

FY18Q3

F i n a n c i a l R e s u l t s

Feb 1, 2019@Station Conference Tokyo

7741.T[ADR:HOCPY US]

HOYA CORPORATION

1. Financial Results [Ryo Hirooka, CFO]

2. IT Business Overview

3. Life Care Business Overview

4. Summary

5. Q&A

Financial Overview

(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
Sales	136.8	143.4	+6.7	+5%
Pretax Profit	34.7	39.7	+5.0	+14%
Net Profit	27.7	33.1	+5.4	+20%
cf. Profit from ordinary operating activities*	33.2	39.9	+6.7	+20%

*Herein after "Operating Profit"

Achieved record-high quarterly sales and profit.

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- Revenue amounted to ¥143.4 billion, up ¥6.7 billion (+5%) year on year
- Quarterly profit before tax was ¥39.7 billion, up ¥5.0 billion (+14%)
- Profit for the quarter amounted ¥33.1 billion, up ¥5.4 billion (+20%)

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Sales	145.8	143.4	-2.3	+9.0	+7%
Pretax Profit	40.0	39.7	-0.3	+5.3	+15%
Net Profit	33.4	33.1	-0.3	+5.7	+21%

Average Rates	(A)Q3 FY17	(B)Q3 FY18	Variance
US\$	¥112.74	¥112.58	+0.1%
EURO	¥133.17	¥128.21	+3.7%
BAHT	¥3.43	¥3.42	+0.3%

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- With the generally rising value of the Japanese yen, currency exchange rate fluctuations had a -¥2.3 billion impact on sales
- Assuming exchange rates level with the same period in the prior year, real growth would have been ¥9.0 billion (+7%)
- The impact of foreign currency exchange on quarterly profit before tax was a -¥300 million; in real terms growth was ¥5.3 billion (+15%)

Notes RE: Non-Operating Items

Comprehensive Income Statement

(¥bn)	Q3 FY17	Q3 FY18	YoY
Sales	136.8	143.4	+6.7
Finance Income	0.4	0.9	+0.5
Other Income	2.3	0.8	-1.5
Total Revenue	139.4	145.1	+5.7
Expense	104.7	105.4	+0.7
Pretax Profit	34.7	39.7	+5.0

1 Other income decreased by ¥1.5bn due a litigation settlement related to patents in the year-ago quarter.

2 Foreign exchange loss increased ¥0.9bn. However, total expense remained level due to reduced costs.

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- Other gain/loss decreased ¥1.5 billion, mainly due to ¥1.6 billion in settlements related to eyeglass lens patents that occurred during the same period of the prior fiscal year
- Revaluation of assets denominated in foreign currencies resulted in foreign exchange loss of ¥900 million, consisting of ¥300 million in foreign exchange gain for the prior fiscal year and ¥600 million in foreign exchange loss during the current fiscal year
- However, our efforts to reduce expenses held overall expenses to a minor increase year on year

Life Care Earnings

(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
Sales*	90.1	93.9	+3.8	+4%
Pretax Profit	17.0	19.1	+2.2	+13%
cf.Operating Profit	16.1	19.6	+3.5	+22%
cf.OP Margin	17.8%	20.9%	+3.1pt	

*External Sales

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- Life Care segment sales amounted to ¥93.9 billion, an increase of ¥3.8 billion year on year
- Segment profit (profit before tax) rose ¥2.2 billion, reaching ¥19.1 billion

Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	Real YoY	Real YoY(%)
Sales*	96.0	93.9	-2.1	+5.9	+7%
Pretax Profit	19.4	19.1	-0.3	+2.5	+15%
cf.Operating Profit	19.9	19.6	-0.3	+3.8	+24%

*External Sales

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- Foreign currency translation had a -¥2.1 billion impact on Life Care segment results; real sales growth amounted to ¥5.9 billion
- Real segment profit (profit before tax) amounted to ¥2.5 billion after excluding the impact of foreign currency exchange

IT Earnings

(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
Sales*	45.5	48.3	+2.8	+6%
Pretax profit	18.2	21.5	+3.3	+18%
cf.Operating Profit	18.2	21.6	+3.4	+19%
cf.OP Margin	39.9%	44.7%	+4.8pt	

*External Sales

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- Information Technology segment sales for the third quarter amounted to ¥48.3 billion, an increase of ¥2.8 billion year on year
- Segment profit (profit before tax) rose ¥3.3 billion to ¥21.5 billion

IT Earnings (CCB)

(¥bn)	Q3 FY17	Q3 FY18	FX Impact	Real YoY	Real YoY(%)
Sales*	48.5	48.3	-0.2	+3.0	+7%
Pretax profit	21.6	21.5	-0.1	+3.4	+19%
cf.Operating Profit	21.7	21.6	-0.1	+3.5	+19%

*External Sales

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- The Information Technology segment incurred almost no impact from foreign currency translation
- In real terms, segment sales increased ¥3.0 billion after excluding the impact of foreign currency translation; segment profit (profit before tax) increased ¥3.4 billion in real terms

Earnings by Sub-Segment

Healthcare Sales				
Eyeglass Lenses / Contact Lenses				
(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
Sales*	67.3	69.3	+2.0	+3%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Sales*	70.8	69.3	+3.5	+5%

*External Sales

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➤ Health care related products (eyeglass lenses, contact lenses) sales were ¥69.3 billion, up ¥2.0 billion (+3%) year on year

➤ Foreign currency translation had a -¥1.5 billion impact; real sales growth amounted to ¥3.5 billion after eliminating this impact

Earnings by Sub-Segment

<u>Medical Sales</u>				
Endoscopes / IOLs				
(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
Sales*	22.8	24.6	+1.8	+8%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Sales*	25.2	24.6	+2.4	+11%

*External Sales

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- Medical-related products (endoscopes, intraocular lenses, etc.) sales were ¥24.6 billion, a ¥1.8 billion (+8%) increase year on year
- Foreign currency translation had a -¥600 million impact on performance; in real terms growth was ¥2.4 billion (+11%)

Earnings by Sub-Segment

<u>Electronics</u>				
Masks & Blanks / HDD Substrates				
(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)

Sales*	34.3	38.3	+4.0	+12%
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Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)

Sales*	38.3	38.3	+4.1	+12%
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*External Sales

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- Electronics related products (glass substrates for semiconductors, LCD-related products, and hard disk drives) sales amounted to ¥38.3 billion up ¥4.0 billion (+12%) year on year
- Foreign currency translation had almost no impact on this business (-¥100 million); real sales growth amounted to ¥4.1 billion

Earnings by Sub-Segment

Imaging Camera Lenses, Etc.

(¥bn)	Q3 FY17	Q3 FY18	YoY	YoY(%)
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Sales*	11.2	10.0	-1.2	-11%
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Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
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Sales*	10.1	10.0	-1.1	-10%
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*External Sales

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- Imaging related products sales amounted to ¥10.0 billion, down ¥1.2 billion (-11%) year on year
- The impact of foreign currency translation on this business was minor at -¥100 million; real sales fell ¥1.1 billion

Balance Sheet

(¥bn)	Q2 FY18	Q3 FY18	QoQ
Non-current Assets	237.8	234.8	-3.1
Current Assets	479.4	485.0	+5.6
Capital	591.8	596.6	+4.8
Non-current Liabilities	16.0	15.6	-0.4
Current Liabilities	109.4	107.5	-1.8
Total	717.2	719.8	+2.6

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Cash and cash equivalents increased by ¥20bn.
Other short-term financial assets decreased by ¥15.3bn.

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- The Company's balance sheets did not show any major fluctuations for the quarter
- Cash and cash equivalents increased ¥20.0 billion, while short-term financial assets decreased due to a transfer of time deposits; these factors contributed to a ¥5.6 billion increase in current assets

Cash Flow

(¥bn)	Q3 FY17	Q3 FY18	YoY
Operating CF	31.5	34.1	+2.6
Investing CF	0.3	7.9	+7.7
Financing CF	-36.7	-16.3	+20.3 ¹
Cash & Cash Equivalents at the end of the term	228.6	272.3	+43.7

¹ Financing CF outlays decreased significantly, as there was a share buy-back totaling ¥26.2 in the year-ago quarter.

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- Cash used in financing activities declined ¥20.3 billion year on year. While outlays increased ¥5.5 billion due to an increase in interim dividends, the Company paid ¥26.2 billion for share buybacks during the same period in the prior fiscal year (transaction not repeated this quarter)
- While not reflected in Q3 cash flows, the acquisition of Mid Labs/Fritz Ruck was completed in January; we plan to show ¥19.5 billion in acquisition costs under cash used in investing activities for Q4

Q4 & Full Year Guidance

- ✓ In Q4, although sales decline in Imaging due to market factors is expected, overall sales will grow steadily mainly driven by Life Care Business.
- ✓ Expect profits to increase significantly, as there was an impairment loss related to an oversea subsidiary in Q4 FY17.

FY18 Q4

(¥bn)	Q4 FY17	Q4 FY18	YoY	YoY(%)
Sales	135.9	139.7	+3.7	+3%
Pretax Profit	26.2	33.7	+7.6	+29%
Net Profit	19.5	27.3	+7.8	+40%

FY18 Full Year

(¥bn)	FY17	FY18	YoY	YoY(%)
Sales	535.6	564.0	+28.4	+5%
Pretax Profit	124.2	147.0	+22.8	+18%
Net Profit	99.2	120.2	+21.0	+21%

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➤ We expect to record fiscal 2018 revenue of ¥564.0 billion, profit before tax of ¥147.0 billion, and net profit of ¥120.2 billion

1. Financial Results

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

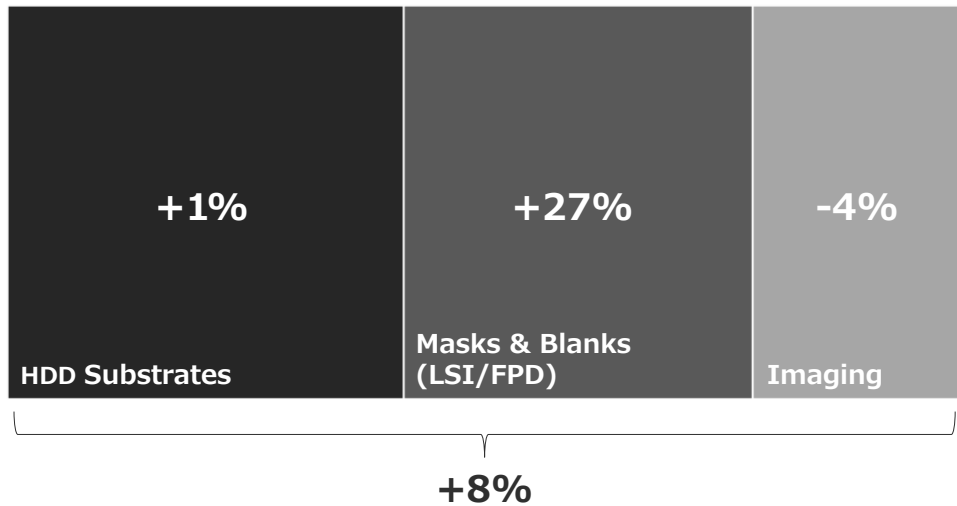
3. Life Care Business Overview

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IT Snapshot

YoY Sales Growth (Like-for-Like)

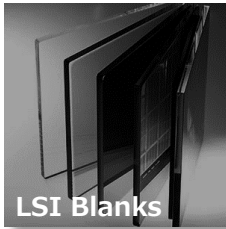


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- In addition to higher revenues and profits, our Information Technology segment achieved higher profitability
- Masks & Blanks sales rose 27%, HDD Substrates sales rose 1%, and Imaging sales fell 4%
- We indicate a decrease in Imaging sales of 10% on page 13; the difference is that this chart represents year-on-year changes only for those products we will continue to sell

Overview by Product

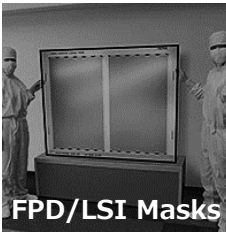


This Quarter

EUV sales more than doubled driven by aggressive R&D, now accounting for 23% of blanks sales. DUV also showed strong growth driven by leading-edge products.

Going Forward

Expect EUV blanks growth to continue, with commercialization starting this year. Grow leading-edge products on DUV.



This Quarter

Saw growth by tapping into the Chinese market as well as capturing the strong demand for developing new panel designs for smartphones.

Going Forward

Continue to focus on high-resolution products below Gen-eight. Keep attention focused on the cycle of panel design R&D, as well as changes in competition.

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Mask Blanks for Semiconductors

- EUV sales more than doubled, now accounting for more than 23% of blanks sales.
- Even in the weakening optical (DUV) end market, sales increased 16%. As the major semiconductor manufacturers have announced, 7nm products are trending favorably. This had a beneficial impact on our sales of blanks, where we hold a high share of the market.
- [Supplementary materials on page 34]

FPD/LSI Masks

- The Chinese market, where FPD mask factories are being put into production, contributed to grow
- While smartphone unit production has slowed, panel exterior design development continues to be active, and we were able to capture this demand
- Capturing demand steadily for the rising Chinese market will be a key for future growth

Overview by Product



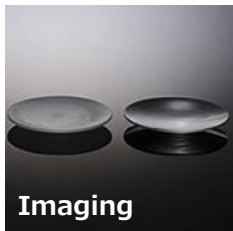
HDD Substrates

This Quarter

2.5" sales decreased due to SSD penetration. 3.5" sales almost tripled, now accounting for 19% of sales.

Going Forward

Expect the sluggish data center CAPEX to ramp up during H2 2019. Continue to expand 3.5" sales.



Imaging

This Quarter

Contraction of the point-and-shoot camera market and the slowdown of security camera market led to a decline in sales.

Going Forward

Continue to develop new applications and high value-added products.

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Glass Substrates for Hard Disk Drives

- Sales growth of 3.5" substrates for data centers compensated for sales declines of 2.5" substrates due to SSD penetration, resulting in slight overall sales growth
- Sales of 3.5" substrates have risen to account for 19% of sales
- [Supplementary materials on page 33]

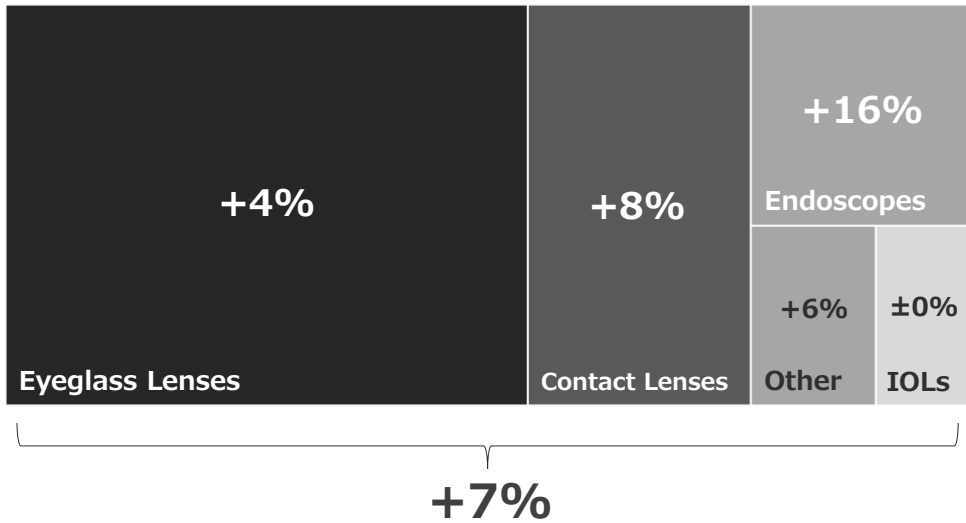
Imaging-Related Products

- While the point-and-shoot camera market contracts, we continue to capture a rising share of the high-function markets for full-size single-lens mirrorless camera lenses and other products
- Of late, sales of lenses for surveillance cameras have slowed; we aim to develop a variety of applications for these products

1. Financial Results
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Life Care Snapshot

YoY Sales Growth (Like-for-Like)

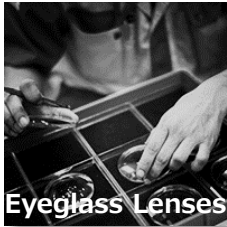


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➤By product type, sales of eyeglass lenses increased 4%, sales of contact lenses increased 8%, sales of endoscopes rose 16%, and sales of intraocular lenses remained flat

Overview by Product



This Quarter

Sales increased in all regions. Sales to independent retailers in Europe were robust. Performance Optics drove sales in the Americas.

Going Forward

Plan to raise capacity in response to expanding sales channels and increasing volume.



This Quarter

Accelerated new store roll-outs. Closed four stores while opening stores at better locations within the same area. No. of stores at quarter-end: 283 (New 9/Closed 4)

Going Forward

Increase same store sales by raising ARPU. Continue to roll out new stores for sustainable growth.

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Eyeglass Lenses

- By region, sales in Japan rose 3%, sales in Europe rose 3%, sales in APAC increased 5%, and sales in the Americas increased 4%
- In Japan, we experienced a temporary increase in sales due to disasters affecting the factories of our competitors; we expect the market to remain challenging
- We had been experiencing double-digit growth in the Americas; however, growth has slowed due to increased measures among our competitors. We expect this development to be temporary in nature.

Contact Lenses

- We have experienced success through new store openings and favorable sales of high-unit-price products
- While we are not seeing significant growth in the contact lens market, the population of younger contact lens wearers is growing, which we see as a positive sign

Overview by Product



This Quarter

APAC sales decreased while Japan and Europe increased.
Secured same-level sales compared to the year-ago quarter.

Going Forward

Recover APAC performance as quickly as possible.
Facilitate integration with Mid Labs and Fritz Ruck, acquisitions recently completed.



This Quarter

Launch of new products and reinforcing sales force resulted in strong sales in Europe and the Americas.
Profitability improved due to sales expansion.

Going Forward

Expect strong sales by gradually launching new products, including scopes and video processors.

Intraocular Lenses

➤ Our Chinese distributor channel continued to be sluggish; however, overall performance remained level as we compensated via sales in Japan and Europe, where we engage in direct sales

Endoscopes

➤ We have experienced temporary positive developments, including a major deal in Europe, where growth was in excess of 25%; at the same time, we are making steady improvements to our sales structure

➤ Meanwhile, we are keeping our eyes on the risk of customers holding off buying until the introduction of new products by competitors; we are also watching for aggressive sales tactics by competitors

1. Financial Results
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5. Q&A

- While cash on hand has increased, we have not made any changes in our approach to cash allocation; we remain committed to using reserve funds for shareholder returns
- If we do decide to engage in a share buyback, we will want to time such with a downward phase in stock prices

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Q&A -1

Q

Glass Substrates for Hard Disk Drives

The markets related to HDDs for PCs and servers is sluggish. What is the HOYA outlook for the glass substrate business?

A

(Market Conditions)

Data center HDD demand from major cloud vendors has declined, while HDD inventory has increased and production has fallen off. Demand for the next six months will likely be sluggish.

(HOYA Sales)

3.5" substrate sales have not been as impacted by sluggish demand as much as the rest of the market. This is because we have grown our share of the market as customers move from traditional aluminum to glass. Also, data centers are replacing low-capacity HDDs in data centers to higher capacity products, and our glass substrates are used in high-capacity HDDs.

Falling NAND prices have caused sales of our 2.5" substrates to continue to decline, as HDDs are being replaced by SSDs in PCs and mission-critical servers (around 50% of our 2.5" substrate sales).

Our outlook for combined sales of 2.5" and 3.5" substrates in the next period and beyond indicates a likely phase of overall decline for the second half of fiscal 2019, as the drop in 2.5" substrates outpaces the growth of 3.5" substrates. We intend to generate steady growth as we win new customers over the medium term.

Q&A -2

Q

Blanks for Semiconductors

How has HOYA been able to capture a steadily rising share for optical (DUV)?

A

We not only have optical (DUV) technology, but also technology for EUV, which will enjoy greater adoption in the future. We believe our ability to offer comprehensive solutions is one strength over our competition.

Beyond gaining greater market share, the number of masks/blanks used in cutting-edge products for optical (7nm) are increasing, showing the potential for growth of the market as a whole.

Q

Glass Substrates for Hard Disk Drives

At present, up to nine aluminum substrates are used for one drive. At what number of substrates and when do you foresee HOYA glass substrates being used by the HDD manufacturers who are using aluminum right now?

A

We expect to see HDD manufacturers use glass substrates beginning at 10 platters (18TB HDD), which is likely to happen sometime in 2021.

Q&A -3

Q

Life Care

Can you tell us more about the steady growth rates in your endoscope business and the revenue synergies related to the business acquisition within your intraocular lens business?

A

Given the impact of new products and other factors, we are aiming for a steady growth rate in the high single digit for endoscope sales.

We expect revenue synergies over the medium term for intraocular lenses to be around 10% beyond simply combining our existing sales and sales from acquired businesses.

Q

Capital Investment

Does HOYA plan to make capital investments in your businesses to increase capacity?

A

Our aim for blanks is to increase capacity to correspond to the demand and schedules of our customers.

For HDDs, capacity will not necessary double, since production output is lower for 3.5" compared to 2.5" due to differences in size. However, we foresee sales growth in excess of production unit growth, since unit costs are higher than that of 2.5" substrates.

For eyeglasses, we intend to build a production factory to mass produce lenses. We will counter the low-cost manufacturers who have captured market share over the past few years.

Q&A -4

Q

Earnings Forecasts

What exchange rates do you project for Q4 of fiscal 2018?

A

We are assuming US\$1 to ¥105 and €1 to ¥125.

Q

Eyeglass Lenses

Please tell us more about the competitive environment in Europe, HOYA pricing strategy, and current/future profitability.

A

The market environment in Europe is not very favorable. Price competition among chain stores has intensified, placing more price pressure on lens manufacturers. Our price strategy calls for higher prices through improved product mix. However, we see challenges in raising prices in the Japanese market.

In terms of profitability, we think we can aim for Q2 and Q4 profit ratio of 20% in response to larger revenues in this business during those quarters. For the year, we expect profit ratio to be slightly less than 20%.

Q

Contact Lens Retail

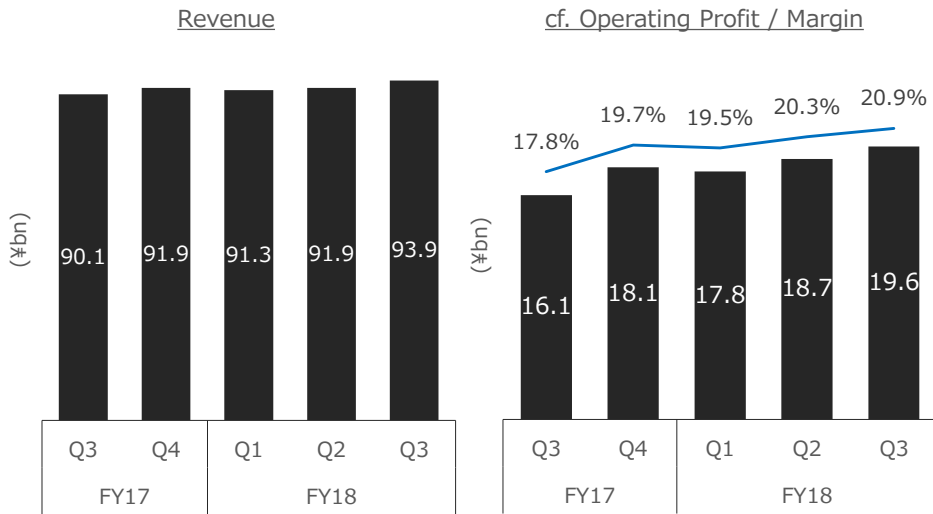
What is your view of the Japanese contact lens retail market?

A

We had viewed this as a mature market; however, recent research shows that the increase in the contact lens wearing population has grown more than anticipated. We want to accelerate our offensive in opening stores.

Appendix

Life Care QoQ Earnings

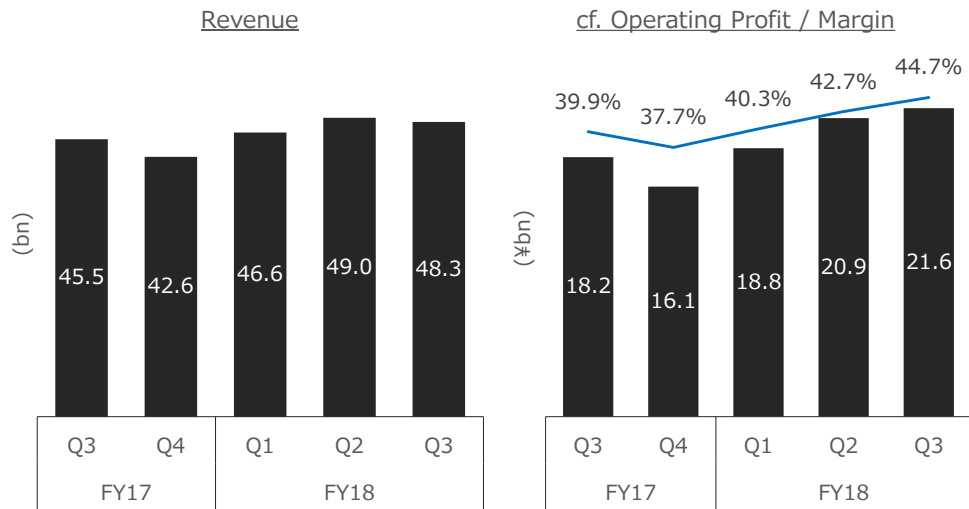


*External Sales

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IT QoQ Earnings



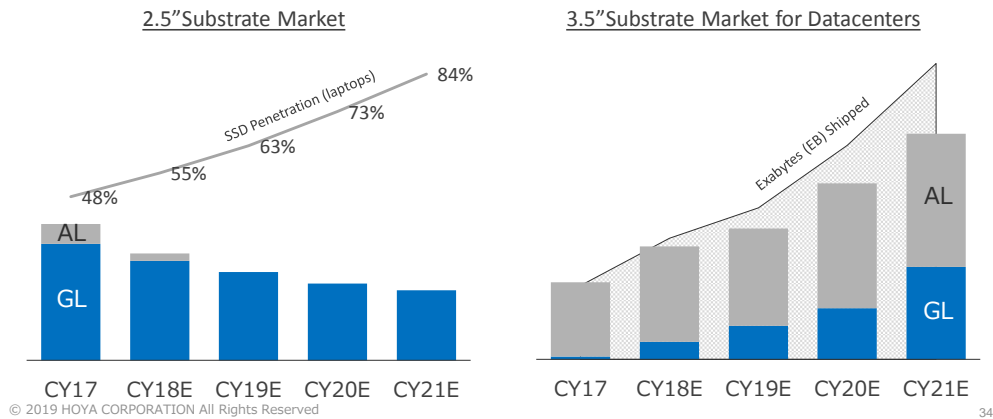
*External Sales

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Overview of HDD Glass Substrate Business

- ✓ Expect further penetration by SSDs into the 2.5" substrate market (laptops etc.) Aluminum substrates are likely to disappear after FY19, allowing HOYA to strengthen its position further.
- ✓ While cyclicity exists (every 6-7 quarters), we expect 3.5" substrate market (equally as large as the 2.5" market) to grow steadily in the long run. HOYA aims to penetrate the market by leveraging the advantages of glass substrates.

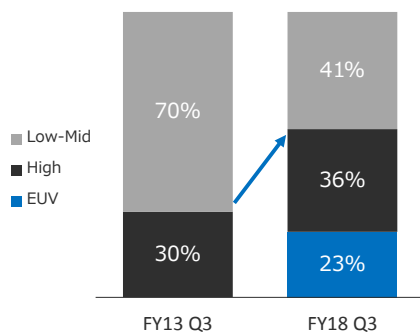


- We expect further penetration by SSDs into the 2.5" substrate market for HDDs (*penetration figures for laptops only)
- While the market for 2.5" substrates is eroding, manufacturers using aluminum substrates are shifting capacity to 3.5". As a result, our market share is increasing, serving as one factor keeping declines in our 2.5" sales less than overall market declines.
- While the overall market for data centers using 3.5" substrates is slowing, we are not experiencing the same impact felt by the market as a whole. This is because our share for high-capacity products using our glass substrates is growing.
- We will aim to grow in the future with replacements of 12TB products by 14TB and 16TB products.

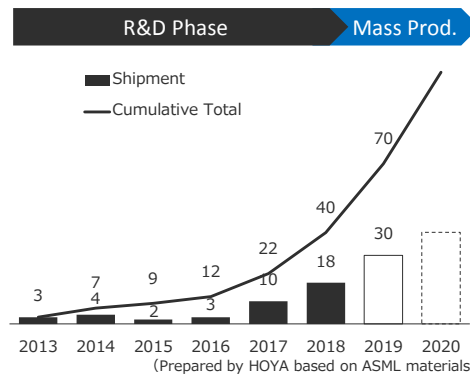
Overview of EUV Photomask Blanks

- ✓ Sales from high-end products was less than 30% five years ago. Today, high value-added products account for around 60% of our blanks sales.
- ✓ HOYA aims to expand sales of products for mass production and R&D. The number of EUV scanners shipped is steadily increasing, and it is likely that full-fledged production will start this year.

Mix Shift of Blanks Sales



EUV Scanner Shipments







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- Compared to five years ago, our ratio of high-value-added product sales for blanks has grown significantly.
- Both EUV and optical DUV cutting-edge products (7nm, more recently) have grown.
- The number of EUV exposure devices in the market has grown steadily, creating an environment for increasing blanks demand.
- In particular, orders for High NA exposure devices (making possible the production of 3nm products by raising the optical system aperture ratio higher than existing exposure devices) indicate the high potential for market growth.

Status of Investments

CAPEX	M&A
<p><u>3.5" HDD Substrate New Fab@Laos</u> Amount: ¥30bn Start operations: H1 CY20</p>	<p><u>Acquisition of Mid Labs/Fritz Ruck</u> Amount: ¥19.5bn Status: Acquisition process completed in January 2019. Facilitate integration process to generate synergies with IOL business.</p>
<p><u>EUV Blanks New Fab@Singapore</u> Amount: ¥25bn Start operations: H1 CY20</p>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  </div> <div style="text-align: center;">  </div> </div> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  </div> <div style="text-align: center;">  </div> </div>
<p><u>Eyeglass New Plant@Vietnam</u> Amount: ¥6bn Start operations: Early CY20</p>	

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- We are working to put manufacturing equipment into production during the first half of 2020 for 3.5" HDD substrates, EUV blanks, and mass-produced eyeglass lenses.
- In terms of M&A, we have completed our acquisition of Mid Labs/Fritz Ruck for the purpose of generating synergies in intraocular lenses.
- The company has equipment that uses ultrasonic waves to emulsify and then suction out cloudy lens material during cataract surgery. This will allow us to offer a comprehensive approach in conjunction with intraocular lenses.
- The company also manufactures and sells a cutter used in vitreoretinal surgery, and we will consider expanding our product portfolio in the ophthalmology sector.

Notes

- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2019 is referred to as “FY18” throughout this document.
- ✓ Figures less than ¥100 million are rounded down. Accordingly, some discrepancies may occur among totals. Ratios are calculated using actual numbers.
- ✓ Like-for-Like figures exclude foreign exchange and M&A impact as well as other extraordinary factors.
- ✓ 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>

Disclaimer

This report is provided solely for the information of professional investors and analysts who are expected to make their own evaluation of the company. This report contains forward-looking statements that are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from that anticipated in these statements. These factors include changes in economic conditions, trends in our major markets, currency exchange rates, etc. We accept no liability whatsoever for any direct or consequential loss arising from any use of this report.