

FY19Q2

Financial Results

October 29, 2019@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 FY18	Q2 FY19	YoY	YoY(%)
Revenue	142.0	154.1	+12.1	+9%
Pretax Profit	38.4	44.2	+5.8	+15%
Net Profit	31.2	35.0	+3.8	+12%
cf. Profit from ordinary operating activities*	38.2	45.2	+7.0	+18%

*Herein after "Operating Profit"

Record high sales and profits, despite the negative impact of foreign exchange.

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- Revenue amounted to ¥154.1 billion, up ¥12.1 billion (+9%) year on year
- Quarterly profit before tax was ¥44.2 billion, up ¥5.8 billion (+15%)
- Profit for the quarter amounted ¥35.0 billion, up ¥3.8 billion (+12%)

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	159.9	154.1	-5.7	+17.8	+13%
Pretax Profit	45.0	44.2	-0.8	+6.6	+17%
Net Profit	35.7	35.0	-0.7	+4.5	+14%

Average Rates	(A)Q2 FY18	(B)Q2 FY19	Variance
US\$	¥111.88	¥107.67	+3.8%
EURO	¥130.54	¥118.95	+8.9%
BAHT	¥3.40	¥3.51	-3.2%

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- A higher yen valuation impacted results for the quarter
- Assuming exchange rates level with the same period in the prior year, real sales growth would have been ¥17.8 billion (+13%)
- The impact of foreign currency exchange on quarterly profit before tax was -¥800 million; in real terms growth was ¥6.6 billion (+17%)

Notes RE: Special Items

Comprehensive Income Statement

(¥bn)	Q2 FY18	Q2 FY19	YoY	
Income	143.8	155.3	+11.5	
Expenses	105.4	111.1	+5.7	
	D&A	6.3	8.4	+2.1
Pretax Profit	38.4	44.2	+5.8	

Depreciation and amortization increased due to the adoption of a new lease accounting policy.

- For the most part, no special factors affected results for the period
- The Japanese consumption tax increase resulted in a temporary increase in sales, as we will address later

Life Care Earnings

(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	91.9	100.4	+8.5	+9%
Pretax Profit	17.0	20.6	+3.7	+22%
cf.Operating Profit	18.7	21.7	+3.0	+16%
cf.OP Margin	20.3%	21.6%	+1.3pt	

*External revenue

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- Life Care segment sales amounted to ¥100.4 billion, an increase of ¥8.5 billion year on year
- Segment profit (profit before tax) rose ¥3.7 billion, reaching ¥20.6 billion

Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	104.7	100.4	-4.3	+12.8	+14%
Pretax Profit	21.0	20.6	-0.3	+4.0	+24%
cf.Operating Profit	22.0	21.7	-0.3	+3.3	+18%

*External revenue

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- Foreign currency translation had a -¥4.3 billion impact on Life Care segment results; real sales growth amounted to ¥12.8 billion (+14%)
- Real segment profit (profit before tax) growth amounted to ¥4.0 billion after excluding the impact of foreign currency translation

IT Earnings

(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	49.0	52.4	+3.5	+7%
Pretax profit	21.7	24.3	+2.7	+12%
cf.Operating Profit	20.9	24.3	+3.3	+16%
cf.OP Margin	42.7%	46.2%	+3.5pt	

*External revenue

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- Information Technology segment sales for the quarter amounted to ¥52.4 billion, an increase of ¥3.5 billion year on year
- Segment profit (profit before tax) rose ¥2.7 billion to ¥24.3 billion

IT Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	53.8	52.4	-1.4	+4.8	+10%
Pretax profit	24.8	24.3	-0.5	+3.1	+14%
cf.Operating Profit	24.7	24.3	-0.5	+3.8	+18%

*External revenue

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- The impact of foreign currency translation on Information Technology segment sales was a -¥1.4 billion; in real terms growth was ¥4.8 billion
- Real segment profit (profit before tax) growth amounted to ¥3.1 billion after excluding the impact of foreign currency translation

Earnings by Sub-Segment

<u>Healthcare Revenue</u> Eyeglass Lenses / Contact Lenses				
(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	70.6	76.1	+5.4	+8%
Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	YoY	YoY(%)
Revenue*	79.1	76.1	+8.4	+12%

*External revenue

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- Health care related products (eyeglass lenses, contact lenses) sales were ¥76.1 billion, up ¥5.4 billion (+8%) year on year
- Real sales growth amounted to ¥8.4 billion (+12%) after eliminating foreign currency impact
- Eyeglass lens sales rose 4% after excluding the impact of foreign currency translation. Sales were strong in China and Europe. Demand in Japan was significant prior to the increase in consumption taxes
- Contact lens sales rose 30% due to higher-than-expected demand (prior to the increase in consumption taxes) in September. Eliminating this factor, sales rose about 8%. In essence, second-half sales occurred during the first half
- For reference, we have provided sales growth by region on P.10 of the supplementary materials of our quarterly financial statements. The impact of the Japanese consumption tax increase on our growth rate in Japan was 14% (2.6% in Q1), as shown

Earnings by Sub-Segment

<u>Medical Revenue</u>				
Endoscopes / IOLs				
(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	21.3	24.4	+3.1	+15%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	YoY	YoY(%)
Revenue*	25.6	24.4	+4.4	+21%

*External revenue

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- Medical-related products (endoscopes, intraocular lenses, etc.) sales were ¥24.4 billion, a ¥3.1 billion (+15%) increase year on year
- Real growth excluding foreign currency translation impact was ¥4.4 billion (+21%)
- Intraocular lens sales rose 17% like-for-like after eliminating the impact of business acquisitions; endoscope sales rose a strong 17%, mainly due to growth in Europe and Asia

Earnings by Sub-Segment

<u>Electronics</u>				
Masks & Blanks / HDD Substrates				
(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	38.1	43.0	+4.9	+13%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	YoY	YoY(%)
Revenue*	44.1	43.0	+6.0	+16%

*External revenue

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- Electronics related product (glass substrates for semiconductors, LCD-related products, and hard disk drives) sales amounted to ¥43.0 billion up ¥4.9 billion (+13%) year on year
- Revenues amounted to ¥6.0 billion (+16%) in real terms after excluding the impact of foreign currency translation
- Sales of EUV blanks continued to drive performance
- While sales of 2.5-inch products declined, demand for 3.5-inch products used in data centers rose, resulting in 9% growth of substrates for HDDs

Earnings by Sub-Segment

Imaging Optical Lenses, Etc.

(¥bn)	Q2 FY18	Q2 FY19	YoY	YoY(%)
Revenue*	10.9	9.4	-1.5	-14%

Constant Currency Basis				
(¥bn)	Previous Rate	Current Rate	YoY	YoY(%)
Revenue*	9.7	9.4	-1.2	-11%

*External revenue

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- Imaging related products sales amounted to ¥9.4 billion, down ¥1.5 billion (-14%) year on year
- Revenues amounted to ¥1.2 billion (-11%) in real terms after excluding the impact of foreign currency translation
- Revenue was down 5% year on year on a like-for-like basis after excluding terminated businesses
- While the camera market continued to decrease, the overall impact on performance was limited due to the comparative small percentage of sales represented by this business

Balance Sheet

(¥bn)	Q1 FY19	Q2 FY19	QoQ
Non-current Assets	276.4	279.8	+3.4
Current Assets	486.8	516.9	+30.1
Capital	611.3	637.0	+25.6
Non-current Liabilities	33.4	31.4	-2.0
Current Liabilities	118.5	128.4	+9.9
Total	763.2	796.8	+33.5

Cash and cash equivalents increased ¥24.6 bn resulting in increased current assets.

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- The Company's balance sheets did not show any major changes
- Cash rose ¥24.6 billion, resulting in a larger balance for current assets

Cash Flow

(¥bn)	Q2 FY18	Q2 FY19	YoY	
Operating CF	40.1	44.7	+4.6	
	D&A	6.3	8.4	+2.1
Investing CF	-19.6	-11.1	+8.5	
Financing CF	0.3	-7.5	-7.8	
	Payments for lease liabilities	-	-1.8	-1.8
Cash & Cash Equivalents at the end of the term	252.3	298.4	+46.1	

Due to applying a new lease accounting policy, D&A (Operating CF) increased while payments for lease liabilities (Financing CF) decreased; Net neutral.

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➤ Share buybacks were lower than projected, resulting in higher cash balances on our cash flows statement

Share Buyback

The HOYA board resolved to conduct an additional share buyback in consideration of the repurchase status of the first buyback (ending in October) and other factors such as net cash position.

Share Buyback #1

Maximum Amount: ¥60 bn
Period: May 8, 2019 to October 28, 2019
Actual Amount Repurchased: ¥24.1 bn (to be canceled)

Share Buyback #2

Maximum Amount: ¥50 bn
Period: October 30, 2019 to April 23, 2020

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- We repurchased ¥24.1 billion (3.09 million shares) in share buybacks in May of this year, compared to the upper limit of ¥60.0 billion established beforehand. We canceled all shares repurchased
- Purchases were conducted under a discretionary contract with a securities firm. Share prices rose higher than expected, which resulted in our purchases being limited to 40% of our upper limit
- As we announced in a press release today, our board of directors resolved to purchase up to ¥50 billion in share buybacks
- As with our prior share buyback, we will set a framework together with a securities firm. Accordingly, we will not purchase shares automatically without due consideration of share prices
- As long as we have an upper limit of purchasing price, the amount we can repurchase will depend on share price. We intend to establish conditions that would not end significantly lower than plan

1. Financial Results

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

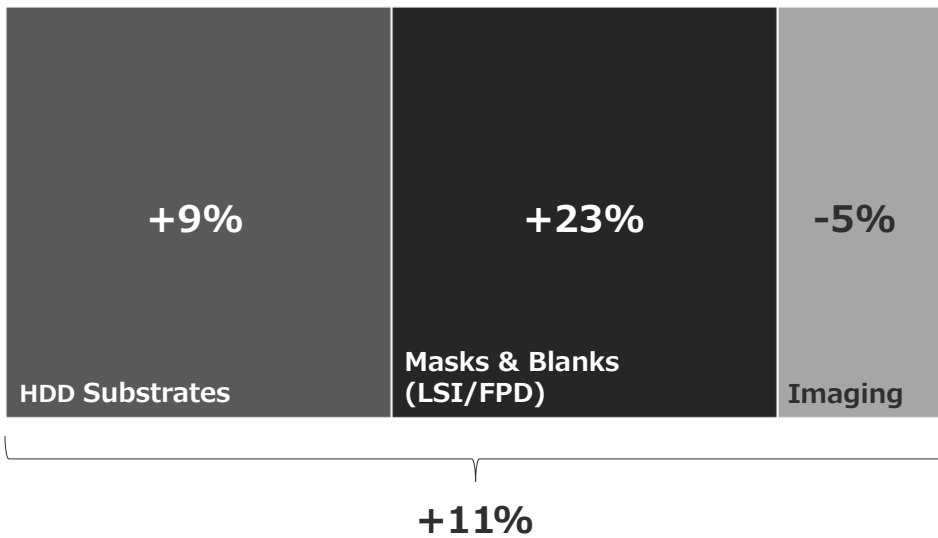
3. Life Care Business Overview

4. Summary

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IT Snapshot

YoY Sales Growth (Like-for-Like)

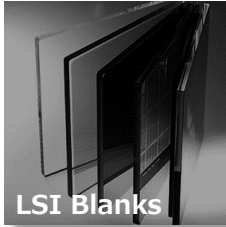


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- Our IT Business recorded revenue growth of 11% when including the impact of foreign currency translation and discontinued products (lens unit)
- Profit ratio was 46.2%, up 3.5 points from the previous quarter
- HDD Substrates sales were up 9%, Masks & Blanks sales rose 23%, and Imaging sales fell 5%

Overview by Product

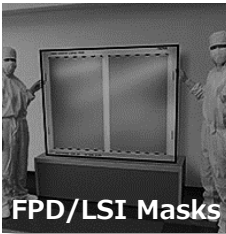


This Quarter

7nm DUV sales continued to be strong. EUV also maintained momentum, growing 90 plus percent YoY.

Going Forward

We expect continued growth in EUV blanks, backed by increased CAPEX at chip makers and scanner installations.



This Quarter

FPD Masks experienced growth through captured demand in the Chinese and Korean OLED market.

Going Forward

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

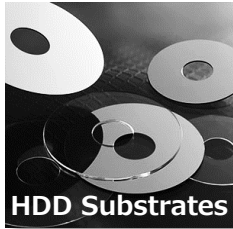
[Blanks for Semiconductors]

- Sales of high-end optical (DUV) rose 25% year on year; sales for EUV rose in excess of 90%
- The industry has a shared understanding that mass production for 7nm EUV has begun
- Plans call for between 25 and 30 exposure devices this year in relation to which we expect growth in EUV related sales
- In connection with stronger Japanese-Korean export controls, we saw a movement among Korean customers to build up inventories in July and August. In the future, we expect to see a trend in inventory drawdowns over the short term

[FPD/LSI Masks]

- While we saw negative growth in Japan and Taiwan, 80% growth in China resulted in growth of between 3% and 4%
- In China, we were successful in our concentrated sales activities for G6 and G8 OLED masks
- China represents more than 40% of sales. In the future as well, we hope to capture high-resolution OLED mask demand in this market

Overview by Product

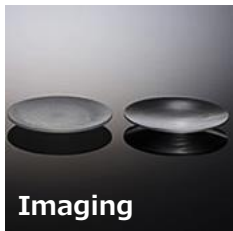


This Quarter

Overall sales swung to growth, driven by an upward trend in data center demand. 3.5" products now account for 37% of total sales.

Going Forward

Continue to grow 3.5" glass disc revenue by replacing existing drives in data centers.



This Quarter

Due to market contraction, our imaging-related sales continued to decline.

Going Forward

Continue to develop new applications and channels.

[Substrates for Hard Disk Drives]

- While, 2.5-inch sales have continued to decline, sales of 3.5-inch products for data centers have risen nearly 2-fold, driving 9% overall growth in line with our predicted scenario
- New game consoles will contain SSDs; accordingly, we expect to see ongoing decreases in excess of 20% for 2.5-inch products
- We have seen recent movement in data center investment. In addition, we expect to see stable growth in the market overall, as the scale is still small considering the size of the data center industry and the fact that growth will stem from replacements of existing aluminum substrates
- Further, our customers have introduced 16TB drives ahead of their competition (shipping to begin during the last half of this year), which could lead to market share growth for our company
- We have provided samples to the remaining two companies as well for consideration of glass substrates, and we are working together on joint development

[Imaging-Related Products]

- The decrease in sales of products for SLRs was larger than expected
- Performance in surveillance cameras and in-vehicle cameras compensated, limited the decrease to 5%
- The Company must develop new applications for products in this segment

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Life Care Snapshot

YoY Sales Growth (Like-for-Like)

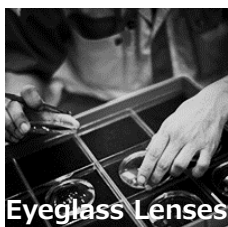


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➤ Sales of eyeglass lenses increased +4%, sales of contact lenses increased +30%, sales of endoscopes rose +17%, and sales of intraocular lenses rose +17%

Overview by Product



This Quarter

Global revenue grew, driven by performance in Europe and Asia.

Going Forward

Second factory in Vietnam to go online on November. Continue to develop new accounts.



This Quarter

Sales grew significantly, driven by last-minute demand ahead of Japan's consumption tax hike. No. of stores at quarter-end: 315 (including acquisitions)

Going Forward

Expecting a reactionary decline related to consumption tax increase in Japan. Accelerate new store roll-outs in H2.

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[Eyeglass Lenses]

- Performance was strong in Europe and Asia; however, internal factors in Brazil contributed to weak performance in the Americas
- Our competition has reached an agreement for the acquisition of a leading chain in Europe, which will have a negative impact on our supply to the chain in question. Over the next year or so, our growth rates may slow as we work to compensate for this negative impact through the development of new customers. However, we will aim for greater profitability through a change in customer mix

[Contact Lenses]

- Demand ahead of the consumption tax increase in Japan resulted in significant sales growth of 30%. This demand accounted for approximately ¥4.0 billion.
- In essence, this demand represented up-front sales, and we expect to see slower growth in sales during the second half
- On the other hand, we will continue to open new stores which should result in continued growth in real terms

Overview by Product



This Quarter

Achieved double-digit growth, mainly due to recovery in the Chinese market.

Going Forward

Working on synergy strategies on acquired companies. We will launch new products going forward.



This Quarter

Operations in Europe (where we have significant exposure) and Asia drove overall sales. New product launches were the key drivers.

Going Forward

Launch new products going forward.

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[Intraocular Lenses]

- We saw double-digit growth in sales as excess inventories were drawn down among our Chinese dealers
- Sales growth was in the double digits in both Japan and Europe
- Our two major competitors have solidified their organizations, ready for serious engagement with medical products. Accordingly, we expect the competitive environment to become more intense

[Endoscopes]

- Sales in Russia were strong, albeit due to temporary factors. We have seen a trend of large purchases in Russia every few years
- Performance was strong in Korea and China, as well

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5. Q&A

[Topics Identified During Three-Month Review]

➤Blanks for Semiconductors:

Sales rose as the number of critical layers for optical related to 7nm cutting-edge products grew at a greater rate than expected . Our analysis in connection with our competition has shown that we have captured a high share for end nodes and that performance has grown due to an increase in the number of layers. We expect this situation in cutting-edge optical to continue for some time

➤HDD Substrates:

Sales of 2.5-inch products were lower than expected due to factors including the impact of game consoles

➤Summary:

Inventory buildup among Korean customers due to concerns of stronger export controls, demand ahead of the Japanese consumption tax increase, and strong performance in Russia for endoscopes represented temporary positive factors in our performance for the quarter Note that we do not expect Q3 to continue the same momentum we saw in Q2. This is not to say that we expect to see the bottom dropping out of performance

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Q&A -1

Q

[HDD Glass Substrates]

There seems to have been special demand for HDD in China. What has been the impact on HOYA?

A

Our company has not seen any impact. On a different note, we have seen an increase in sales composition for 3.5-inch products to major cloud vendors, who are the end customer for these products. Due to the nature of this business, higher rates of inventory with respect to 3.5-inch products in comparison to 2.5-inch products must be carried compared to actual demand for our company and for HDD manufacturers. In particular, HDD manufacturers tend to build up inventory temporarily leading up to new product launches. Looking over a short period, this may appear to be special demand.

Further, the approach to investment among major cloud vendors varies company to company. Accordingly, we must look at each company individually.

Q

[Mask Blanks for Semiconductor]

What are your future expectations for EUV blank unit prices?

A

We hope to produce an even higher-quality product with less defects, raising our prices by improving specifications on our own. We also believe that we are creating a development environment for next-generation specs ahead of our competition.

Q&A -2

Q

[Mask Blanks for Semiconductor]

Although demand is strong, will your increase in production capacity happen quickly enough in response? Also, what will the impact of production capacity investments be on profits?

A

We are currently building a new line for EUV products at our Singapore plant. We intend to put the line into production as scheduled in Q1, fiscal 2020. We expect capacity to double what we currently have.

Although profit ratios will decline due to higher depreciation and amortization, we hope to keep profits above prior year in the first year after launch.

Q

[HDD Glass Substrates]

Have you made changes plans for response to 3.5-inch demand?

A

Of our two plants in Vietnam, one has nearly completed the conversion to 3.5-inch products. We will continue to transition from 2.5-inch to 3.5-inch. Progress toward the launch of our new plant in Laos is going according to plan (see the last page of this presentation), allowing us to begin production in Q1 of fiscal 2020. If we develop more new customers, we may have to build more new plants.

Further, 3.5-inch products require twice the space of 2.5-inch products.

Accordingly, we must increase capacity in response to this lower throughput.

Prices for 3.5-inch products are not twice that of 2.5-inch products. Therefore, we want to increase profitability through improved productivity.

Q&A -3

Q

Eyeglass Lenses

How will the new plant in Vietnam impact your capacity? How do you expect to sell the extra production?

A

Construction is on schedule. The eyeglass lens market consists of custom-made and ready-made products. Our new plant in Vietnam will produce the latter, supplying product to emerging economies. In this way, we intend to gain a foothold in growth markets. The unit cost for ready-made products is comparatively cheap, so the short-term impact on earnings will likely be small.

Q

Glass Substrates for Hard Disk Drives

Have you entered negotiations with new customers regarding 3.5-inch products?

A

We believe that glass substrates must be used for 10-layer (20TB) and later HDDs. We have provided samples to HDD manufacturers, and we are engaged in joint development activities.

Q

[Endoscopes]

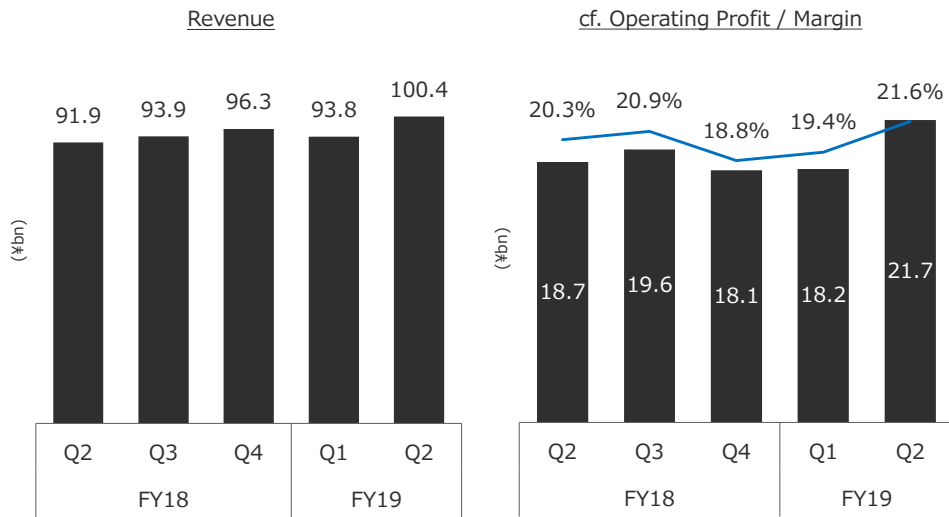
Schedule for new product launches and future outlook for growth

A

In Europe, we began selling new products in Q2. We expected to obtain certification in the U.S. in the second half of the year to accelerate growth, but we have not obtained certification as of this time. As a result, growth in western Europe has been our growth driver and we still expect to see continued strong overall growth.

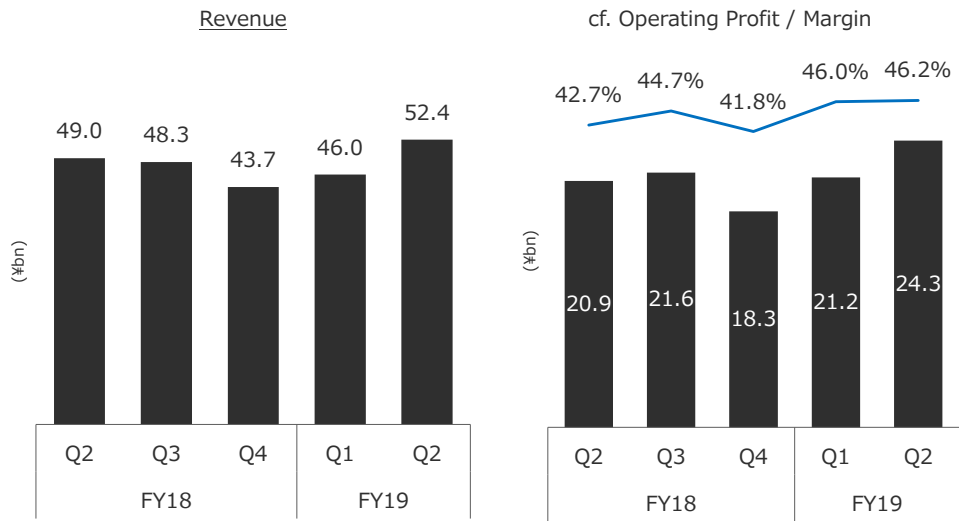
Appendix

Life Care QoQ Earnings



*External revenue

IT QoQ Earnings



*External revenue

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Topics

[HDD Substrates] Update on the Laos Factory Construction

We expect data center HDD demand to increase, and we are presently constructing a new factory in Laos. This will be our first facility in Laos. Progress is in line with schedule and we expect the factory to go online in April 2020.



[Contact Lenses] Recycle Activity of Empty Cases

Every manufacturer produces disposal contact lenses made of recyclable polypropylene. Our contact lens operation (Eyecity) began collecting empty cases in 2010. Today, we collaborate with various companies and schools, having collected a total of 3.3 million tons and contributed 9.1 million tons in CO2 reduction. We have donated all sales (¥7.9 million) from recycled products to the Japan Eye Bank Association.

In October, we will expand the scope of this activity, working with Higashiyamato City (Tokyo) to collect empty cases from junior high schools and city hall.
(photo; signing ceremony with Higashiyamato City)



Notes

- ✓ 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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