HOYA CORPORATION

Q3 Financial Results Briefing for the Fiscal Year Ending March 2021

January 28, 2021

Event Summary

[Company Name]	HOYA CORPORATION	
[Company ID]	7741-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2021	
[Fiscal Period]	FY2020 Q3	
[Date]	January 28, 2021	
[Number of Pages]	29	
[Time]	15:00 – 16:00 (Total: 60 minutes, Presentation: 46 minutes, Q&A: 14 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]	300	
[Number of Speakers]	3	
	Hiroshi Suzuki	Representative Executive Officer, President & CEO
	Ryo Hirooka	Representative Executive Officer & CFO
	Eiichiro Ikeda	Executive Officer & CTO
[Analyst Names]*	Masahiro Shibano	Citigroup Global Markets Japan Inc.
	Ryosuke Katsura	SMBC Nikko Securities Inc.
	Richard Kaye	Comgest Asset Management Japan Ltd.

Presentation

Moderator: The Company’s speakers today include CEO Hiroshi Suzuki, CFO Ryo Hirooka, and CTO Eiichiro Ikeda.

Today’s agenda is as follows. First, Hirooka will present the third-quarter financial results. Then, Ikeda will give an overview of the IT Business. Finally, Suzuki will give an overview of the Life Care Business and an overall summary. The remaining time will be spent on Q&A, and we plan to end the meeting at 4:00 PM.

For those of you who are joining on your PC today, please see the materials that are shared on the screen.

CFO Hirooka will now give a presentation.

Financial Overview

(¥bn)	Q3 FY19	Q3 FY20	YoY	YoY(%)
Revenue	146.5	146.9	+0.4	+0%
Pretax Profit	38.3	45.8	+7.5	+20%
Net Profit	29.7	36.9	+7.3	+25%
cf. Profit from ordinary operating activities*	38.3	46.1	+7.9	+21%

Recovery trend from COVID-19 continued, with double-digit profit growth and record profits.

 3

Hirooka: This is Hirooka, CFO. Thanks.

I will explain the results for this three-month period.

For the overall results, revenue was JPY146.9 billion, up JPY0.4 billion YoY. Pretax profit was JPY45.8 billion, up JPY7.5 billion, or 20%, YoY. Net profit was JPY36.9 billion, up JPY7.3 billion, or 25%, YoY.

The overall result was that revenue was flat, returning to the pre-COVID-19 level, while profits increased.

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	149.4	146.9	-2.5	+2.9	+2%
Pretax Profit	46.8	45.8	-1.0	+8.5	+22%
Net Profit	37.9	36.9	-1.0	+8.2	+28%

Average Rates	(A)Q3 FY19	(B)Q3 FY20	Variance
US$	¥109.33	¥104.00	+4.9%
EURO	¥121.53	¥124.49	-2.4%
BAHT	¥3.62	¥3.41	+5.7%

Next, here is the forex impact.

The impact from forex translation was negative JPY2.5 billion on revenue. Earlier, I mentioned that revenue was up JPY0.4 billion. On an actual basis, if forex were the same as last year, then revenue would be up JPY2.9 billion with an actual growth rate of 2%.

The impact was negative JPY1 billion for pretax profit and net profit, respectively. If JPY1 billion were added back to the figures explained earlier, then on an actual basis, pretax profit would be up JPY8.5 billion and net profit would be up JPY8.2 billion.

As you can see in the key currency table, the JPY appreciated against the USD and THB, while it depreciated against the EUR. Naturally, the JPY depreciating against the EUR would be positive for the Company, but this positive is more than offset by the JPY appreciating against the USD and THB in terms of profits.

Notes RE: Special Items

Comprehensive Income Statement

(¥bn)	Q3 FY19	Q3 FY20	YoY
Income	148.2	149.7	+1.6
Other Income	0.7	2.5	+1.7 ①
Expenses	109.8	103.9	-5.9
FX loss	0.1	1.4	+1.2 ②
Pretax Profit	38.3	45.8	+7.5

1. Other income increased due to sale of trademark rights.
2. Foreign exchange losses which were almost non-existent in the year-ago-quarter, resulted in losses of 1.4 billion yen this quarter.

Next, here are the special items.

There are two major items. One of them is other income of JPY2.5 billion, up JPY1.7 billion from last year. This is related to a business transfer from many years ago. The transfer had been shelved for a long time, but we reached an agreement this time, so this was booked as a special income.

The other items are a forex loss of JPY1.4 billion, up JPY1.2 billion from last year, indicating that there was more forex loss this year.

As for pretax profit, or the profit from normal business activities, please refer to the adjustments indicated on the bridge chart included in the supplementary materials for financial statements.

Life Care Earnings

(¥bn)	Q3 FY19	Q3 FY20	YoY	YoY(%)
Revenue*	92.5	94.5	+2.0	+2%
Pretax Profit	15.3	20.7	+5.4	+35%
cf.Operating Profit	15.7	21.7	+6.1	+39%
cf.OP Margin	16.9%	23.0%	+6.1pt	

*External revenue

Next, here are the results for the Life Care Business.

Revenue was JPY94.5 billion, up JPY2 billion, or 2%, YoY. Pretax profit was JPY20.7 billion, up JPY5.4 billion, or 35%, YoY. Therefore, revenue has moved in a positive direction, albeit modestly, and profit exceeded the last-year level substantially.

Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	95.7	94.5	-1.3	+3.3	+4%
Pretax Profit	21.3	20.7	-0.5	+6.0	+39%
cf.Operating Profit	22.3	21.7	-0.5	+6.6	+42%

*External revenue

7

Next, here are the results, including the forex impact.

As earlier, there was a slightly negative forex impact on revenue and pretax profit. If the forex impact were neutralized, then on an actual basis, revenue would be up 4% and pretax profit would be up 39%.

I will give an explanation of each business in more detail by product. Revenue was roughly flat, and profit increased substantially. There are two major factors, one of which is apparent in the quarterly performance in FY2019 where the profit margin in Life Care was sluggish in Q3.

I'm talking about last year. This was right before the time we launched the Vietnam eyeglass lens factory that had incurred us consolidation costs in various places. Also, the consumption tax hike happened in Q2 of that year, causing rush demand ahead of the hike and a sharp increase in eye care revenue in Q2, which then pulled back in Q3. This also caused the profit margin to fall. These two major factors were the reasons behind the very low profit margin in Q3 2019.

Hence, profit increased substantially compared to this depressed year-earlier profit. That is the first point. The other point is that the profit margin level is unchanged from Q2. However, during the Q2 results announcement, when I believe this topic was discussed, we mentioned that we had pressed on the brakes in the first half due to COVID-19, but we must press on the gas again.

Although we increased our activities, the reality of our business in Q3 is that each business was conducting activities cautiously, especially in Life Care, partly due to the second and third waves of COVID-19.

In that respect, the costs have not fully returned to the normal level yet. Due to those two major factors, we have made more profit than sales.

IT Earnings

(¥bn)	Q3 FY19	Q3 FY20	YoY	YoY(%)
Revenue*	52.7	51.1	-1.6	-3%
Pretax profit	23.5	23.9	+0.4	+2%
cf.Operating Profit	23.6	25.1	+1.5	+6%
cf.OP Margin	44.9%	49.2%	+4.3pt	

*External revenue

Next, here are the results for the IT Business.

Revenue was JPY51.1 billion, down JPY1.6 billion, or 3%, YoY. Pretax profit was JPY23.9 billion, up JPY0.4 billion, or 2%, YoY. Profit increased, albeit modestly.

IT Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	52.3	51.1	-1.2	-0.4	-1%
Pretax profit	24.4	23.9	-0.5	+0.9	+4%
cf.Operating Profit	25.7	25.1	-0.5	+2.0	+9%

*External revenue

Here is the forex impact.

The impact has especially been substantial in terms of HDD. Revenue is denominated in dollars, so it had a significant negative impact. Excluding the forex impact, on an actual basis, revenue was down JPY0.4 billion, or 1%, indicating it was roughly flat. Profit on an actual basis was up JPY0.9 billion.

Earnings by Sub-Segment

(¥bn)	Q3 FY19	Q3 FY20	YoY	YoY(%)
Health Care (Eyeglasses/ Contact Lenses)	66.8	69.1	+2.3 (+3.5)	+3% (+5%)
Medical (IOLs/Endoscopes/ Artificial Bone)	25.7	25.4	-0.3 (-0.2)	-1% (-1%)
Electronics (LSI & FPD/ HDD Substrates)	43.9	43.1	-0.8 (+0.4)	-2% (+1%)
Imaging	8.8	7.9	-0.8 (-0.8)	-10% (-9%)

*Inside the parentheses are growth rates on a constant currency basis

Next, here are the results by product.

First, health care includes eyeglasses and contact lenses. Revenue was JPY69.1 billion, up JPY2.3 billion, or 3%, YoY. The figures inside the parentheses represent the underlying results, excluding the forex impact. On an actual basis, revenue was up JPY3.5 billion or 5%.

First, in terms of eyeglasses, revenue was up 3% YoY, indicating that it has firmly returned to the year-earlier level. Even by region, revenue has exceeded the year-earlier level, albeit slightly, in Asia, Europe, and the US.

Due to the impact of COVID-19, there are fluctuations depending on the country. There are sharp fluctuations depending even on the week. But, basically, revenue is firm and rising.

The only—well, not the only—but a major factor has been the slightly sluggish recovery in Japan, given that the Japanese consumers are not visiting eyeglass shops as much as before.

As for contact lenses, revenue was up 12% from last year. Of course, if you only look at the numbers, revenue has grown by the double digits. However, as I explained earlier, this was because revenue was the most affected in Q3 last year because of the pullback following the rush demand ahead of the consumption tax hike. Revenue increased 12% from that depressed level last year.

The trend in the overall market is the same as Q2, whereby there are most people working from home and less people going out. As a result, the consumption volume of contact lenses as a whole hasn't fully recovered to past levels, and this trend has continued in Q3.

Next are the medical products, including IOLs, endoscopes, and artificial bone. Revenue was JPY25.4 billion, down JPY0.3 billion or 1% YoY. The figures inside the parentheses represent the results excluding forex impact.

Revenue was down slightly by JPY0.2 billion, but the level is roughly unchanged in terms of the percentage change.

The content is different for each product. First, we are struggling a little in terms of endoscopes. Revenue was down 9% from last year. One of the reasons for this was the sharp growth in Europe last year, and we had already anticipated that the growth would not be on par with that level this year.

Last year, there was a significant, one-time revenue that was recorded in a certain country. This was already factored into our calculations. In addition, hospitals are not making aggressive investments because of COVID-19. This trend has continued from Q2. Overall revenue is slightly sluggish for endoscopes.

On the other hand, as for the other medical products, revenue was up 6% from last year for IOLs. Although this also varies by country, revenue growth has been steady in China. In Europe, revenue has recovered to a level exceeding last year despite the COVID-19 pandemic.

Next, our electronics products include semiconductor-related blanks, large panels, and HDD substrates.

Revenue was JPY43.1 billion, down JPY0.8 billion, or 2%, YoY. Excluding forex impact, revenue was up slightly by JPY0.4 billion.

Revenue growth continues to be steady for semiconductor-related products and blanks, as was the case in Q1 and Q2. EUVs have also performed robustly, with a growth rate of around 50% YoY. They are continuing to drive overall revenue and profit.

As for large panels or FPDs, revenue declined slightly due to the contraction of the market. I believe this will be explained again later, but there is a shortage of panel supply, causing prices to rise. Panel manufacturers are shifting to mass production and are not very focused on development activities. This has been a negative factor for our business.

Next are the HDD substrates. On an actual basis, revenue declined 9% YoY. Revenue declined for 2.5-inch substrates and increased for 3.5-inch substrates. As for the 2.5-inch substrates, like I already mentioned during the Q2 briefing, they are subject to considerable seasonality. In Q3 last year, there was still some game-related demand, but the drop in that demand was larger than the increase in other demand.

We had already anticipated this. On the other hand, revenue for 3.5-inch substrates has increased. Overall, in this quarter, the increase in 3.5-inch substrates could not offset the decrease in 2.5-inch substrates.

Finally, imaging revenue was JPY7.9 billion, down JPY0.8 billion, or 10%, YoY. The trend has not changed much here. The market itself is continuing to shrink due to the dwindling demand for cameras. Revenue has fallen below JPY8 billion, so the impact on the overall results is small.

I have already stated in the past, but our focus is on how much we can slim down this business, given that the market itself is shrinking. We have taken measures to this effect during the current fiscal year. In Q3, the profit margin in the imaging business division improved from last year.

Balance Sheet

(¥bn)	Q2 FY20	Q3 FY20	QoQ
Non-current Assets	285.4	287.3	+2.0
Current Assets	540.5	526.2	-14.4 1
Capital	663.6	651.6	-12.0 2
Non-current Liabilities	46.3	45.4	-0.8
Current Liabilities	116.1	116.5	+0.4
Total Assets	825.9	813.5	-12.4

1 Cash decreased by 19.4 billion yen due to share buyback.

2 Treasury stock increased by 31.3 billion yen due to share buybacks (*recorded as a negative figure)

Next is the balance sheet.

There haven’t been any noticeable changes. The only major change is that we repurchased our shares this time, which is reflected in the decrease in cash and deposits.

Cash Flow

(¥bn)	Q3 FY19	Q3 FY20	YoY
Operating CF	40.1	40.2	+0.1
Investing CF	-11.7	-6.8	+4.9
Financing CF	-27.9	-50.5	-22.6 (1)
Cash & Cash Equivalents at the end of the term	304.4	318.1	+13.7

1 Cash used in financing activities increased due to an increase in the amount of share buybacks from the previous fiscal year.

Next is cash flow.

This is the same as what I explained in the balance sheet. Net cash used from financing activities was JPY50.5 billion, reflecting the interim dividends paid and share repurchases. These are the reasons for the significant cash outflows from financing activities.

Share Buyback

The share buyback that started in late October last year has been completed, repurchasing the full budget. As the outlook for the future is improving and there are no plans for large-scale M&A in the immediate future, the company resolved to conduct a second round of share buybacks.

No.1
Period : 2020/10/28～2021/01/20
Number of shares repurchased: 3mn(0.82% of outstanding shares)

➡Digested 100% of budget. To be cancelled.

No.2
Period : 2021/01/29～2021/04/20
Maximum number of shares to be repurchased: 3.3mn(0.89% of outstanding shares)
Maximum amount: 40 bn yen

➡To be cancelled after repurchasement.

New

Next, in terms of the progress in share repurchases, we have issued two press releases today. We have fully executed the share repurchases announced during the last briefing of up to JPY40 billion in shares. At today's board of directors meeting, we have decided to cancel all 3,047,900 repurchased shares amounting to JPY40 billion.

At the same time, during the board of directors meeting, we decided to conduct a new round of share repurchases up to JPY40 billion. As described here, we have no plans to execute any large M&A over the next few months, so we would like to return some of the profits to shareholders. As was the case last time, the second round of repurchases will also be up to JPY40 billion in shares.

Q4 & Full Year Guidance

- ✓ In Q4, the Life Care business is expected to perform steadily compared to the previous Q4, when the impact of COVID-19 had already started to appear and the consumption tax hike (in Japan) was still affecting demand.
- ✓ IT business is expected to be driven by HDD substrates, which will enter the data center investment cycle in Q4, and semiconductor blanks, which continue to perform well.

FY20 Q4

(¥bn)	Q4 FY19	Q4 FY20	YoY	YoY(%)
Sales	135.1	144.5	+9.4	+7%
Pretax Profit	27.7	38.1	+10.4	+38%
Net Profit	19.7	30.1	+10.4	+53%

FY20 Full Year

(¥bn)	FY19	FY20	YoY	YoY(%)
Sales	576.5	541.0	-35.5	-6%
Pretax Profit	147.3	156.0	+8.7	+6%
Net Profit	114.6	124.5	+9.9	+9%

14

Finally, here is our guidance.

For the full year, we forecast revenue of JPY541 billion, pretax profit of JPY156 billion, and net profit of JPY124.5 billion.

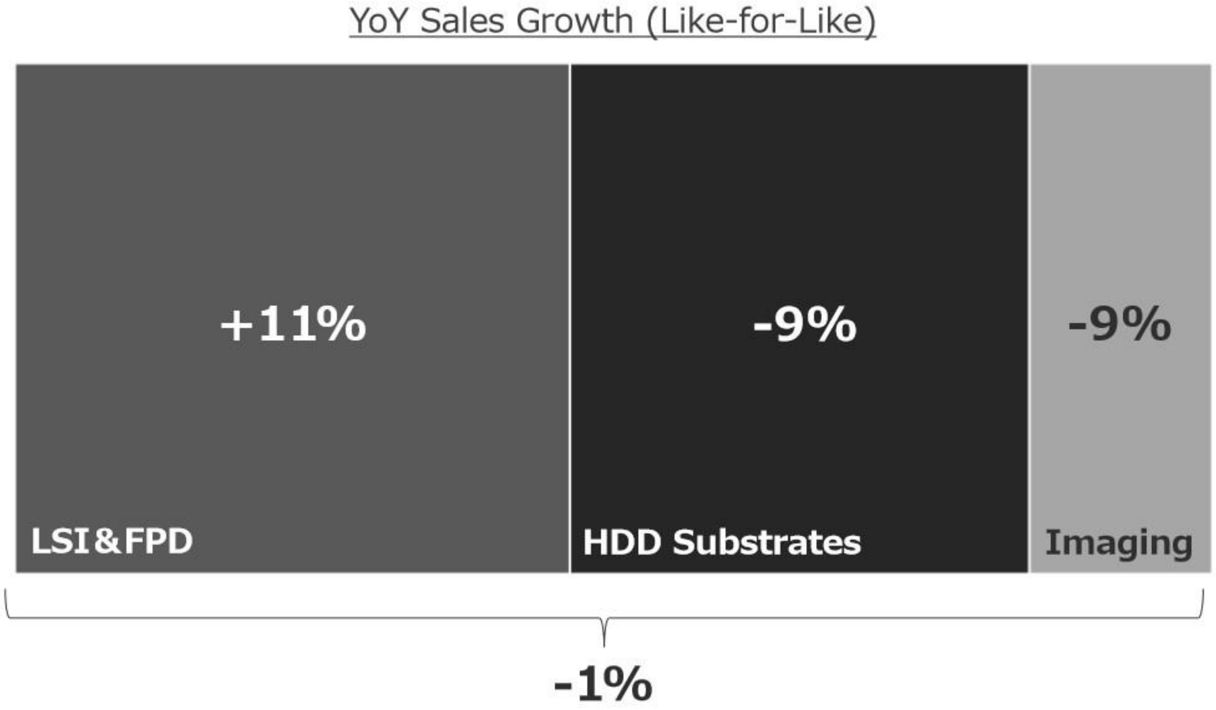
To give a brief explanation, the most important point is that we anticipate a lower profit level in Q4 than in Q3. There are two major factors for this. The first one is seasonality. This is particularly true of the IT Business. I think you can see this if you look at past results trends. Due to factors such as the fewer number of operating days at factories during Q4, there is a regular tendency for the IT profit margin to fall. So, the first point is that our forecast reflects this seasonality.

The second point is what I explained in the overview of the Life Care Business. Like I said, the costs had not fully returned during Q3, and that was one of the factors that pushed up profit. But, we think that it is important for costs to be normalized so that we can drive revenue growth in Q4 and the next year onwards. Therefore, we factor in this return in costs for Q4.

This concludes my explanation.

Moderator: Next, CTO Ikeda will give an overview of the IT Business.

IT Snapshot



Ikeda: This is Ikeda. Thanks.

I would like to talk about the IT Segment.

As already stated, the IT Segment posted revenue of JPY51.1 billion. As shown on this slide, when excluding forex impact, revenue was down 1%, or roughly flat, YoY.

Also, profit from normal operating activities came to JPY25.1 billion. Excluding forex impact, it was up 9% YoY. Thus, in Q3, revenue was roughly flat, but profit increased.

Looking at each product, as shown on this slide, revenue increased by 11% for LSI and FPD, decreased by 9% for HDD, and declined by 9% for imaging.

Overview by Product

Continuing from the previous quarter, sales of EUV blanks grew by around 50% YoY. Sales of optical products (DUV) also showed solid growth. The business environment remains favorable, with customers increasing their EUV-related investments.

Demand for TV panels remained high due to nest-dweller demand, and R&D demand, which is important to the Company, decreased due to panel manufacturers' focus on mass production. Given the relatively strong demand for high-end smartphones, we will continue to focus on high-function masks.

I will give an overview by product.

First, continuing from the previous quarter, revenue from EUV blanks increased by around 50% YoY, showing steady growth.

In terms of non-EUV optical (DUV), revenue also increased by the mid-single digit YoY. In this quarter, revenue increases from the same period last year in all categories.

The business environment remains favorable, with customers increasing their EUV-related investments. To give you a few concrete examples, an EUV scanner manufacturer made an announcement the other day that the number of scanner shipments came to 31 units, versus 35 units planned, in 2020. Although the number was lower than planned, it grew steadily from around 25 units in 2019.

As for the FY2021 plan onwards, it said until a few years ago that the target is 45 or 50 units. This time, the Company lowered that outlook to 40 units. But, as I already stated, it was 31 units in 2020, and it is 40 units in 2021, so the growth trend is unchanged. We expect the number of EUV scanners in operation in the field to increase. We anticipate an increase in demand for EUV blanks under this environment.

From a different perspective, another announcement that was made recently by our main customer, TSMC, was that the sales composition ratio of 7 nanometers was 29% while 5 nanometers was 20%. This means that, below 7 nanometers adopting EUV represented roughly half.

TSMC also announced its capital investment plans for next year. In FY2020, it invested USD17 billion. In FY2021, it plans to invest a record USD25 billion to USD28 billion, indicating a substantial increase in investments. Out of these investments, roughly 80% has been earmarked for the 3-nanometer, 5-nanometer, and 7-nanometer processes. We believe that these factors will provide a strong tailwind to EUV blanks demand for some time. In line with this increased demand, we plan to boost our production capacity.

Next, with regard to large masks or FPD masks, revenue declined YoY. As for the business environment, shipments were robust for TVs and PCs due to at-home demand stemming from COVID-19. Demand for PC monitor applications is rising. Due to this, panel prices have increased, and panel manufacturers have shifted focus from development to mass production. As a result, their development activities have been scaled back and demand for masks, which are used in development, has declined. In this quarter, we saw the impact of this decline in the overall demand for masks.

On the other hand, mask demand is robust for OLED applications led by Korean customers. We plan to continue to focus on high-functionality, high value-added masks centered on OLED applications.

Overview by Product

Sales of 2.5" declined due to continued replacement by SSDs. 3.5" growth slowed due to the timing of cyclical demand in data centers, and was unable to make up for the decline in 2.5". Data center demand is expected to increase again in Q4.

Demand is gradually recovering and the decline rate has been improving. However, we believe that it will be difficult for the market for digital camera applications to recover significantly in the future, and we will continue to develop new applications and promote structural reform.

Next, here is an overview of HDD glass substrates. Overall HDD revenue has decreased by 9%. The decline includes a sharp slump of nearly minus 30% YoY for 2.5-inch substrates.

The factor behind this is the overall market contraction for 2.5-inch substrates caused by the replacement of HDD with SSD. HDD substrates used to be used mainly for game consoles. But that game console usage has switched completely to SSDs. In the past, Q2 and Q3 were quarters where we saw strong demand for use in game consoles. Thus, when comparing results with last year, we saw a substantial impact in these two quarters.

This decline attributable to game consoles will no longer apply to YoY comparison from next year onward, but that doesn't change the assumption that the overall demand will continue to fall.

Revenue from 3.5-inch substrates grew in the double digits YoY. However, the growth rate slowed somewhat compared to the previous quarter, partly because of the timing of data center demand. As a result, in this quarter, revenue growth for 3.5-inch substrates could not offset the decline for 2.5-inch substrates.

The current HDD mass production product is a 16-terabyte product. Until the next 18-terabyte product, the number of installed substrate units per drive will not change compared to the current 16-terabyte products. Therefore, there is no change to the adoption status of glass substrates by customers.

During the last briefing meeting, we stated that each company expects to handle up to 20-terabyte products without increasing the number of glass substrates. This policy hasn't changed yet, but some difficulties have surfaced in realizing 16, 18, and 20 terabytes with the same number of substrates. As such, if customers struggle to improve the recording density, then there is a possibility that they will bring forward their plans for 22 and 24 terabytes and use the model with a greater number of substrates for 20 terabytes in advance.

In any case, all HDD manufacturers have set out a product roadmap in which they intend to either increase the number of substrates or increase the recording capacity by adopting HAMR. There is no change to the fact that we are working together with all of our customers in their development activities toward this end.

Although the implementation period of HAMR at our customers has continued to be delayed, the alternative, which is MAMR, can't be expected to yield a significant improvement in recording density. As such, all customers are advancing development of HAMR. And, as I stated earlier, development is conducted in the direction of using a larger number of substrates.

Therefore, our scenario for glass substrates to be advantageous is unchanged, both in terms of HAMR to improve recording density and increased installed units for a larger surface area toward higher-capacity HDD.

Lastly, the demand for imaging products decelerated in the past several quarters. Substantial declines in revenue of 20% to 30% YoY continued, partly aggravated by production adjustments.

Compared to that, revenue declined by 9%, so the numbers have improved significantly. In fact, we have seen an increase in orders for lens used in cameras and CCTVs.

However, we think that this business needs to be slimmed down continuously, premised on the overall market's ongoing contraction, insofar as there isn't a new application that replaces camera demand. This industry has always repeated a cycle of producing too much inventory and then adjusting it later.

During this fiscal year, we implemented a business structure reform to slash fixed costs. As CFO Hirooka stated earlier, this bore some fruit, and we were able to improve the profit margin in this quarter compared to last year, even under this environment of decreased revenue.

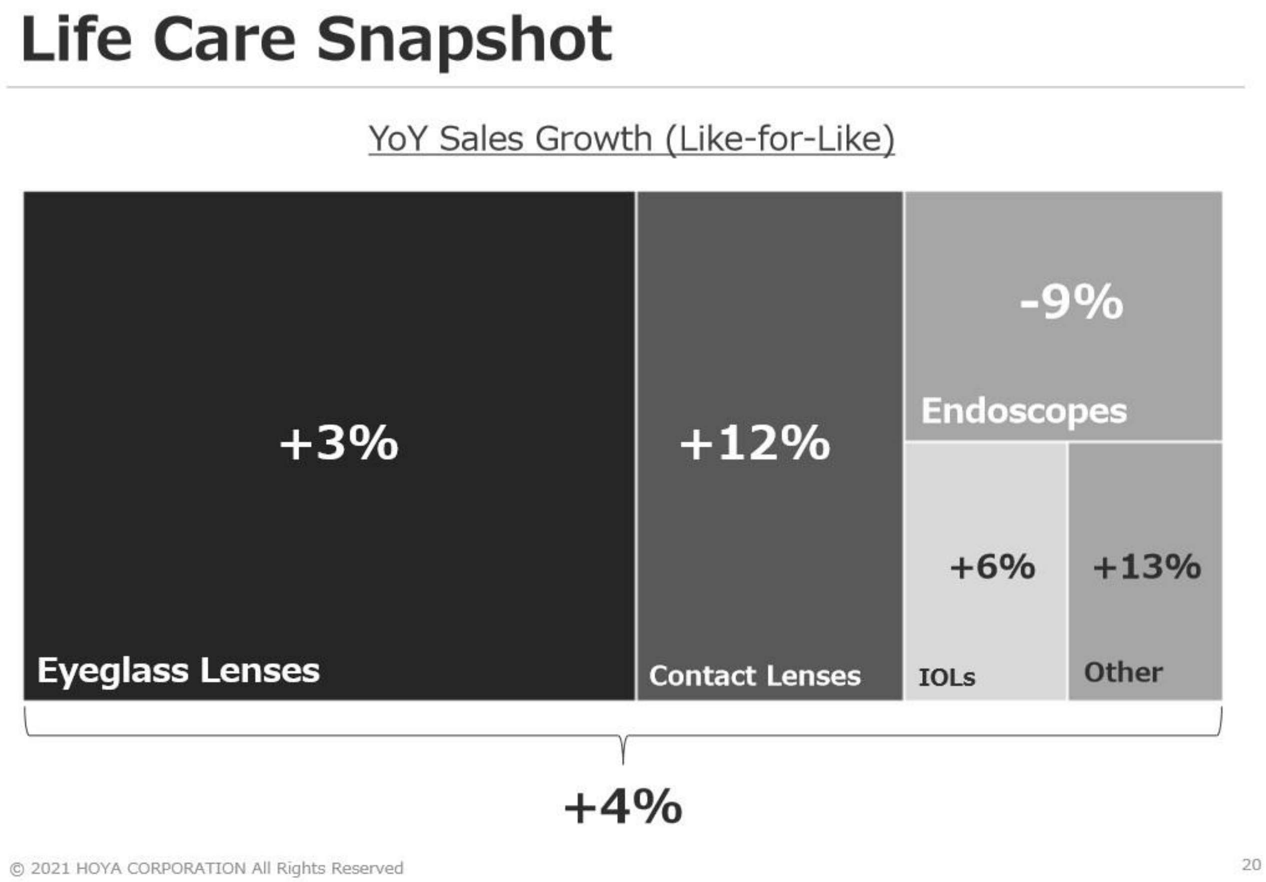
Moderator: Next, CEO Suzuki will give an overview of the Life Care Business followed by an overall summary including the IT Business.

Suzuki: Hi, everyone. I think most of you are joining this call from home. Or maybe you are in all kinds of places. Well, I'm in Shinjuku, and it just started snowing. I want to get back home early, so please refrain from asking questions.

On page 13, it talks about the second round of share repurchases. It says "NEW" next to the second round. Is this some kind of pressure from the IR department so that we also do a third round of buybacks?

Moderator: Yes, that's right. As IR, we wanted to put some pressure on the management team.

Suzuki: I thought calling it a second round would have a big impact. But, oh well. That's fine. Enough with the gibberish.



Overview by Product

Despite the impact of the lockdown (especially the strict measures taken after December), sales recovered to a positive level YoY. The recent resurgence of infections in many countries and regions requires caution, but the market is expected to gradually normalize.

Although the impact of shortened store hours and decrease in the wearing frequency of contact lenses due to an increase in the number of hours spent at home continued (estimated to be around -10% for the overall market), sales increased significantly compared to the year-ago-quarter, when there was a reactionary decline due to the consumption tax hike. Going forward, the company plans to roll out new stores including different formats as well as increasing M&A activity.

Let me talk about eyeglass lenses. Throughout the third quarter, or it may be more accurate to say it was up to the third week of December, the poor performance was only seen in Japan in the Q3 period through the end of December. Surprisingly, the market environment in Europe and the US was on par with last year or better.

The same can be said anywhere, but recovery is typically faster at small independent eyeglass shops than major chain stores. More importantly, although the sales volume has not returned to the year-earlier level, the sales amount has returned or exceeded that level, in part due to the hard work of eyeglass shops to sell relatively high-priced eyeglasses. This was evident across all regions except Japan. Performance was sluggish throughout Q3 in Japan. But, the situation has changed from around Christmas.

Performance has turned worse across Europe and in the US. The situation hasn't improved at all in Japan. So far, I only have the data up to the third week of January. But, as far as I see from the data from the latter half of December to the third week of January, performance is weak in all regions except China. This is strange, but the impact of the lockdown wasn't felt much in Q3 but is starting to be felt in Q4. I see the current situation as being a little tough.

In Japan, performance has been consistently bad. This isn't only about eyeglasses, but also IOLs, artificial bone, and contact lenses. There has been no change to the prolonged sluggishness in Japan.

The sales weighting of eyeglasses in Japan is lower than in the past. That's why the overall Q3 results were good. But, when I look at the current status in Q4, I feel a little concerned.

As for contact lenses, the results look good compared to the same period last year. But that's because sales slumped last year from the impact of the consumption tax hike. So, compared to what the business should be generating, I think that overall, the decline is around 10%.

I think it's safe to pretty much link this decline to the rise in teleworking. We already know that sales have declined at shops located inside commercial facilities in the Greater Tokyo area. Furthermore, it shows that there is a relatively large drop in younger female consumers. Thus, it's fairly clear that the decline is linked to teleworking. What we see for contact lenses is roughly the same as the trend for cosmetics.

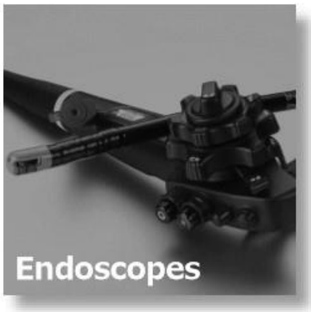
Against this backdrop of a shrinking overall market, we still need to capture a greater market share. Therefore, one thing we are eagerly looking into is M&A. If the business environment is poor, then it also means that it's easier to acquire other businesses. This won't be a big M&A. We're looking to buy contact lens shops, so they'll be small ones. But we intend to do so eagerly.

We've acquired a few shops in the past, too. The next 6 months to 10 months will probably be an opportune timing. We want to move a little bit aggressively. And I think this would also be a good timing to run promotions aggressively.

We would probably need to allocate a fair amount of capital, including advertising, to attract customers. Going forward, we will likely be moving to secure revenue over profit.

Overview by Product

Although there were ups and downs due to the spread of COVID-19 infection, the number of cataract surgeries and the associated demand for intraocular lenses continued to recover, resulting in positive growth YoY. In particular, China, where we established a local subsidiary in May last year, has seen a threefold increase in growth over the previous year; however, we will be keeping a close eye on this market due to price pressure.



Although the postponement of replacement demand and delays in customs clearance procedures due to COVID-19 remained, demand showed a recovery trend QoQ. As for the future, investment restraint by hospitals is expected to be prolonged and it will take time to completely normalize.

Unlike eyeglasses, IOL sales are decent in Europe even right now in January. Sales remain sluggish in Japan. But the reason for the performance in Japan is clear. Results are bad for hospitals, but fairly good for clinics. Patients are going to clinics, but they're not going to hospitals. It may also be the case that hospitals aren't really focusing too much on cataract surgery right now. The results in Japan can more or less be explained by the drop in demand at hospitals.

For some reason, there hasn't been a drop in the number of IOL surgeries so far. Obviously, the number of surgeries hasn't dropped in China, either. So, my impression is that our Q4 numbers are shored up by sales in China, India, and Europe.

Next, I'll explain about endoscopes. Some inventories needed to be shipped in December of Q3, but we ended up stockpiling them. That's why the number for December in Q3 looks somewhat low. However, that backlog will be included as sales in Q4, meaning that even though the numbers look weak, if you discount that factor, it's not that bad though it's also not good. The sluggish results can be explained more or less by the halted or curbed capital investments by hospitals throughout the overall market. I don't think the results reflect any particular signs of our market share being siphoned or, conversely, expanding.

In terms of disposable endoscopes, we finally expect to be able to obtain approval, and I think sales of disposables will start in Europe by June at the latest. That is the pace at which it has begun to move.

This can be said of IOLs, contact lenses, and endoscopes alike. The biggest negative factor resulting from the pandemic has in many senses been the stoppage of all kinds of clinical trials.

This has especially been the case for clinical trials in the UK, where all clinical trials have been affecting, including trials that need to be redone. Even if we wanted to conduct a trial, it's hard to gather the required number of patients. These sorts of things have made it difficult to make progress on trials. In all kinds of ways, these delays in medical-related clinical trials have pushed back development in various places. Counter to common perception, I think these delays are what will ultimately have the greatest impact on our business.

As for the overall summary, this was already mentioned by Hirooka, but we stated that we need to spend some money in Q3 to capture market share. Still, our spending activities didn't go as planned because of remote operations.

But the problem is the same. To make sure we can deliver on the numbers next year, we need to sow the seeds for them through sales activities in Q4. Otherwise, we wouldn't be able to achieve the numbers for the second half of next fiscal year. We are going to whip our sales team into action and make them increase communications with customers. Unless we take the initiative to capture market share from competitors during Q4, we can't achieve the numbers for the next fiscal year. Therefore, that is what we are planning to do.

Whether it be IOLs, endoscopes, or eyeglass, the same can be said of all businesses that as long as we can carry out these activities, we would somewhat have next year's numbers in sight and have some peace of mind. In that sense, this Q4 and Q1 next year will be crucial to conduct those activities so that they bear fruit.

Another recent trend that I think needs to be watched with caution is that we may be nearing the time when EUVs start to cannibalize demand for cutting-edge optical (DUV) blanks.

Essentially, it reduces the number of lithographic printing from three times to one time, and that's the whole point of an EUV lithography. Up to now, the focus of EUV was centered on development. My impression is that not much of it was moving in terms of actual production.

Although it's a net increase right now, at some point down the road, EUV lithography is going to cannibalize the cutting-edge optical demand. Well, it's not necessarily the cutting-edge aspect, but the part where blanks were used in optical. Thus, I think we're approaching the point where we start thinking of it not as a simple net increase, but also factor in this cannibalization. I have such concerns in this regard.

At the same time, what is happening right now is that customers are looking for the next nodes after 2 nanometers and 3 nanometers. Although it's all haphazard and confounding right now, they are pretty much beginning the qualification for the next node.

In reality, I think they are eyeing 2024 or 2025 for mass production. But, qualifications for blanks begin at the very beginning of the process. So, essentially, these qualifications have already started, and will probably be completed in the next 6 months to 10 months.

Once that happens, the usage of blanks will be fixed. Certainly, that wouldn't be the case if the process completely fails to function. But, insofar as this process is functioning, then demand for blanks will be fixed to a certain degree. In that sense, I think we'll be able to build a strong advantage. Blanks demand will be something where competitors can't simply sprout up and flip over our share.

Another trend that might seem counter to what the results show in Q3 is that, when looking at Q4 and Q1 next year, I think 2.5-inch HDD substrates will do fairly well. I think the demand will probably come from low-end notebook PCs and external drives.

We've worked down our inventory more than we expected, so going forward, we are going to enter a production phase by a little more in the near term, even though the overall trend will probably be unchanged. This is something that has surprised me a little.

We've been working to make the imaging business smaller and leaner with a focus on high-end products. But then, these camera manufacturers are starting to say that their inventory has dwindled and they're going to ramp up production. Oh my, these people really don't get tired of this don't they. They're once again increasing their inventories and making a commotion out of it.

It's almost like working out and cutting down on the fat, but then these people are asking us to go out for a drink. We're telling them to stop, but if they want it, then we really don't have a choice but to do so. Therefore, Imaging sales might look somewhat strong over the longer term, but I don't think the overall direction will change. I'm staring at the bullishness of these camera manufacturers with bewilderment. I think that's about it.

Question & Answer

Moderator: We will now move on to the Q&A session for the remaining 15 minutes or so.

When asking your questions, please also state your company name and name.

Please go ahead.

Then, Mr. Katsura, please go ahead.

Katsura: I just have one question. I'd like to ask about capital investment and the number for depreciation & amortization in terms of the expectation for FY20. And also investment on mask blanks. Last time, I believe you commented that this was something that needs to be done soon. Please tell me your views on this.

Hirooka: First, in terms of depreciation, the amount exceeded JPY9 billion in this quarter, and we think there will be a little more than that in Q4. Over the full year, the current amount is JPY26.5 billion, so we think we'll finish in the vicinity of JPY35 billion.

As for your question concerning capital investment, it varies depending on whether you look at it on a decision-making basis or an execution-basis. If you look at it on the execution-basis, then this would be referred to as tangible fixed assets, and investments have exceeded JPY24 billion over the last nine months. On an execution-basis, this also depends on the timing, but we think there will probably be a cash outflow of another JPY10 billion or so in Q4 under the current capital investment environment.

Ikeda: We are planning to ramp up our EUV blanks production capacity, and we have started making arrangements starting with the products with long delivery times. However, we are still examining how much volume will be necessary and at which timing based on scrutinizing the level of demand from each company.

However, for products with long delivery times, we have already started making arrangements. This is to make sure that we can handle them steadily without falling behind on society's needs.

Suzuki: The product with the longest lead time is Lasertec's inspection machines. The pace at which Lasertec increases its production capacity for inspection machines will, therefore, determine our other capital investments. That's the rough idea.

Moderator: Next, Mr. Kaye, please go ahead.

Kaye: This is Richard Kaye of Comgest. I have two questions.

First, I believe you stated that you expect the sales of disposable endoscopes to start from June. Is that a little faster than what you said previously?

Second, I'd like to confirm about carbon dioxide related to ESG. Please let me confirm your latest targets and progress rates. So, my questions are about disposable endoscopes and carbon dioxide. Thanks.

Suzuki: The schedule for disposable endoscopes is slightly faster than expected. But it hasn't been pushed forward significantly. We already have the production structure in place. It depended on the timing when we could obtain approval. It seems like we might be able to get the green light a little earlier than expected, so we think sales will start from around June. We're hopeful that we might even be able to start a little earlier than that.

In terms of CO_2, our goal is to reduce emissions by 5%, and we're moving in line with the plan. This is a general viewpoint, but we are a manufacturer, so when a manufacturer tries to reduce CO_2, it's usually by reducing the CO_2 used in machines. The CO_2 used in machines is the electricity. Reducing electricity consumption leads to cutting CO_2. In other words, it requires a process of replacing existing machines with energy-saving ones. But the energy efficiency of recent machines is unexpectedly low.

Surprisingly, it's the cleanroom that's eating up the electricity. If you compare the machines with those in the past, certainly, they have improved a little in saving energy. But the energy efficiency of these machines is astonishingly low. When I ask these manufacturers why these machines aren't more efficient, they say that they have to discard energy efficiency if they wanted to compete with China.

Many people say that energy efficiency requires a lot of costs, and there aren't customers who would buy the machines at that high price, so that's why they disregard energy efficiency. Counter to intuition, replacing a machine will not necessarily reduce energy consumption by leaps and bounds, like how it used to be in the past. We need to rethink what we can do as a manufacturer. If we continue to operate as we do right now, CO_2 will not be reduced. This doesn't just apply to us, but it's an issue every manufacturer is about to face.

We'll achieve the target that we set forth. But we must think a little more about what we'll do after that. I've recently been worried that, if we continue to operate the same way, we probably won't be able to reduce CO_2.

Moderator: We have six minutes left, so we would like to make the next person the last one.

Mr. Shibano, please go ahead.

Shibano: Thank you. I have two questions.

First, regarding the HDD substrates, a competitor has decided on increasing investments in aluminum substrates. But, in what you said earlier, you explained they would ultimately shift to glass.

Some people have raised doubts, or asked me questions, regarding this gap in your view with the competitor who has invested in increased production at this timing. Could you please update me on your thoughts regarding the technology and the intention of your customers? That is my first question.

Ikeda: As the number of platter increases, the thickness of the substrate will need to become thinner. There is an estimation that aluminum substrate supply is short of demand even for the currently used thickness. It does not mean that it will not shift to glass in the future. I think it just reflects the problem around the supply-demand relationship of aluminum.

Furthermore, for HDD to survive in the future, it must raise the capacity. When raising the capacity, there will likely be a need to increase the number of substrates. Even if usage were to be prolonged, when the thickness per substrate becomes 0.5 millimeters or less, then aluminum materials would prove to be difficult to conduct fluttering, et cetera, due to their characteristics. I think that is something that will not change in light of the material's characteristics.

Suzuki: Simply put, there isn't enough capacity for aluminum right now. Both Toyo Kohan and Showa Denko don't want to make capital investments at this stage, given that aluminum might ultimately be switched to glass. There's an overall tightness in the supply of aluminum. Otherwise, they wouldn't have enough aluminum to keep the current program running. They're sacrificing one thing to save another. Therefore, I think you can interpret it to mean that they are making capital investments in aluminum because they can't fully meet the immediate demand for aluminum.

Shibano: Thank you. My second question is about vision care. It hasn't been long since the division head changed. If there is something that might change at this point regarding the future direction, could you please explain? That's all.

Suzuki: He's from this industry, so he has caught on very quickly. He already knows the business really well. He knows the operations better than our own workers. So, he has picked up everything very quickly, and things are moving extremely smoothly.

Clearly, he has already decided which market to focus on before taking action. He knows clearly which segments of the market he wants to capture. And he knows how to follow through on it. At the very least, I

Moderator: Thank you. Do we have a little more time?

Suzuki: It's snowing.

Moderator: Okay. It's snowing, so we would like to end today's financial results briefing.

Thank you for participating despite your busy schedules.

____