

In the past, you indicated an upper limit of ¥300 billion for cash on hand. You commented that the current level of ¥240 billion is high in the presentation. Has your policy regarding cash on hand changed?

A

We set an upper limit of ¥300 billion in cash on hand, assuming an aggressive approach to M&A. The high valuations of our targets prevented us from acquiring as many companies as we initially predicted\*. Given this situation, we do not require such high levels of cash on hand.

\*Potential synergies with our existing businesses provide upside factors that lower the theoretical valuation of acquisition targets.

## Q&A -3

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Q

Group Management

We understand that HOYA uses strategic business units (SBU) operating independently. Do you have any means for engaging in cross-unit business management?

A

To date, a vertically integrated approach has provided more benefits, mainly due to the different nature of our businesses and the ability to clarify the scope of responsibilities for each SBU. At the same time, there are commonalities among SBUs. To grow further, we plan to create a matrix structure that combines both vertical and horizontal aspects of management.

Q

Capital Investment

What will your approach to capital investment be for FY18?

Also, will the profit of your Life Care be greater than that of Information Technology businesses?

A

More recently, we have come to see our Information Technology business as the more stable business, which is why we were not as active in investing. However, we are experiencing a pressing need to update our production equipment. Further, we plan to start investing again in growth fields (EUV mask blanks and 3.5-inch substrates, for example) to increase sales. We don't believe the profit of Life Care be greater than that of Information Technology businesses any time soon.

# Appendix

# Consolidated Annual Results

(¥bn)	FY16	FY17	YoY	YoY(%)
Revenue	478.9	535.6	+56.7	+12%
Pretax Profit	110.8	124.2	+13.5	+12%
Net Profit	86.9	99.2	+12.4	+14%
cf. Operating Profit	109.7	129.5	+19.7	+18%

# Life Care Annual Results

(¥bn)	FY16	FY17	YoY	YoY(%)
Revenue*	314.4	352.9	+38.4	+12%
Pretax profit	54.7	56.4	+1.7	+3%
cf.Operating Profit	56.8	63.6	+6.9	+12%
cf.OP Margin	18.0%	18.0%	+0pt	

\*External revenue

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## IT Annual Results

(¥bn)	FY16	FY17	YoY	YoY(%)
Revenue*	160.6	178.5	+17.9	+11%
Pretax profit	54.5	70.0	+15.5	+28%
cf.Operating Profit	57.5	70.1	+12.6	+22%
cf.OP Margin	35.6%	39.2%	+3.6pt	

\*External revenue

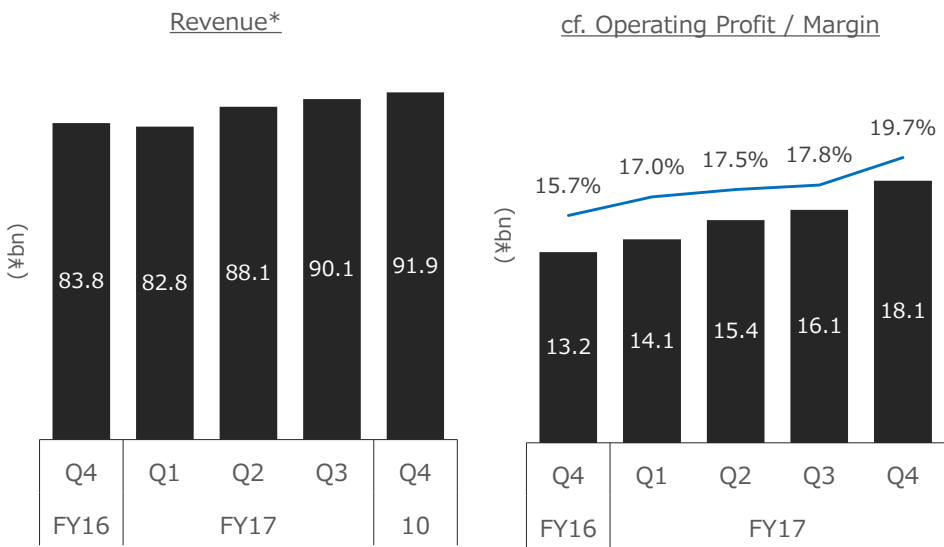
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## Annual Cash Flow

(¥bn)	FY16	FY17	YoY
Operating CF	107.7	135.5	+27.8
Investing CF	-27.5	-68.5	-41.0
Financing CF	-64.3	-117.3	-53.0
Cash & Cash Equivalents at the end of the term	296.9	245.8	-51.0

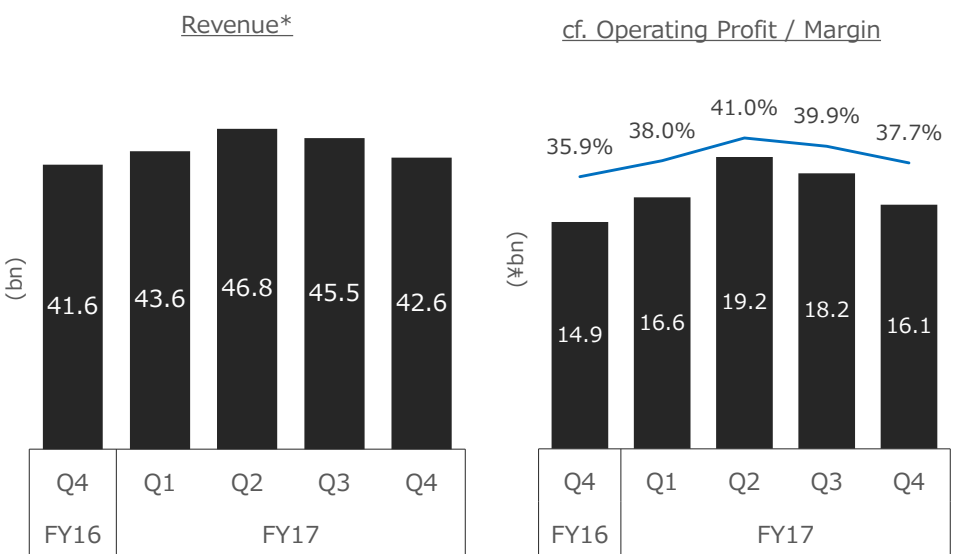
# Life Care QoQ Earnings



\*External revenue



# IT QoQ Earnings



\*External revenue

# Notes

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- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2018 is referred to as "FY17" throughout this document.
- ✓ Figures less than ¥1 billion are rounded down. Accordingly, some discrepancies may occur among totals. Ratios are calculated using actual numbers.
- ✓ Profit from ordinary operating activities is calculated as reference information for investors; calculated by deducting finance income/costs, share of profits(loss) of associates, foreign exchange gain/loss and other temporary gain/loss from pretax profit.
- ✓ We have omitted a detailed breakdown of financial statements. Please refer to the *tanshin* or the quarterly report for detailed numbers.  
<http://www.hoya.co.jp/english/investor/library.html>

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