

FY18Q1

Financial Results

Aug 3, 2018@Station Conference Tokyo

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HOYA CORPORATION

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1. Financial Results [Ryo Hirooka, CFO]

2. IT Business Overview

3. Life Care Business Overview

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Financial Overview

(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue	127.2	138.9	+11.7	+9%
Pretax Profit	30.5	35.2	+4.7	+15%
Net Profit	25.2	28.5	+3.3	+13%
cf. Profit from ordinary operating activities*	29.7	35.3	+5.6	+19%

*Herein after "Operating Profit"



Achieved record-high quarterly revenue and operating profit.

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	138.9	138.9	+0.0	+11.7	+9%
Pretax Profit	34.9	35.2	+0.3	+4.3	+14%
Net Profit	28.2	28.5	+0.3	+3.0	+12%

Average Rates	(A)Q1 FY17	(B)Q1 FY18	Variance
US\$	¥111.42	¥109.53	+1.7%
EURO	¥124.26	¥129.01	-3.8%
BAHT	¥3.25	¥3.39	-4.3%

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The impact of foreign currency exchange this quarter was minimal.

Notes RE: Non-Operating Items

Comprehensive Income Statement

(¥bn)	Q1 FY17	Q1 FY18	YoY
Income	128.3	139.9	+11.6
Expenditure	97.8	104.7	+6.9
Pretax Profit	30.5	35.2	+4.7



No remarks this quarter.

Life Care Earnings

(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue*	82.8	91.3	+8.5	+10%
Pretax Profit	14.1	17.4	+3.3	+24%
cf.Operating Profit	14.1	17.8	+3.8	+27%
cf.OP Margin	17.0%	19.5%	+2.5pt	

*External revenue

Life Care Earnings (CCB)					
(¥bn)	Previous Rate	Current Rate	FX Impact	Real YoY	Real YoY(%)
Revenue*	91.0	91.3	+0.3	+8.2	+10%
Pretax Profit	17.0	17.4	+0.4	+2.9	+21%
cf.Operating Profit	17.6	17.8	+0.2	+3.5	+25%
*External revenue					
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Foreign currency factors were small in scale, and there were no notable special factors related to foreign currency during the period.
 Growth was 4% after excluding the impact of M&A.

IT Earnings

(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue*	43.6	46.6	+3.0	+7%
Pretax profit	16.7	19.0	+2.4	+14%
cf.Operating Profit	16.6	18.8	+2.2	+13%
cf.OP Margin	38.0%	40.3%	+2.3pt	

*External revenue

IT Earnings (CCB)

(¥bn)	Q1 FY17	Q1 FY18	FX Impact	Real YoY	Real YoY(%)
Revenue*	46.9	46.6	-0.3	+3.3	+8%
Pretax profit	19.1	19.0	-0.1	+2.4	+15%
cf.Operating Profit	18.8	18.8	-0.1	+2.3	+14%

*External revenue

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Earnings by Sub-Segment				
<div>Healthcare Revenue</div> <div>Eyeglass Lenses / Contact Lenses</div>				
(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue*	62.1	69.6	+7.6	+12%
<div>Constant Currency Basis</div>				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	69.5	69.6	+7.4	+12%
*External revenue				
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In real terms, eyeglass lens revenues grew slightly more than 3% after excluding the impact of our acquisition of Performance Optics.

Earnings by Sub-Segment

<div>Medical Revenue</div> <div>Endoscopes / IOLs</div>				
(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue*	20.7	21.7	+0.9	+5%

Constant Currency Basis					
(¥bn)	Previous	Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	21.4		21.7	+0.7	+3%

*External revenue

Earnings by Sub-Segment

	<div>Electronics</div> <div>Masks & Blanks / HDD Substrates</div>			
(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)
Revenue*	33.5	35.4	+1.9	+6%

Constant Currency Basis					
(¥bn)	Previous	Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	35.8		35.4	+2.3	+7%

*External revenue

Earnings by Sub-Segment

<div>Imaging</div> <div>Camera Lenses, Etc.</div>				
(¥bn)	Q1 FY17	Q1 FY18	YoY	YoY(%)

Revenue*	10.0	11.1	+1.1	+11%
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<div>Constant Currency Basis</div>				
(¥bn)	Previous	Rate	Current Rate	Real YoY Real YoY(%)

Revenue*	11.1	11.1	+1.1	+11%
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*External revenue

Balance Sheet

(¥bn)	Q4 FY17	Q1 FY18	QoQ
Non-current Assets	204.5	230.5	+26.0
Current Assets	446.2	431.7	-14.5
Capital	530.7	547.3	+16.6
Non-current Liabilities	15.7	15.8	+0.1
Current Liabilities	104.3	99.0	-5.2
Total	650.6	662.1	+11.5

1

Net cash decreased due to investment in Toshiba Memory (¥27bn) and dividends (¥16.5bn). Current assets decreased ¥14.5bn.

Cash Flow

(¥bn)	Q1 FY17	Q1 FY18	YoY
Operating CF	24.8	25.8	+1.0
Investing CF	-4.5	-32.2	-27.6 ¹
Financing CF	-17.1	-16.9	+0.1
Cash & Cash Equivalents at the end of the term	304.2	226.2	-78.0

1

Net cash used in investing activities increased by ¥27.6bn due to investment in Toshiba Memory.

Net cash used in financing activities included ¥16.5 billion in dividend payments at the end of the period.

FY18 Q2 Forecast

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Revenue	135.8	139.1	+3.3	+3%
Pretax Profit	32.9	33.8	+0.9	+3%
Net Profit	26.8	27.5	+0.7	+3%

1. Financial Results

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

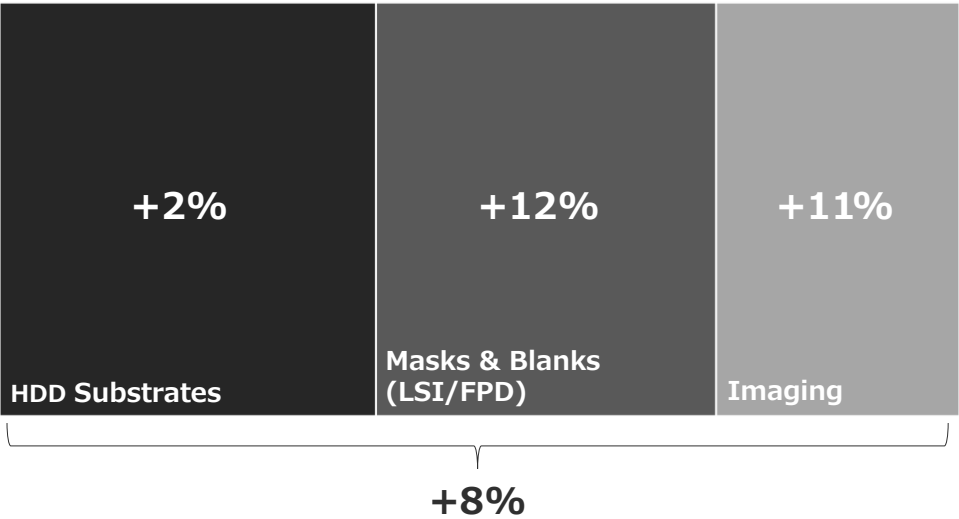
3. Life Care Business Overview

4. Summary

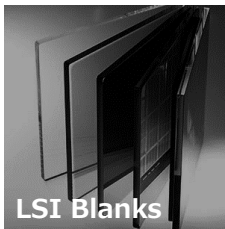
5. Q&A

IT Snapshot

YoY Revenue Growth (CCB)



Overview by Product



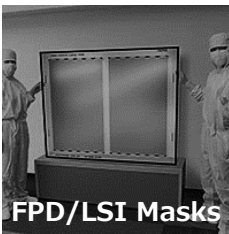
LSI Blanks

This Quarter

EUV and high-end products showed strong growth.
EUV grew to account for 20% of blanks revenues.

Going Forward

Expect continued growth in EUV blanks, driven by active R&D by chip makers aiming to commercialize EUV.



FPD/LSI Masks

This Quarter

Robust sales to Chinese and Taiwanese clients.
Photomasks for semiconductors were also strong.

Going Forward

Active R&D related to high-res panels for LCDs and OLEDs.
HOYA will capture this opportunity by leveraging our capability in high-res products.

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Blanks for Semiconductors

According to statements by EUV stepper makers, four devices are expected to be shipped during CQ2, with one additional new order. In 2018, a total of 18 exposure devices are expected to be shipped, and the company is planning a fabrication of additional 30 devices in 2019.

Given these conditions, we expect EUV to continue to grow.

Looking ahead to mass production, in addition to the Nagasaka site (Yamanashi Prefecture), which has been conducting R&D, we plan to install a production line in Singapore to handle EUV mass production.

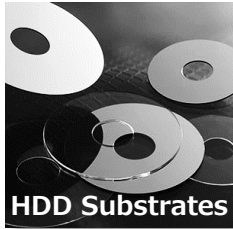
Our 7nm optical format blanks sales progressed satisfactorily, also demonstrating their superiority to the competition.

FPD mask

Development demand is strong for a more diverse range of panels, thanks to new all-screen smartphones, as well as screens featuring notches and holes. We intend to capture a solid portion of this demand.

While demand for high-definition masks is rising, meeting this demand through manufacturing equipment alone is a challenge. A movement to pursue process-related high definition for masks and resist, etc., is in motion, showing increasing value within the mask production industry.

Overview by Product



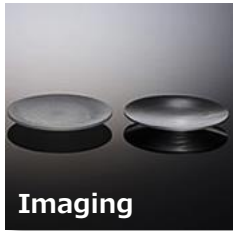
HDD Substrates

This Quarter

Over-supply of NAND affected 2.5" sales. Overall sales grew thanks to the expansion of 3.5" substrates used in data centers (3.5" now accounts for 16%).

Going Forward

Expect to offset the decline of 2.5" sales through 3.5" sales, mainly driven by hyperscale datacenters.



Imaging

This Quarter

Decline of compact camera lens sales was more than offset by sales of security camera lenses and filters for SLRs.

Going Forward

Continue to expand lens sales for new applications.

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Glass Substrates for Hard Disk Drives

While 2.5-Inch products fell more than 10%, 3.5-inch products for data centers have made up the difference, leading to sales growth.

We have received certification from hyper-scale data center operators across the board. We have not seen any issues with error rates for HDD already up and running, even though this is our first time for glass substrates in this application.

We forecast future demand, and have started considering building a new plant.

Imaging-Related Products

While compact digital has decreased more than 20%, sales of surveillance cameras and vehicle applications have more than compensated, resulting in growth overall.

We have started supplying lenses for 3D scanners used in facial recognition and other applications to smartphone manufacturers in China. Plastic lenses have a low tolerance for the heat produced by lasers; we have received inquiries about our glass lenses.

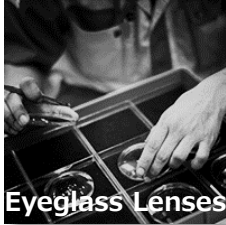
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- 3. Life Care Business Overview [Hiroshi Suzuki, CEO]**
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Life Care Snapshot

YoY Revenue Growth (CCB)



Overview by Product



This Quarter

Situation in Europe and Japan recovering (flat YoY). Strong growth in US. Profit margins improved consistently, driven by increased sales and improved product mix.

Going Forward

Accelerate post merger integration with Performance Optics, which we acquired in August 2017.



This Quarter

Stable growth in same-store sales.
No. of stores at quarter-end: 276 (New 1/Closed 1)

Going Forward

Accelerate store roll-outs.

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Eyeglass Lenses

Sales of eyeglass lenses grew more than 10% in the U.S., were flat in Europe and Japan, grew 5% in Asia, and more than 10% in South America.

In Europe, market conditions have been unfavorable, as price competition among retailers pressures lens manufacturers.

Contact Lenses

We see advancing contraction in the market due to a decline in the younger consumer segment; however, we have noted a growing trend among the 40-years-and-above customer segment in wearing contact lenses for presbyopia.

Overview by Product



IOLs

This Quarter

Backed by increased capacity from the new factory (launched July 2017), we achieved further sales traction in growth markets, including APAC and Europe.

Going Forward

Expand geographically through direct and indirect distribution.



Endoscopes

This Quarter

Reinforcing our organizational structure resulted in strong sales in the Americas and Europe.

Going Forward

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

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Intraocular Lenses

Our new plant is coming online even sooner than we projected. We forecast double-digit growth for the next while.

Endoscopes

During the second half, we plan to launch low-priced and middle-grade products, aiming for longer high-growth rates than at present.

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Summary & Future Outlook

	Priority (cf. Q3 FY17 Material)	Progress to Date & Plans
Life Care Business	Accelerate growth	Trending between 2% and 4%. Reinforcing internal structure to accelerate growth.
	Improve profitability	Margins close to 20% range. Target stable achievement of 20%.
Information Technology Business	Revitalize matured businesses	Substrates for datacenters and EUV blanks ramping up. Increase CAPEX.
	Maximize profitability	Returned to 40% margin range this quarter. Target stable achievement of 40%.

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Life Care

The Life Care segment has largely achieved its target profit ratio of 20%.

In the future, we plan to make growth investments to prevent falling below this level.

Information Technology

We increased the scope of investment in EUV blanks and 3.5-inch HDD substrates. We see the potential for capital investment in the IT business between ¥50 billion and ¥60 billion for the upcoming 18 months.

We believe this is a sound use of cash. Meanwhile, we intend to maintain our policy of considering share repurchases if share prices fall.

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Q&A -1

Q

Glass Substrates for Hard Disk Drives

Forecast for future decreases in 2.5-inch glass substrates and increases in 3.5-inch glass substrates

A

Sales of 2.5-inch products will continue to fall at approximately 10%; however, 3.5-inch products should make up for this decline, and we aim for slight growth overall for this fiscal year.

During Q1, the average number of 2.5-inch substrates used per HDD declined, having a negative impact on sales. The adoption of SSDs for notebook PCs will only accelerate in the future, and we are keeping a close eye on the impact on our financial results.

Q

Life Care Overall

Positive profitability factors on Q1 financial performance and future profitability

A

Q1 Performance: Increased profitability for eyeglass lenses was the major factor. In the main, progress in integrating with our acquired companies and better productivity contributed to improved profitability.

Profitability Outlook: We are aiming for an average of 20% for this fiscal year. Next year, we hope to see greater profitability through better plant utilization rates, etc., driven by increased sales.

Q&A -2

Q

Company-Wide

Impact of U.S.-China trade friction on HOYA

A

No direct impact.

To eliminate potential trade friction impact in the future, we are considering a completely compartmentalized local manufacturing-to-sales model (local production, local consumption) in the U.S., China, and other regions.

Q

Eyeglass Lenses

Are we seeing synergies between HOYA and Performance Optics, a U.S.-based lens maker we acquired last year?

A

One objective of our acquisition of Performance Optics was to increase sales through U.S. chain stores. We are seeing greater synergies slowly but surely, increasing our sales to chain store customers.

Q

Blanks for Semiconductors

What do you expect for the scale and timing of the new EUV production line in Singapore?

A

We will increase capacity to handle all demand from semiconductor manufacturers. We are preparing now to begin production in early 2020.

Q&A -3

Q

Eyeglass Lenses

You mentioned price reductions among retailers in Europe. What has been the impact on your business?

A

Price competition has been fierce among chain stores in the major European countries of Germany, England, France, and Spain in particular. The chain stores have absorbed the (high unit price) independents, creating a structure for greater price reductions. This is a structure that tends to cause price competition among the four major lens manufacturers, as well. We are keeping things at a distance for the time being to prevent further advancement of price declines.

Q

Contact Lenses

It appears that the pace of new store openings has slowed. What are your future plans?

In the current conditions, will it be possible to grow at 5% over the second half of the year and beyond as well?

A

We will continue opening stores in line with our plan.

We do see potential for 5% growth over the second half of the year and beyond.

Q&A -4

Q

Capital Investment

You mentioned increasing capital investment to between ¥50 billion and ¥60 billion. What is the detailed breakdown?

A

Our capital investment baseline is around ¥15 billion. We expect to put the rest of our investments toward new plants for EUV and 3.5-inch products. However, we are a company that makes opportunistic investments on a quarterly basis, so there is a high likelihood that these numbers may change.

Q

Glass Substrates for Hard Disk Drives

Are you converting your 2.5-inch substrate production lines for 3.5-inch substrates? You mentioned plans for new plants. Can you make use of plants already built in the Philippines?

A

We are modifying our 2.5-inch substrate production lines to 3.5-inch substrate lines for production in stages.

In addition to rising demand among data centers for 3.5-inch substrates, 2.5-inch products require twice the space of 2.5-inch products, decreasing production volume from the same line. This combination of factors means we must build new plants. Further, the plants in the Philippines that used to make HDD substrates have been purposed for other production. Accordingly, we have no plans to use them for HDD substrates.

Q&A -5

Q

Blanks for Semiconductors/HDD Glass Substrates

What ratio of blanks sales do you project will come from EUV-related products?

Also, what do you forecast for 3.5-inch substrate sales as a percentage of total HDD glass substrates?

A

For EUV exposure devices, of the several tens of layers used by EUV, some will remain as multi-layer, which isn't likely to grow into a major portion of sales.

At present, next-generation technologies (HAMR/MAMR) to increase the recording density of 3.5-inch substrates have yet to be implemented practically. A greater number of thinner layers is the main focus for increasing recording density for now. Given these circumstances, we expect 3.5-inch products to make up a significant portion of glass substrate sales.

Q&A -6

Q

Eyeglass Lenses, Contact Lenses
Resignations of Business Division CEOs

A

With resignations in management, Mr. Suzuki will now have the added responsibility to head our eyeglass lens business, while Mr. Ikeda will take on the eye care business as an additional role. We are searching to find replacements as quickly as possible.

Q

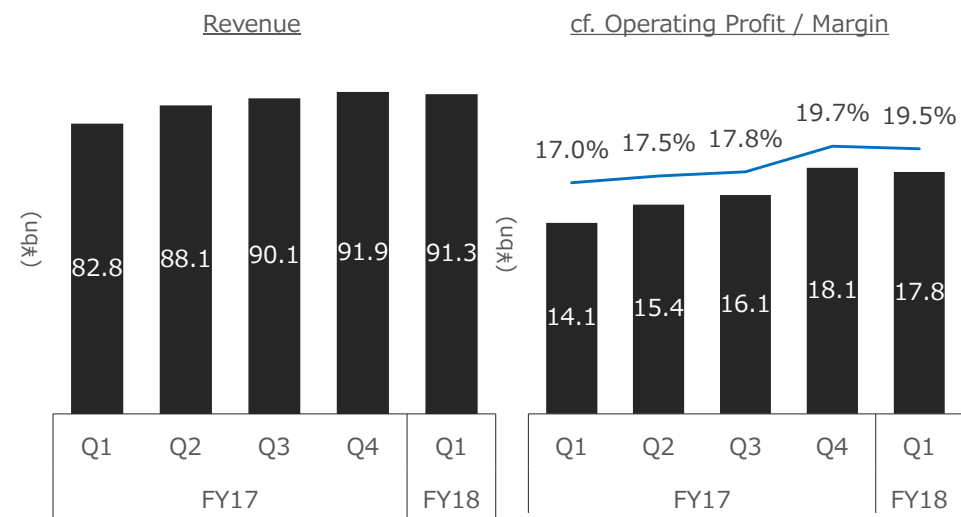
Capital Investment
Do you have plans for major capital investments in Life Care?

A

At present, we do not plan to make a large-scale increase in capital investments for our Life Care business.
We are considering expanding production capacity in the U.S. for eyeglass lenses.
We are always looking at a variety of M&A candidates, but we have no comments at this time.

Appendix

Life Care QoQ Earnings

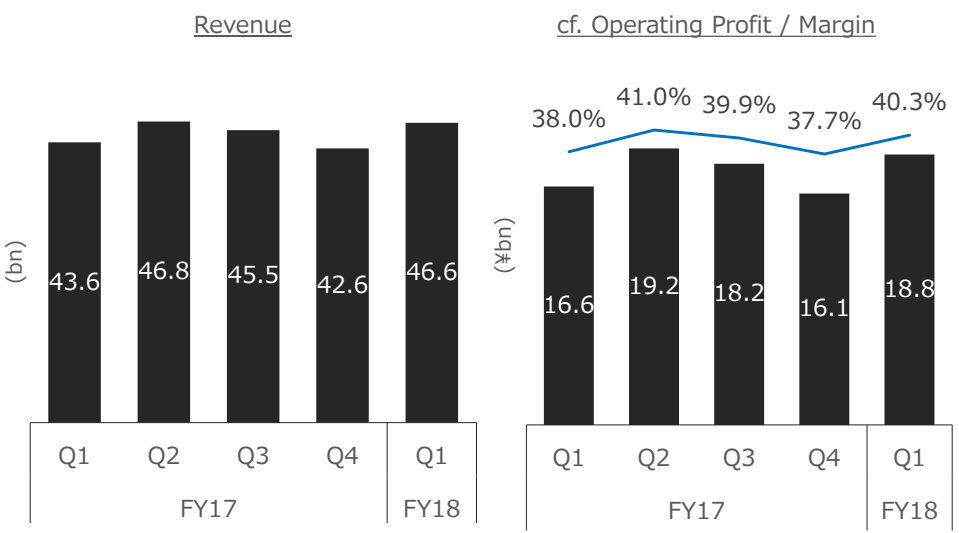


*External revenue

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IT QoQ Earnings



Notes

- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2019 is referred to as "FY18" 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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