

FY18Q2

Financial Results

Oct 31, 2018@Station Conference Tokyo

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HOYA CORPORATION

[With Memo]

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1. Financial Results [Ryo Hirooka, CFO]

2. IT Business Overview

3. Life Care Business Overview

4. Summary

5. Q&A

Financial Overview

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales	135.8	142.0	+6.2	+5%
Pretax Profit	32.9	38.4	+5.5	+17%
Net Profit	26.8	31.2	+4.5	+17%
cf. Profit from ordinary operating activities*	33.5	38.2	+4.7	+14%

*Herein after "Operating Profit"



Achieved record-high quarterly sales, pretax profit and net profit.

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Sales	142.7	142.0	-0.7	+6.9	+5%
Pretax Profit	38.0	38.4	+0.4	+5.2	+16%
Net Profit	30.9	31.2	+0.4	+4.1	+15%

Average Rates	(A)Q2 FY17	(B)Q2 FY18	Variance
US\$	¥111.17	¥111.88	-0.6%
EURO	¥131.28	¥130.54	+0.6%
BAHT	¥3.34	¥3.40	+1.8%

Notes RE: Non-Operating Items

Comprehensive Income Statement

(¥bn)	Q2 FY17	Q2 FY18	YoY	
Total Revenue	136.4	143.8	+7.4	1
Expenditure	103.6	105.4	+1.8	2
Pretax Profit	32.9	38.4	+5.5	

1 Total Revenue increased in excess of sales. This was mainly due to increase in other income (¥0.8bn) from the sale of a business division.

2 Essentially zero losses on valuation of assets denominated in foreign currencies last year; foreign exchange loss of ¥0.8bn this year.

Life Care Earnings

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales*	88.1	91.9	+3.8	+4%
Pretax Profit	14.5	17.0	+2.5	+17%
cf.Operating Profit	15.4	18.7	+3.3	+21%
cf.OP Margin	17.5%	20.3%	+2.8pt	

*External Sales

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Having grown for some time, Life Care segment profit ratio is now at 20%. However, we cannot say that sales growth is fully acceptable. This is due in part to growth investments delayed in comparison to initial plan.

Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	Real YoY	Real YoY(%)
Sales*	92.7	91.9	-0.8	+4.7	+5%
Pretax Profit	16.7	17.0	+0.3	+2.2	+15%
cf.Operating Profit	18.6	18.7	+0.1	+3.2	+21%

*External Sales

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IT Earnings

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales*	46.8	49.0	+2.2	+5%
Pretax profit	19.4	21.7	+2.2	+12%
cf.Operating Profit	19.2	20.9	+1.7	+9%
cf.OP Margin	41.0%	42.7%	+1.7pt	

*External Sales

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IT Earnings (CCB)

(¥bn)	Q2 FY17	Q2 FY18	FX Impact	Real YoY	Real YoY(%)
Sales*	48.8	49.0	+0.1	+2.0	+4%
Pretax profit	21.6	21.7	+0.1	+2.2	+11%
cf.Operating Profit	20.9	20.9	+0.1	+1.6	+9%

*External Sales

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Earnings by Sub-Segment

Healthcare Sales				
Eyeglass Lenses / Contact Lenses				
(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)

Sales*	67.1	70.6	+3.5	+5%
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Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
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Sales*	71.4	70.6	+4.3	+6%
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*External Sales

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Earnings by Sub-Segment

Medical Sales

Endoscopes / IOLs

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales*	21.0	21.3	+0.3	+1%

Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Sales*	21.3	21.3	+0.4	+2%

*External Sales

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Earnings by Sub-Segment

Electronics
Masks & Blanks / HDD Substrates

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales*	35.2	38.1	+2.9	+8%

Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Sales*	37.9	38.1	+2.7	+8%

*External Sales

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Earnings by Sub-Segment

Imaging Camera Lenses, Etc.

(¥bn)	Q2 FY17	Q2 FY18	YoY	YoY(%)
Sales*	11.6	10.9	-0.7	-6%

Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Sales*	10.9	10.9	-0.7	-6%

*External Sales

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Balance Sheet

(¥bn)	Q1 FY18	Q2 FY18	QoQ
Non-current Assets	230.5	237.8	+7.4
Current Assets	431.7	479.4	+47.7
Capital	547.3	591.8	+44.5
Non-current Liabilities	15.8	16.0	+0.2
Current Liabilities	99.0	109.4	+10.3
Total	662.1	717.2	+55.1

1 Cash and cash equivalents increased by ¥26.1bn.
Other short-term financial assets increased by ¥11.6bn.

Cash Flow

(¥bn)	Q2 FY17	Q2 FY18	YoY
Operating CF	39.7	39.5	-0.2
Investing CF	-60.9	-3.4	+57.5
Financing CF	-53.9	-9.7	+44.2
Cash & Cash Equivalents at the end of the term	231.6	245.8	+14.2

1 Investing CF outlays decreased significantly, as there were no large-scale M&A of the type recorded in the year-ago quarter.

2 While we recorded a redemption of bonds (¥35bn) last year, Financing CF outlays decreased significantly, since there were no similar transactions this quarter.

1. Financial Results

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

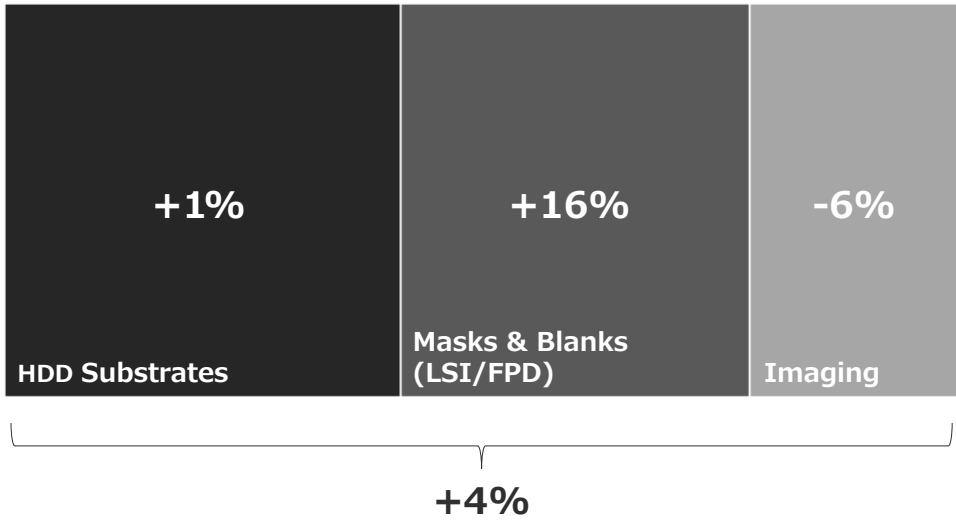
3. Life Care Business Overview

4. Summary

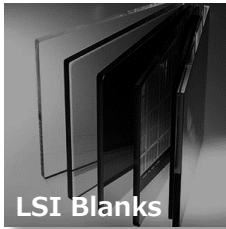
5. Q&A

IT Snapshot

YoY Sales Growth (CCB)



Overview by Product

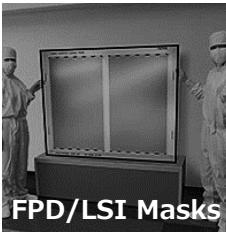


This Quarter

Both EUV and DUV (optical) showed strong growth. EUV grew to account for 21% of blanks sales.

Going Forward

Expect continued growth in EUV blanks. Prepare for new EUV production line scheduled to start operations in 2020.



This Quarter

Captured strong R&D demand mainly for Gen-six products used for smartphones.

Going Forward

Demand of under Gen-eight products continue to be strong and HOYA will steadily capture this opportunity.

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Blanks for Semiconductors

By class, sales of low-end products have decreased, while sales of cutting-edge products, including EUV, have grown significantly.

Although there appears to be a rising negative sentiment toward the semiconductor market, blanks, many of which are product components and used for development, are relatively stable, largely unaffected by the impact of the finished goods market.

Further, the strong investment sentiment of semiconductor manufacturers with respect to EUV has not changed. The number of devices shipped by EUV exposure device manufacturers is increasing steadily in the number of devices in operation in the market is rising, presenting a significant growth opportunity.

Overview by Product



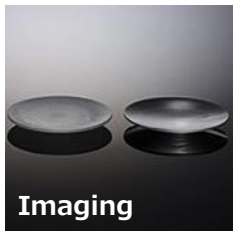
HDD Substrates

This Quarter

2.5" sales declined due to further SSD penetration. Expansion of 3.5" substrates resulted in overall growth (3.5" now accounts for 18%).

Going Forward

Continue to expand 3.5" sales. Target to start new fab in 2020.



Imaging

This Quarter

Compact camera lens sales declined due to market contraction. Security camera lenses also declined due to production adjustment factors resulting in overall decline.

Going Forward

Continue to expand lens sales for new applications.

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Glass Substrates for Hard Disk Drives

While sales of 2.5-inch products decreased in the 10% range, 3.5-inch products more than made up the difference, resulting in growth.

HDDs using HOYA glass substrates have been in operation at data centers for several months. We have noted no problems with failure rates or other issues, lowering the hurdle to securing more customers.

Imaging-Related Products

Sales of in-vehicle cameras and lenses for 3-D scanners rose compared to the same period in the prior fiscal year. Going forward, we must pursue growth through new applications, rather than relying too much on surveillance cameras.

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Life Care Snapshot

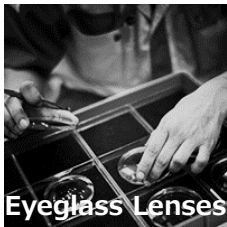
YoY Sales Growth (CCB)



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Overview by Product



This Quarter

Double digit growth in US driven by a major deal signed in Q1. Integration with Performance Optics almost completed, profitability expanding significantly.

Going Forward

Accelerate growth in US by generating sales synergies with Performance Optics.



This Quarter

Stable growth in same-store sales.
No. of stores at quarter-end: 278 (New 2/Closed 0)

Going Forward

Accelerate store roll-outs in 2H.

Eyeglass Lenses

Sales of eyeglass lenses group in the double digits in the Americas, while remaining flat in Europe.

APAC growth rates were in the single digits due to internal factors, including production capacity issues. We project further capacity-related challenges in the future, and plan to add capacity in Vietnam.

Sales in Japan fell by several percentage points. Our share of the market is around 50%. We are concerned that the market as a whole will once again experience price declines if we succumb to price competition.

Having built a solid structure for profitability, we plan to resume investment to accelerate sales growth.

Overview by Product

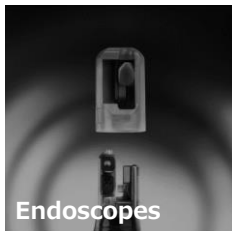


This Quarter

Inventory optimization at Chinese distributor resulted in sales decline.

Going Forward

Bolster indirect sales channels. Facilitate post-merger integration with Mid Labs and Fritz Ruck.



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

In Japan, we have reached a plateau as sales promotions to general hospitals have run their course.

Inventory volume has a key rate among our sales agents in China, and we are holding off on shipments until inventory levels decline.

Meanwhile, direct sales in Europe grew at a strong 20%-plus rate.

We plan to acquire Mid Labs and Fritz Ruck for a combined 19.2 billion yen. These companies own devices that emulsify and extract cloudiness on the lens of the eye in treating cataracts and devices that cut lesions from the retina. These devices could offer tremendous synergies with our IOLs.

Endoscopes

Growth in the Americas and Europe was about 6% and 2%, respectively. Overall growth was 2%, in line with market growth.

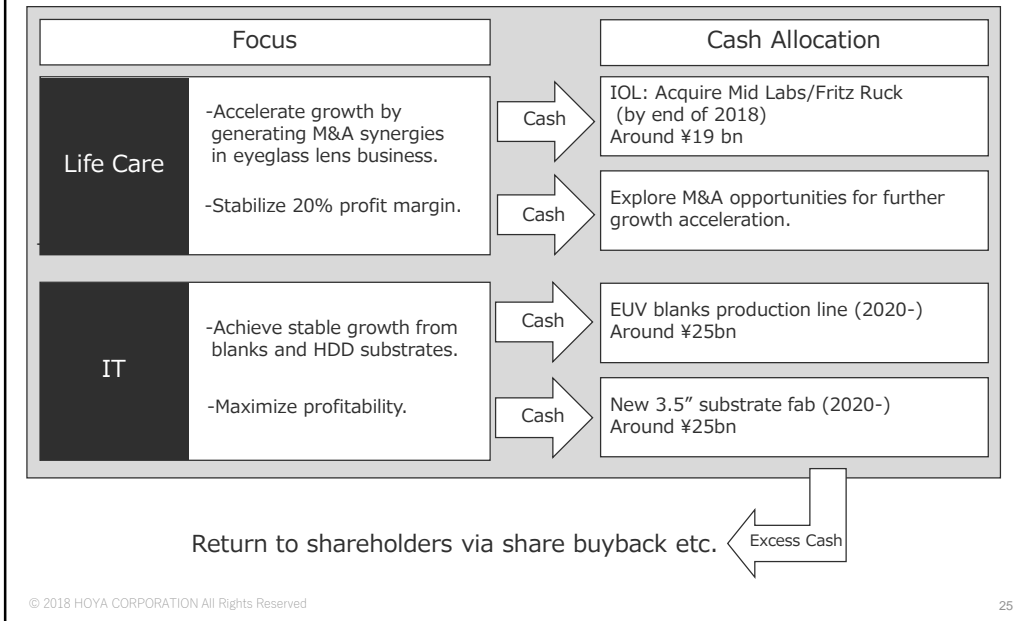
While we are already selling new products, we expect these products to begin contributing to sales in the fourth quarter.

Artificial Bones

Sales of related products are progressing favorably. The fourth quarter represents a strong seasonality for sales, and we expect higher performance in the future.

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Summary



Dividends

We have declared an increase in interim dividends from 30 yen to 45 yen for the following reasons:

- (1) Balance between interim and year-end dividends (cf. FY17 interim dividend of 30 yen and year-end dividend of 45 yen)
- (2) Balance between investor preferences. In our discussions with investors, some expressed preference for share buybacks, while certain number of others expressed preference for dividends.
- (3) Dividend payout ratio has start to fall due to profit growth

Share Buybacks

As in the past, our policy is to return all free cash flows to shareholders. We intend to perform share buybacks after considering plans for capital, share prices, and other factors in a comprehensive matter.

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Q&A -1

Q

Glass Substrates for Hard Disk Drives

What is the potential for winning new customers for 3.5-inch glass substrates?

A

HAMR, MAMR, and other recording density improvements in the HDD industry are emerging to increase data capacity. However, this is meaningless if density increases are no more than simply adding more substrates. The present environment is such that adding substrates offers the greater potential. Given these circumstances, the appeal of our 3.5-inch glass substrates is rising among all HDD manufacturers. By the first half of the next fiscal year, we expect the potential for winning new customers will become clearer.

Q

Blanks for Semiconductors

Has there been a change in the competitive environment for this business?

A

Our share of cutting-edge products, including EUV (which shows promising growth) is quite high; in the future we believe our share of the overall market will grow.

Q&A -2

Q

Glass Substrates for Hard Disk Drives

Is there a risk that flash memory will take the place of hard disk drives in data centers?

A

Data centers are divided into hot, warm, and cold in terms of access frequency (hot having the most access; cold having the least). Hot data centers with frequent access will replace HDD with flash memory; however, cold (near line) data centers will use HDD for the time being, reflecting considerations of price and capacity/volume. Accordingly, we are not concerned about the impact on our business.

Q

Overall

What is the impact of the U.S.-China trade frictions on lenses for surveillance cameras? Also, what is the impact on the HDD glass substrate business?

A

Trade frictions are having an impact on the end customers of our lenses for surveillance cameras (Chinese manufacturers) and our sales have declined. We believe another factor is the inventory adjustments among our end customers in response to the sustained period of rapid growth. HDD for surveillance cameras have also been affected; however, we are not involved in products for this purpose, so we have not felt an impact.

Q&A -3

Q

M&A

With the stock market is in a phase of adjustment, we see valuations beginning to decline. Will HOYA become more active in M&A?

A

Many of our targets are managed under private equity whose valuations are not yet affected directly by the stock market. Accordingly, we will continue to do careful due diligence according to our own standards.

Q

Overall Profit Ratios

Is there room for future profit ratio growth in your Life Care and Information Technology businesses?

A

We will transition to accelerated sales growth in our Life Care segment while maintaining a profit ratio of 20%. At the same time, we are aiming for a high level of stability in our Information Technology segment.

Q&A -4

Q

Glass Substrates for Hard Disk Drives

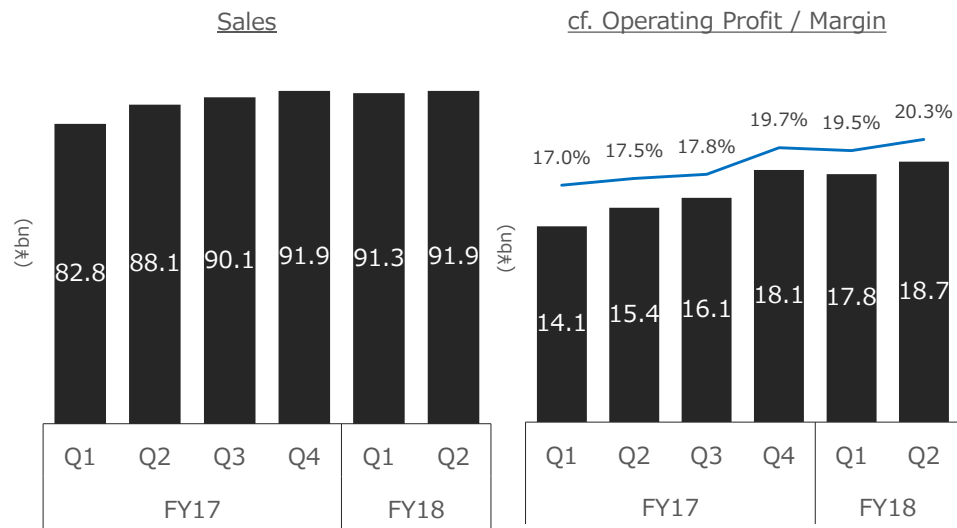
Rumors say that investment in large-scale data centers is slowing down. Have you felt the impact?

A

Our current target is the scenario where we replace the current aluminum substrates for HDDs used in data centers with our glass substrates. Even assuming a slowdown in new data center construction, we have felt little, if any, impact.

Appendix

Life Care QoQ Earnings

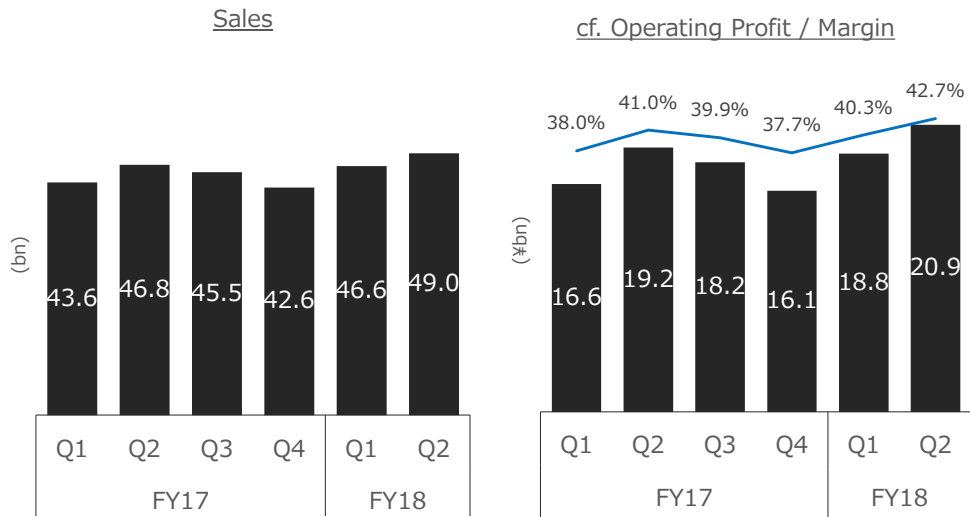


*External Sales

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IT QoQ Earnings



*External Sales

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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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