

# FY19Q1

## Financial Results

July 30, 2019@Station Conference Tokyo

7741.T[ADR:HOCPY US]

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)	Q1 FY19	Q1 FY19	YoY	YoY(%)
Revenue	138.9	140.8	+1.9	+1%
Pretax Profit	35.2	37.0	+1.8	+5%
Net Profit	28.5	30.1	+1.7	+6%
cf. Profit from ordinary operating activities*	35.3	38.5	+3.1	+9%

\*Herein after "Operating Profit"

- Revenue amounted to ¥140.8 billion, up ¥1.9 billion (+1%) year on year
- Quarterly profit before tax was ¥37.0 billion, up ¥1.8 billion (+5%)
- Profit for the quarter amounted ¥30.1 billion, up ¥1.7 billion (+6%)

## Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	143.0	140.8	-2.2	+4.1	+3%
Pretax Profit	37.2	37.0	-0.1	+2.0	+6%
Net Profit	30.2	30.1	-0.1	+1.7	+6%

Average Rates	(A)Q1 FY18	(B)Q1 FY19	Variance
US\$	¥109.53	¥109.67	-0.1%
EURO	¥129.01	¥122.87	+4.8%
BAHT	¥3.39	¥3.47	-2.4%

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- A significant fluctuation in the valuation of the yen during this quarter impacted results
- Assuming exchange rates level with the same period in the prior year, real sales growth would have been ¥4.1 billion (+3%)
- Meanwhile, foreign exchange had little or no appreciable impact on profits
- The impact of foreign currency exchange on quarterly profit before tax was a -¥100 million; in real terms growth was ¥2.0 billion (+6%)

## Notes RE: Special Items

### Comprehensive Income Statement

(¥bn)	Q1 FY18	Q1 FY19	YoY
Income	139.9	142.4	+2.5
Expenses	104.7	105.4	+0.7
D&A	6.8	8.4	+1.5
Other Expenses	30.1	28.6	-1.5
Pretax Profit	35.2	37.0	+1.8

Due to applying a new lease accounting policy etc., D&A increased while other expenses decreased.

- The application of new lease accounting standards resulted in additional amounts of depreciation and other expenses
- Depreciation increased due to an increase in lease assets; however, other expenses (office and store rents, etc.) decreased
- While the impact was not significant, foreign exchange loss was ¥1.8 billion, ¥1.4 billion yen higher year on year

## Life Care Earnings

(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	91.3	93.8	+2.5	+3%
Pretax Profit	17.4	17.3	-0.1	-1%
cf.Operating Profit	17.8	18.2	+0.3	+2%
cf.OP Margin	19.5%	19.4%	-0.1pt	

\*External revenue

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- Life Care segment sales amounted to ¥93.8 billion, an increase of ¥2.5 billion year on year
- Segment profit (profit before tax) declined ¥0.1 billion, reaching ¥17.3 billion

## Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	Real YoY	Real YoY(%)
Revenue*	95.8	93.8	-2.0	+4.5	+5%
Pretax Profit	17.3	17.3	-0.0	-0.1	-1%
cf.Operating Profit	18.2	18.2	-0.0	+0.4	+2%

\*External revenue

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- Foreign currency translation had a -¥2.0 billion impact on Life Care segment results; real sales growth amounted to ¥4.5 billion
- Segment profit (profit before tax) was ¥100 million lower in real terms after excluding the impact of foreign currency translation

## IT Earnings

(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	46.6	46.0	-0.6	-1%
Pretax profit	19.0	20.5	+1.4	+8%
cf.Operating Profit	18.8	21.2	+2.4	+13%
cf.OP Margin	40.3%	46.0%	+5.7pt	

\*External revenue

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- Information Technology segment sales amounted to ¥46.0 billion, a decrease of ¥0.6 billion year on year
- Segment profit (profit before tax) rose ¥1.4 billion to ¥20.5 billion



## IT Earnings (CCB)

(¥bn)	Q1 FY18	Q1 FY19	FX Impact	Real YoY	Real YoY(%)
Revenue*	46.1	46.0	-0.2	-0.4	-1%
Pretax profit	20.6	20.5	-0.1	+1.5	+8%
cf.Operating Profit	21.2	21.2	-0.1	+2.4	+13%

\*External revenue

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- Foreign currency translation had a -¥200 million impact on IT segment results; real sales growth was -¥400 million
- Real segment profit (profit before tax) growth amounted to ¥1.5 billion after excluding the impact of foreign currency translation

## Earnings by Sub-Segment

<u>Healthcare Revenue</u>				
Eyeglass Lenses / Contact Lenses				
(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	69.6	70.4	+0.8	+1%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	71.9	70.4	+2.3	+3%

\*External revenue

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- Health care related products (eyeglass lenses, contact lenses) sales were ¥70.4 billion, up ¥0.8 billion (+1%) year on year
- Real sales growth amounted to ¥2.3 billion (+3%) after eliminating foreign currency impact

## Earnings by Sub-Segment

<u>Medical Revenue</u>				
Endoscopes / IOLs				
(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	21.7	23.3	+1.7	+8%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	23.9	23.3	+2.2	+10%

\*External revenue

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- Medical-related products (endoscopes, intraocular lenses, etc.) sales were ¥23.3 billion, a ¥1.7 billion (+8%) increase year on year
- Real growth excluding foreign currency translation impact was ¥2.2 billion (+10%)
- Intraocular lens performance rose significantly due to the impact of the acquisition closed in January; like-for-like revenues were up 5%
- Endoscopes rose 2%, showing a slowing of growth; however, in real terms, the growth rate was in the mid-single digits due the impact of orders received but awaiting shipment

## Earnings by Sub-Segment

Electronics Masks & Blanks / HDD Substrates				
(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	35.4	37.0	+1.6	+4%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	37.0	37.0	+1.6	+5%

\*External revenue

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- Electronics related products (glass substrates for semiconductors, LCD-related products, and hard disk drives) sales amounted to ¥37.0 billion up ¥1.6 billion (+4%) year on year
- Revenues amounted to 1.6 billion (+5%) in real terms after excluding the impact of foreign currency translation
- Sales of EUV blanks doubled
- HDD substrates were down 11% due to slow start of 3.5" products

## Earnings by Sub-Segment

### Imaging Camera Lenses, Etc.

(¥bn)	Q1 FY18	Q1 FY19	YoY	YoY(%)
Revenue*	11.1	9.0	-2.2	-20%

#### Constant Currency Basis

(¥bn)	Previous Rate	Current Rate	Real YoY	Real YoY(%)
Revenue*	9.1	9.0	-2.0	-18%

\*External revenue

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- Imaging related products sales amounted to ¥9.0 billion, down ¥2.2 billion (-20%) year on year
- These products were essentially unaffected by foreign currency translation
- Revenue was down 11% year on year on a like-for-like basis after excluding terminated businesses

## Balance Sheet

(¥bn)	Q4 FY18	Q1 FY19	QoQ
Non-current Assets	255.8	276.4	+20.6 <sup>1</sup>
Current Assets	508.1	486.8	-21.3
Capital	627.7	611.3	-16.4 <sup>2</sup>
Non-current Liabilities	24.4	33.4	+9.0
Current Liabilities	111.8	118.5	+6.7
Total	763.9	763.2	-0.7

<sup>1</sup> Property, plant and equipment increased ¥24.9 bn due to the application of a new lease accounting policy and new capacity investments.

<sup>2</sup> Treasury stock increased due to share buybacks (¥-18.6 bn).

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➤ Non-current assets on the balance sheet increased ¥20.6 billion. This result was mainly due to the adoption of new lease accounting and a ¥24.9 billion increase in property, plant and equipment due to new capital investments

➤ These increases resulted in a likewise increase in long-term and short-term debt

## Cash Flow

(¥bn)	Q1 FY18	Q1 FY19	YoY
Operating CF	25.8	35.4	+9.7
Investing CF	-32.2	-10.9	+21.3
Financing CF	-16.9	-37.7	-20.8
Cash & Cash Equivalents at the end of the term	226.2	273.8	+47.6

**1** Net cash used in investing activities decreased due to an investment in Toshiba Memory (¥27bn) in the year-ago quarter.

**2** Financing cash outlays increased due to share buybacks (¥19.1 bn)\*

\*Schedule to buyback a maximum of ¥60 bn by the end of October 2019.

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- Amounts were reallocated between operating and investing cash flows due to the impact of new lease accounting
- Financing cash flows outlays were ¥20.8 billion higher. This increase was mainly due to outlays of ¥19.1 billion for stock buybacks not conducted during the same period in the prior fiscal year.

## FY19 Q2 Forecast

(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue	142.0	143.2	+1.2	+1%
Pretax Profit	38.4	37.0	-1.5	-4%
Net Profit	31.2	29.9	-1.4	-4%

- ✓ We expect our Life Care Business sales to grow YoY, driven by M&A effects in IOL and sustained growth of contact lenses.
- ✓ We expect camera lenses etc. to decline, while EUV blanks to grow strongly. As a result, we expect our IT Business sales to remain the same level YoY.

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- We forecast revenue of ¥284.0 billion and pretax profit of 74.0 billion during the interim period
- Our assumptions for foreign exchange rates are ¥105 to the USD and ¥120 to the EUR



1. Financial Results

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

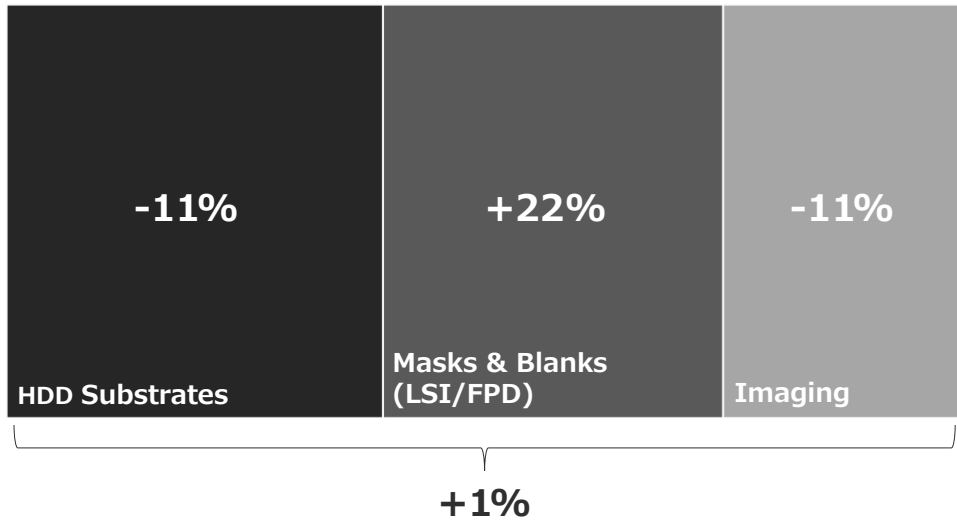
3. Life Care Business Overview

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## IT Snapshot

YoY Sales Growth (Like-for-Like)

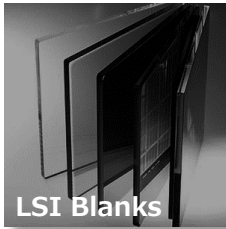


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- Our IT Business recorded revenue growth of 1% and profit growth of 13% when including the impact of foreign currency translation and discontinued products (lens unit)
- Profit ratio was 46%, up five points from the previous quarter
- HDD Substrates sales fell 11%, Masks & Blanks sales rose 23%, and Imaging sales fell 11%

## Overview by Product

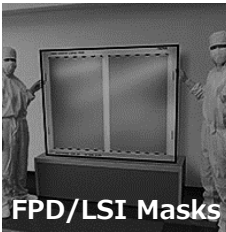


### This Quarter

Driven by 7nm tape-outs, DUV sales grew favorable. EUV sales doubled to account for 29% of total blanks revenues.

### Going Forward

We expect continued growth in EUV blanks, backed by incremental EUV scanner shipments and aggressive R&D.



### This Quarter

We saw strong sales of FPD Masks in the Chinese market. LSI Mask sales declined due to the contraction of the external mask shop market.

### Going Forward

Expand business in China as further growth of the market is expected.

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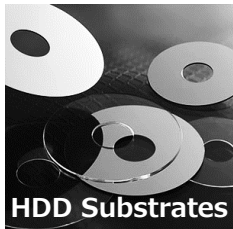
### [Blanks for Semiconductors]

- We recorded growth in essentially all categories. High-end products grew at 30%-plus compared to the prior quarter
- EUV product sales doubled, rising to account for 29% of blanks sales
- EUV scanner manufacturers sold seven units in the most-recent quarter, progressing in line with a plan for 30 units during the year; we expect demand to grow with shipments of exposure device
- Mass production has started for 7nm products for EUV; preparations are under way for development of 5nm and 3nm next-generation nodes
- Although the optical DUV end market was weak, the strong growth was due more to trends in tapeout numbers and designs than due to the number of end markets for blanks
- The most recent 7nm nodes achieved strong growth due to both applications for EUV development and demand for optical as backup
- In the future, it will be important to supply strong demand from semiconductor manufacturers in both quality and quantity

### [FPD/LSI Masks]

- Despite lower revenues in Japan, Taiwan, and Korea, revenues doubled in the Chinese market, resulting in 5% growth for FPD masks
- We intend to actively capture demand for masks used for high-definition OLED in the Chinese market

## Overview by Product

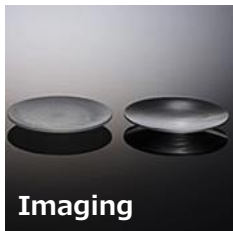


### This Quarter

Growth of 3.5" sales slowed due to stagnant data center demand and was insufficient to offset 2.5" decline. As a result, overall sales declined YoY.

### Going Forward

We expect 3.5" demand for data centers to gradually recover from Q2. We see signs of recovery.



### This Quarter

In addition to the continued decline of compact camera sales, interchangeable lens sales also declined due to weakness in the end market.

### Going Forward

Continue to develop new applications and channels.

### [Substrates for Hard Disk Drives]

- Until the prior quarter, 3.5" performance compensated for contraction in 2.5" performance to maintain level year-on-year results; however, the disparity in balance this quarter resulted in an 11% decrease
- The 20%+ contraction in 2.5" product was within the scope we projected; in contrast our 3.5" product did not grow as much as we projected
- 3.5" product recorded negative QoQ growth for the first time ever
- As game devices are beginning to move to SSD, 2.5" replacement will continue, experiencing expected declines on the order of 20%-plus in the future
- Data center investment has been weak, decreasing demand; more recently, however, we see a steady rise in orders and other signs of recovery
- However, more important that short-term data center trends is growth stemming from a transition to glass substrates by the remaining two HDD manufacturers
- Our growth scenario here has not changed, as these makers have plotted the use of glass substrates on the roadmap for 18TB-20TB products, beginning development activities

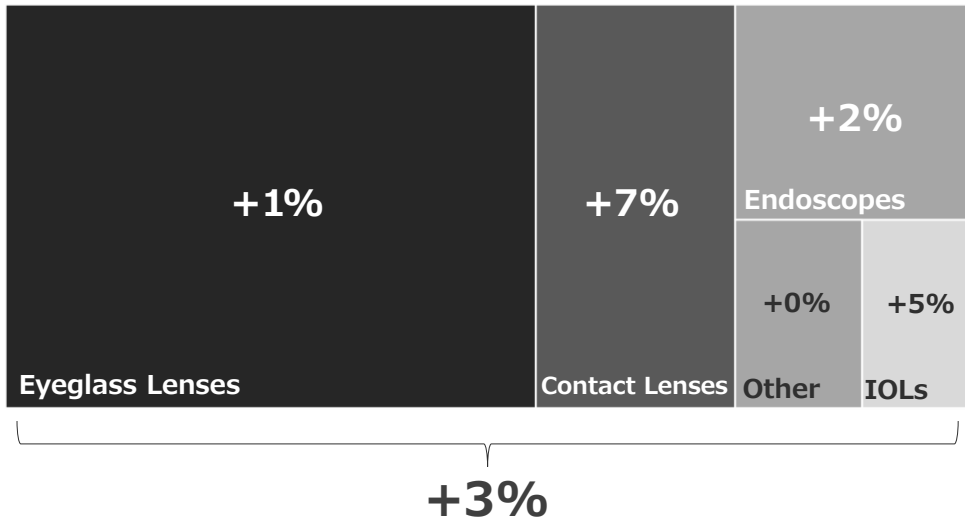
### [Imaging-Related Products]

- In addition to ongoing contraction in the point and shoot market, the market for interchangeable lenses has also declined
- In-vehicle cameras are the only applications experiencing growth
- We will continue to develop new categories, not relying on photography applications

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# Life Care Snapshot

YoY Sales Growth (Like-for-Like)

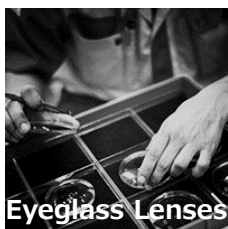


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➤ Sales of eyeglass lenses increased 1%, sales of contact lenses increased 7%, sales of endoscopes rose 2%, and sales of intraocular lenses rose 5%

## Overview by Product



### This Quarter

While we target to expand our sales to chain channels, capacity constraints remained to be an issue. As a result, sales growth was slow.

### Going Forward

Second factory in Vietnam to go online on November.  
Tackle mass merchants, mainly in North America.



### This Quarter

Sales grew by gaining new customers and unit price hikes. We acquired a retailer based in Chugoku/Kyusyu region. No. of stores at quarter-end: 315 (New 1/Closed 1/including M&A)

### Going Forward

Continue to target customer increases and unit price hikes.

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### [Eyeglass Lenses]

- As we look toward chain retail sales growth, capacity shortages have put the brakes on sales activities, limiting performance to minor growth
- We also incurred opportunity losses in Brazil due to operational issues
- Severe heat in Europe and a long rainy period in Japan have also impacted sales
- Although the situation is likely to remain the same in Q2, we plan to increase capacity beginning in the second half of the year, which should allow us to step on the accelerator for this business

### [Contact Lenses]

- We acquired a retailer with six stores in the Chugoku and Kyushu region of Japan
- Near-sightedness is on the rise among younger consumers owing in part to the impact of smartphones and other electronic devices. Further, more people in the senior consumer segment are using contact lenses. The combination of these and other factors is growing the market as a whole.
- We expect to be able to increase both unit prices and volume in the future

## Overview by Product



### This Quarter

We resumed selling in China as excess inventory at our Chinese distributor improved. Transitioned to growth.

### Going Forward

Target complete digestion of excess inventory in China. Promote integration of recently acquired companies.



### This Quarter

Sales grew nicely in Asia and Europe driven by new product launches. However, sales in the Americas declined due to delays of delivery date etc.

### Going Forward

Accelerate sales growth through launch of new products.

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### [Intraocular Lenses]

- While direct sales is growing, our sales agent channel is holding us back
- Excess inventory levels at our sales agent in China have been shrinking as part of a recovery; however, we still see the need for stronger sales agent management
- Sales efficiency cannot rise solely on the back of direct sales; strengthening sales agents and OEM channels is an ongoing issue
- We are continuing the post-merger integration process with Mid Labs/Fritz Ruck (acquired in January 2019), working toward sales synergies

### [Endoscopes]

- As we cannot ship to joint purchasing organizations in the Americas without an entire lineup of products ready, sales growth was only 2%, reflecting strong orders but a lack of ability to ship
- We will have new products ready in the second half of the year, leading us to expect developments in a positive direction



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5. Q&A

[Topics Identified During Three-Month Review]

- Mask blanks for semiconductors: Development has begun for 3nm optical (DUV) exposure devices
- FPD masks: Our presence in the Chinese OLED market has risen dramatically
- HDD substrates: Our customer struggled with 14TB devices; however, it appears they will launch a 16TB device ahead of their competitors
- Eyeglass lenses: We have heard reports that our competitor has acquired a leading chain in Europe. If the purchase goes through, we believe there is a chance that competition with other chain stores could have a net positive result for us.
- Intraocular lenses: Since our competition has improved their organization, we intend to redouble our efforts
- Other: We launched an ESG Committee
- General Summary: While growth rates slowed in Q1, we see no need for pessimism as we expect growth to recover going into the second half of the year

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## Q&A -1

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Q

[Mask Blanks for Semiconductor]

Can you provide an update on the latest news related to Korea, your competitive environment, etc.?

A

Blanks are exempt from the export procedural changes. We can also ship from our plant in Singapore. While certain customers may secure inventory in the early stages, it is important in this competitive environment to meet customer demand in terms of both volume and quality.

Q

[HDD Glass Substrates]

Chinese data centers are experiencing special demand. What is the impact on your business?

A

Since July, we have experienced a recovery in HDD substrate orders. However, as we are a component manufacturer rather than a finished goods maker, we are not sure whether demand from China has been a factor.

Investment in data centers in the Middle East, Africa, and India has become necessary, and this may be tied to increased demand in China.

## Q&A -2

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Q

[Life Care]

How do you assess profit ratio for Q1 by product? For which products will you be able to raise profitability in the future?

A

Our assumption is that Q1 is a weak quarter for Life Care. Endoscopes has struggled to see profit ratio growth due to the shift of shipment timing to the following quarter. In terms of foreign currency translation, even though endoscopes experienced the negative impact of a weak euro, the outcome was in line with our projections. Since we have increased production for highly profitable eyeglass lenses, we expect to see a contribution to profitability during the second half.

Q

[IT]

At the previous financial results briefing, you mentioned taking measures to prevent profitability declines stemming from increased depreciation occurring in the second half of this year and beyond. What has been your progress with these measures?

A

We expect to see an increase in sales of comparatively higher-profit products due to investment in production increases in the second half and later. Accordingly, we do not project any significant changes in profitability. At the same time, despite having products for which we forecast a contraction, much of the related depreciation has been completed, meaning lower sales will not have that much impact on profitability. We expect to maintain profit structure for the IT segment as a whole.

Q1 profit ratio (46%) for the IT segment included temporary factors leading to higher-than-normal results. We want to maintain a 40%-plus level in the future.

## Q&A -3

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Q

[Life Care]

Do you expect improvements to operational issues will lead to improved profitability?

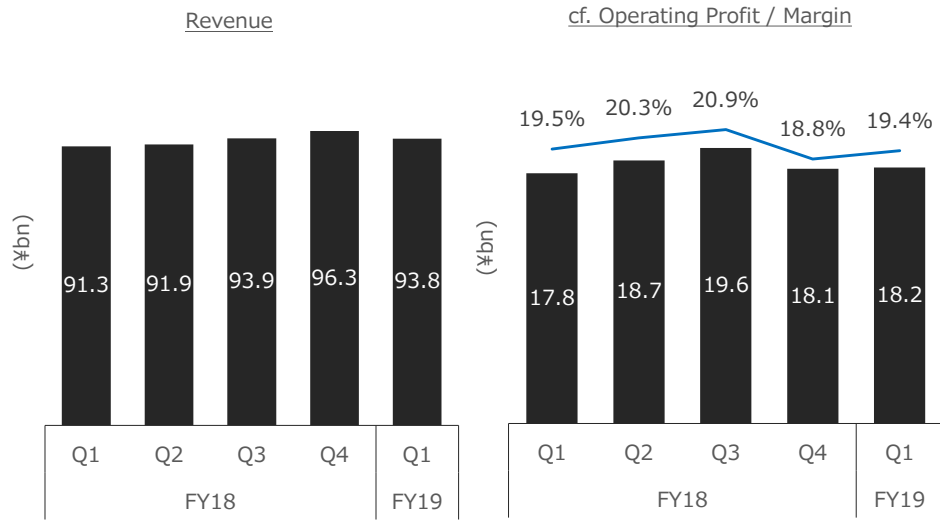
A

We are already taking measures to solve our operational issues.

We continue to make up-front investments as we are still in a phase of securing market share for our Life Care segment. We expect to see gradually improving profitability through the absorption of fixed costs in stemming from better business efficiencies.

# Appendix

# Life Care QoQ Earnings

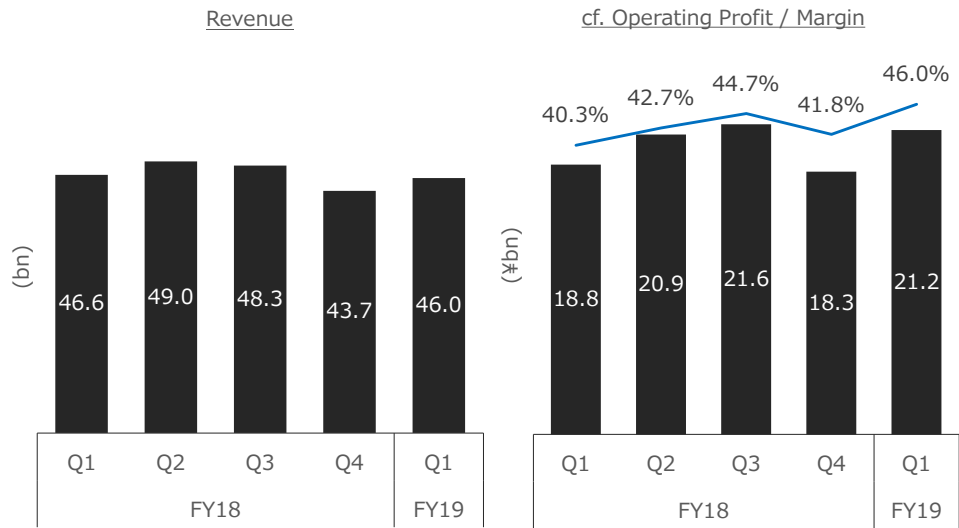


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# IT QoQ Earnings



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# Topics

## Launching ESG Committee

- ✓ Forming the very first ESG Committee for HOYA. Scheduled to start activities in August 2019.
- ✓ Tackle ESG issues and improve disclosure.

## MW10 authorized by Amakusa City as Japan's first welfare apparatus *daily living tool*.

- ✓ In spring 2018, we launched a scotopic vision eyeglass-type wearable device, HOYA MW10 HiKARI, which assists individuals who have difficulty seeing in dark places due to nyctalopia.
- ✓ In July 2019, the product was authorized by Amakusa City, Kumamoto Prefecture, as a *daily living tool*, a welfare apparatus eligible to receive subsidies. This will allow people to buy the product at Y39,500 (excluding tax), which is 10% of the suggested retail price Y395,000.
- ✓ HOYA aims to expand this to other local governments in Japan.



## Notes

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- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2020 is referred to as “FY19” 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>

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