



HOYA CORPORATION

Q4 Financial Results Briefing for the Fiscal Year Ending March 2021

April 30, 2021

Event Summary

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|----------------------|---|---|
| [Company Name] | HOYA CORPORATION | |
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| [Time] | 15:00 – 16:02 (Total: 62 minutes, Presentation: 46 minutes, Q&A: 16 minutes) | |
| [Venue] | Webcast | |
| [Venue Size] | | |
| [Participants] | 300 | |
| [Number of Speakers] | 3 | |
| | Hiroshi Suzuki | Director, Representative Executive Officer, President & CEO |
| | Ryo Hirooka Eiichiro Ikeda | Representative Executive Officer & CFO Executive Officer & CTO |
| [Analyst Names]* | Yu Yoshida | CLSA Securities Japan Co., Ltd. |
| | Masahiro Nakanomyo | Jefferies Japan Limited |
| | Richard Kaye | Comgest |

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Moderator: Now that it is time, HOYA Corporation will begin the financial results briefing for the fourth quarter of the fiscal year ended March 31, 2021.

From the viewpoint of preventing the spread of COVID, the meeting will continue to be held via web conference. Please note that depending on the communication environment, it may be difficult to hear the conversation, or it may be temporarily interrupted.

Today's presenters from the Company are CEO Hiroshi Suzuki, CFO Ryo Hirooka, and CTO Eiichiro Ikeda.

As for today's agenda, Mr. Hirooka will start by explaining the fourth quarter business results, followed by Mr. Ikeda's overview of the IT business, and finally Mr. Suzuki's overview of the Life Care business and overall summary. The remaining time will be used for questions and answers, and the session is scheduled to end at 16:00.

For those of you who are participating via PC today, please refer to the document shared on the screen. We would like to begin with a presentation from CFO Hirooka.

Financial Overview

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY | YoY(%) |
|---------------|---------|---------|-------|--------|
| Revenue | 135.1 | 151.4 | +16.3 | +12% |
| Pretax Profit | 27.7 | 41.3 | +13.6 | +49% |
| Net Profit | 19.7 | 30.8 | +11.1 | +56% |

| | | | | |
|--|------|------|-------|------|
| cf. Profit from ordinary operating activities* | 32.6 | 43.3 | +10.8 | +33% |
|--|------|------|-------|------|

Sales and profits increased, mainly driven by EUV blanks and HDD substrates for data centers.

Hirooka: This is Hirooka. Nice to meet you. I will walk you through the results in numbers.

First of all, revenue was JPY151.4 billion, an increase of JPY16.3 billion or 12% compared to last year. The pretax profit was JPY41.3 billion, an increase of JPY13.6 billion, or 49%, compared to last year. Net income was JPY30.8 billion, an increase of JPY11.1 billion, or 56%, compared to last year.

As I will explain later by business unit, we achieved an overall increase in both revenue and profits, mainly due to an increase in sales of EUV blanks and 3.5-inch HDD substrates.

Constant Currency Basis (CCB)

| (¥bn) | Previous Rate (A) | Current Rate (B) | FX Impact | YoY | YoY(%) |
|---------------|-------------------|------------------|-----------|-------|--------|
| Revenue | 149.9 | 151.4 | +1.5 | +14.8 | +11% |
| Pretax Profit | 40.8 | 41.3 | +0.5 | +13.1 | +47% |
| Net Profit | 30.4 | 30.8 | +0.4 | +10.7 | +54% |

| Average Rates | (A)Q4 FY19 | (B)Q4 FY20 | Variance |
|---------------|------------|------------|----------|
| US\$ | ¥109.11 | ¥107.15 | +1.8% |
| EURO | ¥120.06 | ¥128.48 | -7.0% |
| BAHT | ¥3.44 | ¥3.51 | -1.9% |

Next is the impact of foreign currency translation.

This is what would have happened if the rate had not changed at all from last year. In the middle is the impact of foreign currency translation, and the impact on revenue is JPY1.5 billion, which became larger just because of the exchange rate. Therefore, the real YoY growth is JPY14.8 billion after deducting JPY1.5 billion. Excluding JPY500 million of the impact of foreign exchange rates, the real growth in pretax profit is JPY13.1 billion. Excluding the impact of JPY400 million on net income, the real increase will be JPY10.7 billion.

Notes RE: Special Items

Comprehensive Income Statement

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY |
|-----------------|---------|---------|-------|
| Income | 136.6 | 153.1 | +16.6 |
| Expenses | 108.9 | 111.8 | +2.9 |
| Impairment loss | 0.3 | 5.1 | +4.8 |
| Pretax Profit | 27.7 | 41.3 | +13.6 |

- 1 Impairment losses were recorded for a company acquired in the past, as it is not currently achieving the profitability initially anticipated.

I will explain one point about extraordinary factors.

In the total expenses, impairment losses are significantly different from last year. This is an increase of JPY4.8 billion compared to last year. As mentioned in the appendix, we have impaired some of the goodwill from past acquisitions.

To add a little more, we acquired an ophthalmic treatment equipment-related company a little over 2 years ago with the aim of entering into areas other than cataracts. It is a very profitable company, and for 1 year after the acquisition, sales and profitability were going very well. However, due to the stagnation of sales in the markets of our customers and inventory adjustments triggered by COVID, the recovery has been slow compared to other medical equipment-related companies in 2020.

The delay in recovery is still continuing, and there are still uncertainties in fiscal 2021, so from an accounting point of view, we have impaired part of the goodwill at the end of this fiscal year in order to make an early provision.

Life Care Earnings

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY | YoY(%) |
|---------------------|---------|---------|--------|--------|
| Revenue* | 88.4 | 95.3 | +6.9 | +8% |
| Pretax Profit | 9.0 | 14.8 | +5.8 | +65% |
| cf.Operating Profit | 14.4 | 19.0 | +4.6 | +32% |
| cf.OP Margin | 16.3% | 19.9% | +3.6pt | |

*External revenue

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Next is the Life Care business.

Revenue was JPY95.3 billion, an increase of JPY6.9 billion, or 8%, compared to last year. The pretax profit was JPY14.8 billion, an increase of JPY5.8 billion or 65% compared to last year.

Life Care Earnings (CCB)

| (¥bn) | Previous Rate | Current Rate | FX Impact | YoY | YoY(%) |
|---------------------|---------------|--------------|-----------|------|--------|
| Revenue* | 93.6 | 95.3 | +1.7 | +5.2 | +6% |
| Pretax Profit | 14.2 | 14.8 | +0.5 | +5.3 | +59% |
| cf.Operating Profit | 18.7 | 19.0 | +0.3 | +4.3 | +30% |

*External revenue

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This is the result of the Life Care business after taking into account the impact of foreign exchange rates.

The impact of foreign exchange rates on revenue was positive JPY1.7 billion. Therefore, in real terms, revenue increased by JPY5.2 billion, or 6%. The impact of the exchange rate on pretax profit was JPY500 million, resulting in an actual increase of JPY5.3 billion, or a 59% increase in profit.

IT Earnings

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY | YoY(%) |
|---------------|---------|---------|------|--------|
| Revenue* | 45.7 | 54.7 | +9.1 | +20% |
| Pretax profit | 19.9 | 27.0 | +7.1 | +36% |

| | | | | |
|---------------------|-------|-------|--------|------|
| cf.Operating Profit | 19.5 | 25.4 | +5.9 | +30% |
| cf.OP Margin | 42.8% | 46.4% | +3.6pt | |

*External revenue

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Next is revenue of the IT segment.

It was JPY54.7 billion, an increase of JPY9.1 billion, or 20%, compared to last year. The pretax profit was JPY27 billion, an increase of JPY7.1 billion or 36% from last year.

IT Earnings (CCB)

| (¥bn) | Previous Rate | Current Rate | FX Impact | YoY | YoY(%) |
|---------------------|---------------|--------------|-----------|------|--------|
| Revenue* | 54.9 | 54.7 | -0.2 | +9.3 | +20% |
| Pretax profit | 27.0 | 27.0 | -0.0 | +7.2 | +36% |
| cf.Operating Profit | 25.5 | 25.4 | -0.1 | +5.9 | +30% |

*External revenue

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This is the impact of exchange rates on IT.

Revenue and pretax profit were largely unaffected. There was just a slight negative impact on revenue.

Earnings by Sub-Segment

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY | YoY(%) |
|--|---------|---------|----------------|----------------|
| Health Care (Eyeglasses/ Contact Lenses) | 64.5 | 70.5 | +6.0 (+4.9) | +9% (+8%) |
| Medical (IOLs/Endoscopes/ Artificial Bone) | 23.9 | 24.8 | +0.9 (+0.3) | +4% (+1%) |
| Electronics (LSI & FPD/ HDD Substrates) | 38.7 | 46.6 | +7.9 (+8.3) | +20% (+21%) |
| Imaging | 6.9 | 8.1 | +1.2 (+1.0) | +17% (+15%) |

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

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I will now explain in more detail by sub-segment and product.

First, there are healthcare-related products, eyeglasses and contact lenses. Revenue was JPY70.5 billion, an increase of JPY6 billion compared to last year, and the amount in parentheses is the increase excluding the effect of exchange rates, so the increase is JPY4.9 billion on a real basis, which is an 8% increase on a real basis.

Regarding eyeglasses, there was an 8% increase in real terms compared to last year. Contact lenses grew by 6%. However, in March of last year, both eyeglasses and contact lenses were already affected by COVID, so in reality, the situation is still on the verge of returning to the level before the impact of COVID.

By country, the Japanese market for both eyeglasses and contact lenses has been stagnant and recovery has been slower from last year, partly due to the impact of the emergency declaration in Japan.

Medical related products, intraocular lenses, and endoscopes. Revenue was JPY24.8 billion, an increase of JPY900 million from last year, and an increase of JPY300 million in real terms. Sales of endoscopes have increased by 6% compared to last year, and sales in the US have exceeded last year's level.

On the other hand, intraocular lenses have decreased by 3% overall compared to last year. In the year-ago-quarter, intraocular lenses were not so much affected by COVID in Japan, but this year, the impact of COVID is still lingering. Intraocular lenses themselves account for a higher percentage of the market in Japan than elsewhere, resulting in negative growth overall.

Next are electronics-related products, semiconductors, large flat panels, and HDD substrate business. Revenue was JPY46.6 billion, an increase of JPY7.9 billion or 20% over last year. Sales of LSIs, semiconductor-

related products, and EUV continue to be strong, and sales of semiconductor-related products and blanks have increased by more than 20% compared to last year.

Sales of HDD substrates, especially 3.5-inch HDDs, have increased compared to last year, covering the decline in 2.5-inch HDDs, and increased by 25% YoY in the fourth quarter.

Looking at the results on a quarterly basis, there seems to have been an extreme increase, but when we look at the results on a yearly basis, the HDD substrate as a whole has shown a slight increase, so from the perspective of the composition of the business, the 3.5-inch has almost covered the 2.5-inch decline. This is the result of the past year.

In the Imaging business, the result was JPY8.1 billion, an increase of JPY1.2 billion compared to last year. The only category in IT affected by COVID was camera-related products. In the fourth quarter of last year, the first half of the year was also very depressed, but there was a slight recovery in digital cameras and surveillance cameras, and sales are growing.

Balance Sheet

| (¥bn) | Q3 FY20 | Q4 FY20 | QoQ |
|-------------------------|---------|---------|--------------------|
| Non-current Assets | 287.3 | 298.7 | +11.4 |
| Current Assets | 526.2 | 554.6 | +28.4 ¹ |
| Capital | 651.6 | 672.4 | +20.8 |
| Non-current Liabilities | 45.4 | 49.3 | +3.8 |
| Current Liabilities | 116.5 | 131.6 | +15.1 |
| Total Assets | 813.5 | 853.3 | +39.8 |

¹ Cash and cash equivalents increased 16.8 billion yen.

Next is the balance sheet.

There is not much to mention in particular, but the biggest item is the JPY16.8 billion in cash, which will be explained in the next section on cash flow.

Cash Flow

| (¥bn) | Q4 FY19 | Q4 FY20 | YoY |
|---|---------|---------|-------|
| Operating CF | 43.2 | 52.5 | +9.3 |
| Investing CF | -13.7 | -7.8 | +5.9 |
| Financing CF | -12.4 | -43.5 | -31.2 |
| Cash & Cash Equivalents at the end of the term | 318.0 | 334.9 | +16.9 |

- ① Cash outlays in financing activities increased due to an increase of 30.7 billion yen in the amount of share buybacks YoY.

The share buyback program implemented from Jan. 29 to Apr. 20 ended with the purchase of the upper limit of 40 billion yen, and all shares will be cancelled.

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Next is the cash flow.

Cash flow from operating activities increased compared to last year, and cash flow from investing activities, including the payment for capital investment, decreased YoY due to the large amount of capital investment payment in Q4 of last year.

Cash outflow from financing activities was JPY43.5 billion, which was mainly due to share buybacks. In April, we reached the upper limit of the JPY40 billion share buyback that was resolved in January.

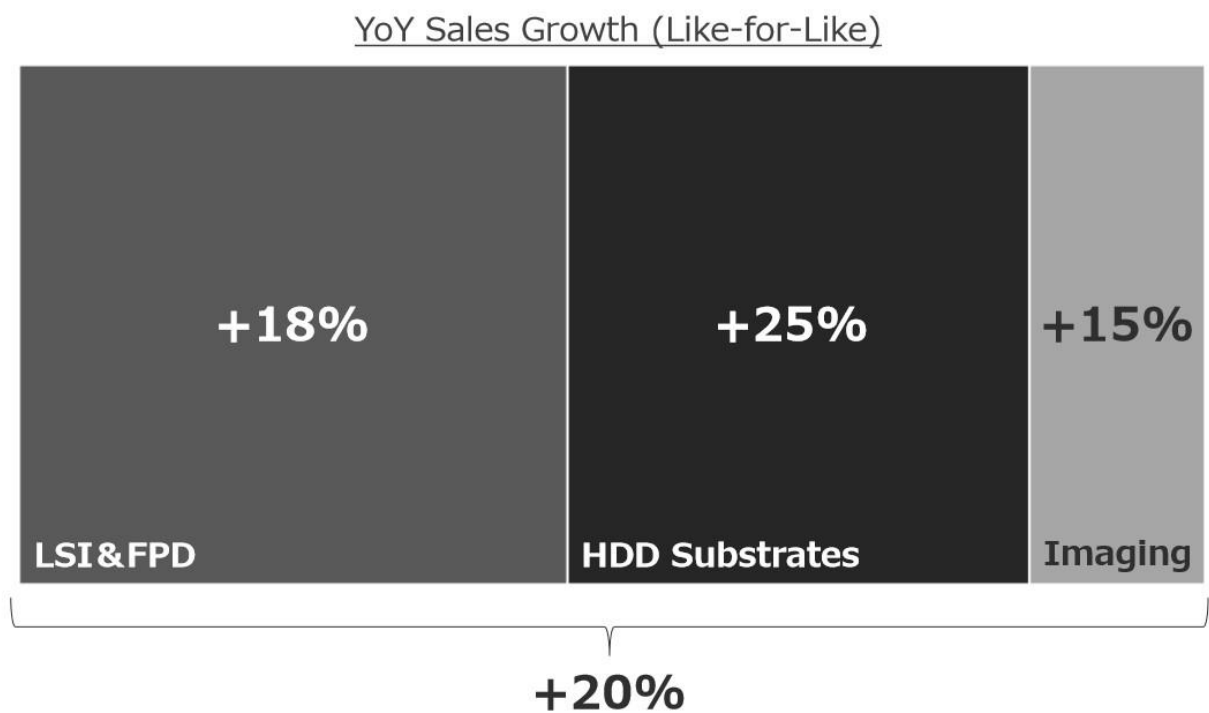
As you can see in today's release, the Board of Directors has resolved to retire all of the treasury stock. That's all for my explanation on the numbers.

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

Ikeda: This is Ikeda. I will walk you through the overview of the IT business.

As for the IT segment as a whole, as mentioned earlier, revenue was JPY54.7 billion, up 20% YoY, operating profit was JPY25.4 billion, up 30% YoY, and the OP margin was 46.4%, up 3.6% YoY. We achieved a large increase in both revenue and profits.

IT Snapshot



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By product, as you can see in the slide, we achieved double-digit percentage increases in sales in all segments: plus 18% in LSI and FPD, plus 25% in HDD glass substrates, and plus 15% in imaging products.

Overview by Product



EUV blanks grew over 80% YoY. In FY21, demand for 3nm/2nm generation development will be the growth driver. In response to the increase in demand, we will start full-scale operation of the new plant. In addition, additional investment in equipment will be made as needed in anticipation of further demand growth in the medium term.



While demand for masks for development applications continued to decline due to panel manufacturers' focus on mass production, which was triggered by the "staying at home demand", there are signs of a resumption of R&D. The company will continue to focus on high performance masks, especially OLED.

I will continue with an overview of each business segment.

First of all, in terms of blanks for LSIs, EUV sales was approximately 180% compared to the same period of the last fiscal year (+80% YoY). The new EUV line in Singapore, which was just installed but not yet in operation in the same period of the previous year, made a significant contribution to this increase in sales.

Optical, on the other hand, saw a decline in sales of about 5% YoY. The reason for the decrease in optical sales is due to the impact of COVID, which caused customers to raise inventory levels in the first half of last fiscal year due to procurement concerns, but inventory levels were restored from the end of last year to this quarter.

The impact of this adjustment is expected to last until the next quarter or so in YoY comparison, but this is due to the intentional adjustments of inventory levels held by customers and not due to changes in actual demand.

Also, as mentioned in the comments on this slide, EUV is expected to continue to grow in FY2021. The growth driver is advanced development, and the current demand is for development of the 3nm/2nm generation. The new line in Singapore is now entering full-scale operation, and we will make additional investments as appropriate to meet further increases in demand.

Also, as a guide to the EUV market environment, as we always mention, according to a recent announcement by an EUV scanner manufacturer, the actual shipments for 2020 were 31 units, while 40 units are planned for 2021 and 55 units for 2022.

Also, a Taiwanese customer announced that they will further increase their capital investment in FY2021, and that about 80% of that will be for advanced processes such as 3nm, 5nm, and 7nm. Given this environment, I think it is fair to say that demand for EUV blanks is expected to continue increasing in FY2021 and beyond.

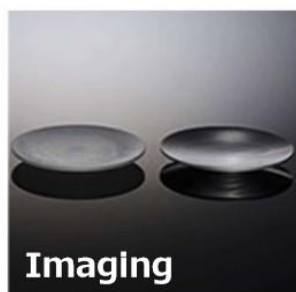
Sales of FPDs were slightly down by a low single-digit percentage compared to the same period last year. As in 3Q, the quarter was affected by a decrease in overall demand for masks due to less demand for development purposes, as panel manufacturers shifted from development to mass production in response to increased demand for TVs and PC monitors for use at home caused by COVID.

On the other hand, demand for OLED masks for flagship smartphones, including foldable devices, is strong, especially from Korean customers, and we will continue to focus on high-performance, high-value-added masks centering on OLEDs.

Overview by Product



In line with the investment cycle of the near-line, sales of 3.5" increased significantly, compensating for the decrease in sales of 2.5", resulting in double-digit growth in overall sales. 3.5" sales are expected to expand from FY21 onward, more than compensating for the contraction of 2.5". We will promote *kaizen* activities to reduce manufacturing costs.



Gradual recovery in demand, especially for interchangeable lenses for mirrorless cameras, led to positive growth. On the assumption that the digital camera market is unlikely to expand again in the future, we will continue to develop new markets.

Next, HDD glass substrate.

Revenue increased by 25% in overall HDD. Looking at the breakdown of the 2.5-inch and 3.5-inch models, the 2.5-inch model was 80% compared to the same period of the last fiscal year (-20% YoY). This is due to the fact that 2.5-inch HDDs are being replaced by SSDs in mobile applications, which is as expected. We expect that the 2.5-inch market will continue to see a decline in demand as SSDs replace all applications.

On the other hand, 3.5-inch HDDs, as you can see in the slide here, grew significantly. It was about 190% compared to the same period of the last fiscal year (+90% YoY) this fiscal year due to the investment cycle for near-line HDDs for data centers. In the next fiscal year and beyond, we would like to make up for the 2.5-inch decline with 3.5-inch growth and continue to achieve revenue growth.

The percentage of 3.5-inch revenue exceeded 60% in this fiscal year. In addition, since we have started production of the 3.5-inch at our new plant in Laos, depreciation will also be incurred. We will continue to work on continuous reduction of production cost as a priority issue to manage profitability.

Going forward, the current mainstream of mass-produced HDDs is 16 TB products, and there is no change in the number of glass substrates used as the base compared to 16 TB for the next 18 TB, so there is no change in the situation of glass substrate adoption by customers. I told you about 2 quarters ago that the companies are managing without increasing the number of substrates up to the next 20 TB. But since the improvement in recording density has not been satisfactory, it has become more likely that the model with a further increase in the number of substrates planned for 22 and 24 will be applied for 20 TB ahead of schedule.

For that model, there has been no change in the adoption of glass substrates yet, but additional glass is on the roadmap for increasing the number of substrates beyond this, so we think it is positive for us that this increase will be brought forward. In any case, all HDD manufacturers have a roadmap to achieve higher capacities either by increasing the number of substrates installed to increase the recording media area or by improving the recording density by adopting HAMR.

Glass has an advantage in both thinning for the large number of substrates and heat resistance for HAMR, and we continue to work on development with our customers.

Lastly, in the imaging business, the quarter under review was the first quarter in which there was a YoY increase. There are 2 reasons for this: as this slide shows, demand for interchangeable lenses for mirrorless cameras has become stronger, and surveillance cameras are gaining momentum since the last quarter.

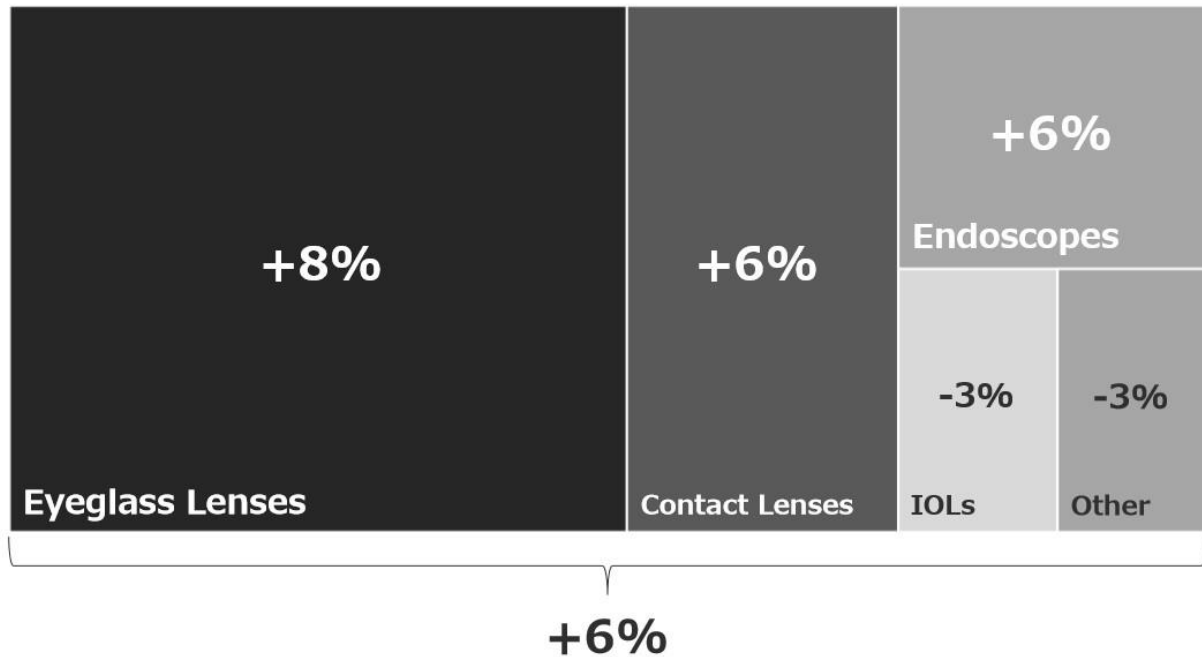
However, we believe that the digital camera market will continue to shrink, and although we are making products in this quarter, we may repeat the cycle of overproduction and inventory adjustment. Therefore, we think it is necessary to properly control fixed costs on the assumption that demand will basically continue to decrease until new applications are expected to replace cameras.

The quarter saw a significant improvement in profitability compared to the same period of the previous year, due in part to the increase in revenue and the effects of structural reforms implemented last fiscal year. That is all from myself.

Moderator: Next, Mr. Suzuki, CEO, will give an overview of the Life Care business and summarize the overall situation.

Life Care Snapshot

YoY Sales Growth (Like-for-Like)



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Suzuki: Starting from eyeglasses. As Hirooka said, somehow it is only Japan that is performing poorly. This is true for eyeglasses, and intraocular lenses as well. While both India and Brazil are growing, only Japan is shrinking, which makes me wonder what is going on. Basically, in 4Q, the US, Europe, and China all posted positive YoY and QoQ results to a certain extent, but only Japan posted a negative result. Such is the situation.

In the midst of the positive growth, a large European chain called GrandVision was acquired by EssilorLuxottica, and we are in the process of working with the customer to reduce sales with the assumption that we will lose this business. Even so, the reason why we are seeing positive results is that other markets are relatively active, and I don't think we are capturing additional share of those markets, so the markets are booming, but for some reason Japan is not.

I think that department store channels are to blame for Japan's poor performance, but the difference between Japan and Europe/US is that in Europe and the US, chains are recovering more slowly.

Individual stores are recovering much quicker, while in Japan, it's quite the opposite, with individual stores shrinking and not coming back at all, and chains making a small comeback. If chains grow and independent stores shrink, the overall sales will shrink. I don't know why Japan is structured like that, and why Japan was the only market that moved differently, but that was how the quarter was.

Sales of PENTAX (endoscopes) in Europe were roughly on par with the previous year if you just look at 4Q, but in the US and Asia, sales basically saw double-digit growth YoY. Regarding capital investment, each deal is rather large, and depending on the timing they may happen or not, so there is some sharp rise on a one-time basis, which I am not sure if it will continue.

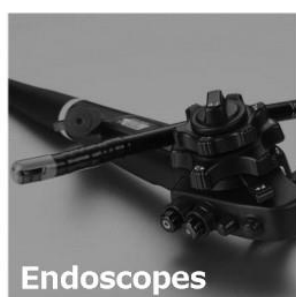
Basically, in terms of revenue, a reasonably good situation was created in the fourth quarter. In addition, we have finally reached the point where we can start selling single-use endoscopes, or disposables, in Europe next month.

Ambu is probably the largest company in the space, which has significantly expanded the market base, so we came to the point where we are attempting to sneak in as the second player.

Overview by Product



As in the previous quarter, sales in Asia, driven by growth in China, grew significantly, but the number of surgeries in Japan, which accounts for over 40% of sales, did not return, resulting in a slight decline in overall sales. Although we expect the impact of COVID to remain for a while in the short term, we will continue to strive for growth by increasing our market share.



Despite there were lockdowns in many countries, the industry is adapting to the changing environment, and market activities and investments are starting to resume. As a result, our endoscope sales have turned to growth. The launch of our disposable bronchoscope is planned in Q1.

Intraocular lenses.

Looking at this period alone, as I said before, Japan is doing poorly. Japan is doing badly, and this is definitely because of big hospitals. Small clinics, or clinics that specialize in intraocular lenses and perform a large volume of cataract surgeries, have not experienced such a decline, but cataract surgeries at ophthalmology clinics in so-called general hospitals have dropped drastically.

I think people don't want to go to big hospitals, setting aside whether they are accepting COVID patients or not. But the number of IOLs is increasing in India, Brazil, and the UK, but not in Japan, this is the situation we don't fully understand.

The other thing is that up to now we have mostly focused on single focal length lenses, which is fine in Japan because it fetches a certain level of unit price, but as we work hard to expand our business outside of Japan, the unit price of single focal length lenses will only continue to decline in the future.

Even so, there are some countries where single-focus lenses sell well, such as Japan and China, and we have been increasing our business there, but if we want to increase our business from here on, we will have to expand in places where single-focus lenses are inexpensive.

It's going to get harder and harder to make money, so we have no way but to sell multifocal lenses going forward. We've had them as products for a while, and we're just in the process of soft launching a new form of multifocal product.

The unit price of this multifocal lens is around 4 times that of a single focal length lens, so there is not much of a market for this type of lens in Japan. In Japan, it is not covered by insurance, or in other words, the amount of money the doctor receives is the same whether they insert a multifocal or a monofocal lens, so the doctor is not inclined to buy such an expensive lens to use. So basically, the Japanese market is strongly centered on single-focus lenses.

In Europe, it depends on the country, but the big markets are some European countries and the United States. For those places, we need to sell multifocal. The same is true for China from now on. We also need to sell multifocal lenses in China, so we are going to make that our challenge.

In China, even single focal length lenses used to be relatively expensive, but since about half a year ago, there has been a shift to a volume-based tendering system, in which the local government purchases lenses in bulk rather than hospitals, and a volume-based discount is being introduced.

Not all cities, but many cities in China are moving in that direction. This is being done under orders from the Chinese government, which is saying that it is okay to spend money on hospitals for medical care, but to tighten up the money that is going out for medical purposes.

There may be Chinese manufacturers, but from the overall point of view, there are a lot of foreign manufacturers in this space, so they are apparently talking about tightening up this area. Since that is happening, prices are falling in China as well, so instead of insurance, in the case of China, individuals are still paying 30% or 40%, and we are looking to sell the type of lens that individuals pay more to insert.

Overview by Product



Despite the impact of store closures and other factors due to the repeated lockdown, sales have been recovering since March and recorded positive YoY growth. Although instability will remain in the short term, sales are expected to gradually normalize due to the fact that eyeglass lenses are daily necessities. With myopia becoming a global concern, we will focus on products related to myopia management.



Although the market was depressed due to the impact of the second emergency declaration and other factors, we achieved continuous market share expansion (our estimate) and product mix shift to high-end lenses. In addition, we acquired a chain retailer with 14 stores in the Kansai area. Even though some stores will be closed under the current emergency declaration, we will respond to the situation with our e-commerce services etc.

Then there's contact lenses, retail. This is performing poorly in Japan, of course, and the emergency in Japan was in January, right? I guess it was more of a request to shorten operating hours that time. I mean, the stores are located in commercial facilities, such as AEON, shopping malls, and station buildings, so if they shorten their opening hours, the stores have to shorten their hours together with them.

In January, we were hit by such shortened hours, and in the first place, people who work remotely, including yourselves, are not using contact lenses. Most of us wear glasses when working at home, and when we don't want to be seen wearing glasses, we take them off and get close to the PC to use Teams and Zoom.

Since there are people who are basically not wearing contact lenses anymore, the overall market has shrunk by over 10%. The number is down by about 10% because people are staying at home instead of going outside. On top of that, January was about shortened hours, but the current third round, I'm thinking that April will be impacted even more than January. The first floor of commercial facilities is open, but the second floor and above are closed, and the elevators are often stopped.

We don't have money, so we can't go into the big places on the first floor, like next to Uniqlo, so our stance is to go to the second or third floor, typically next to the futon shop or kimono shop. The current situation is that the elevators have stopped, and it is completely dark in there.

Not all stores, but about 20% of stores are in such a state, so naturally Q4 was not good, and I guess we will have a hard time from here on out. Here in Japan, it is 100%, so I feel like I will have a bit of a hard time.

We do offer home delivery to customers who have current medical records or prescription records, and we do extend the prescription period, but I don't think that is enough to generate substantial sales. We are likely to suffer after all when the stores are closed.

Summary. Somehow only Japan is bad, is the summary. We're also worried about Imaging business, the return of high-priced CCTV or surveillance cameras, digital cameras, and mirrorless cameras in 4Q.

These people never learn, so I wondered if they might have started building inventory again. They may be fine until the first or second quarter, but after the summer, they are likely to start saying that they will adjust production because of inventory buildup, so I am a little worried about that.

One thing that struck me about FPD was that there are many different models of OLEDs that are apparently foldable, so I wondered if Chinese manufacturers are launching their own foldable models.

Also, LSI, or as Ikeda mentioned earlier, mid-low, or mid-range in particular, 28nm and 14nm, with certain level of logic are moving reasonably well, but the logic below that, discrete, microcontrollers, et cetera, are probably at full capacity unless new masks are introduced.

I think it's that the fabs are full, and they're too busy working on the current ones, so there's no room for new designs. Basically, I don't know if I should call it low, but I feel that that part with relatively thick lines is not moving recently.

The rest is related to the EUV capital investment, which we talked about around 3 months ago. After all, the item with the longest leg of capital investment is inspection equipment, so if they don't come in, there's no point in adding other things to start up.

If you look only at the current situation, the capital investments made up to now are almost fully depreciated, so until the next round for inspection equipment, we will continue the current pace of depreciation. It will be at that pace for a year or a little over a year. There will be some others, but that's roughly the depreciation schedule.

Moderator: Lastly, I would like you to share the outlook or prospects for the fiscal year ending March 31, 2022.

Outlook for FY21(Ending March 22)

- Aiming to increase both sales and profit.
- Although there are uncertainties in the Life Care business in the short term, the company aims to recover to pre-pandemic levels on the back of vaccinations in the regions that account for the majority of sales (US+EU5).
- In the IT business, EUV blanks and HDD substrates will continue to drive growth. Although we expect an increase in the depreciation charge associated with the start of operations at new plants for both products, we aim to grow profits.
- For ESG, we will identify materiality and consider specific measures to achieve our goals.

Suzuki: I don't smell any major incidents that may cause us to topple in the first half of the year. Whether it's glasses or anything else, though, you can say that everything depends on COVID. The vaccine is working to a certain extent, and I don't think we're going to face a big failure, at least not in the first half of the year, including on the IT side. I think it's possible to imagine it getting a little bit better and appearing a little bit higher. You can't ask me to predict the 6 months of the second half.

Hirooka: Indeed, it is very difficult to predict, but as I mentioned earlier about vaccines, Life Care is originally necessary with or without vaccines, whether it is medical equipment or glasses. However, if people start going out as a result of vaccination, we should aim to recover a little more and go beyond the pre-COVID stage.

This will depend on the vaccination in Japan, but in the second half of the fiscal year for contact lenses, under the current situation, the vaccine will not be fully available, so it will be difficult for the market to recover throughout the year. In the fiscal year ending March 2022, I think contact lenses in the Life Care segment will struggle a bit.

For our IT Business, the continuing narrative is that there does not seem to be many factors that cause us to lose speed in the first half of the year. However, even if the vaccine becomes available, there is the question of the economy. Although the Life Care business is not heavily affected by economic conditions, the risk may be that it may be impacted in the second half.

Looking at the overall economy, money is being supplied at an ever-increasing rate, so I don't think there will be a sudden recession in the second half of the year. We don't see any factors that will cause huge growth at the moment, but we don't expect anything to happen in the second half of the fiscal year that would cause a sudden drop, including for the IT business. As mentioned here, we have to be realistic about how to overcome the depreciation burden. I'm sorry for being incomprehensible.

Suzuki: If anything, our business isn't affected so much by economic situations. Whether it be medical products or eyeglasses, I don't know if they are called essentials, but it's not that demand for them falls because of a recession, nor will it suddenly increase because of an economic boom.

Basically, the accumulation of money, which would go to income, remains the same, so if the impact of COVID were to lessen due to a certain effect of vaccines, consumption would expand.

But the supply of goods will not keep up with the demand, including the fact that companies have not been making capital investment, so my feel is that the prices of goods are likely to rise. I don't know if inflation is the right word, but that is the kind of environment we could be in.

There is a possibility that costs will go up, so even though our volume won't increase that much, and even though sales won't increase at a gargantuan rate, we have to worry about costs going up. Once we smell signs of that rise, we'd like to think hard about ways to pass it on to the price as soon as possible. So, it may be our view up to 2023 rather than 2022, but would it be good if we are thinking about things like that?

Moderator: Yes, thank you. I would like to add one thing.

With regard to ESG, we will identify materiality as a company during the first half of the year and consider specific measures to achieve the goals, including those of each business division. We will report on materiality in the integrated report to be issued in August.

Question & Answer

Moderator: Now, it has become a little long, but let's move on to the Q&A session.

Please provide your company name and your name when you ask us a question.

Then, Yoshida-san, please go ahead.

Yoshida: Thank you. This is Yoshida, CLSA Securities.

I would like to ask about the EUV blanks and the glass substrate 3.5-inch. The growth rates are at high levels, like 80% and 90%. Please tell us how you see the future growth of this [inaudible].

Ikeda: Regarding the future growth of EUV and HDDs, as I explained earlier, the capital investment in EUV by our main customers, the customers who mainly use EUV, has reached a record high. In addition, the number of EUV lithography equipment is expected to exceed that of FY2019, and we believe that the number will continue to grow steadily during FY2021.

Our capacity is not yet full, but we expect it to become full. As the CEO mentioned earlier, we are feeling the need to increase our investment facilities.

As for HDDs, it's a little difficult to say by quarter, as the investment cycle of data centers cause ups and downs. If you look at it over a longer period, say a year, we assume it will continue to grow at the same pace as it is now. If you look at it on a yearly basis, rather than this current quarter, we see that it will still grow.

Suzuki: I'm the only one who told you not to ask questions, so feel free to ask the other 2.

Yoshida: Got it. As a follow-up, with EUV, you mentioned your outlook on the capacity of the exposure device manufacturers, and in addition, I think the processing speed will increase to 160 wafer per hour compared to the previous specifications. Would it be better to think that the number of blanks would increase, taking that into account?

Ikeda: The processing capability there will also increase, but right now, there is much talk over using pellicles. If pellicles are used, which might already be the case in some areas, the transmittance and light intensity will be reduced, so the throughput will be worse. On whether to still use pellicles or not, I think customers will make the choice whether to adopt them depending on the layer and considering the decrease in production capacity.

As for what will happen when pellicles are used, there is the possibility that the number of blanks will decrease, but on the other hand, if EUV technology becomes easier to use, it will spread faster.

There are several factors that come into play, not just 1 or 2, so it's hard to say in general terms what the answer should be. Throughput, pellicle, and other factors will combine to influence future demand.

Yoshida: Thank you very much. One more question about capital investment and depreciation. If you have any comments on the overall direction of capital expenditures and depreciation expenses for the current fiscal year, please let us know. That is all from myself.

Hirooka: Capital investment is still on a decision-making basis, or rather, it is decided but not actually put on the balance sheet. We have invested quite a bit in the past 2 years, so we are thinking of around JPY25 billion for this fiscal year.

However, we are looking at it on a quarterly basis, so it will change depending on the situation. But at the moment, we are expecting about JPY25 billion for the whole year.

As for depreciation, the fourth quarter was about JPY10 billion. From there, there will be a little bit more of the EUV-related items that I mentioned earlier, as well as the depreciation of the HDD new factory in Laos, so I think that the increase will be around JPY1 billion (*JPY 11 billion per quarter).

Yoshida: I see. Thank you very much. That is all from myself.

Moderator: Thank you very much, Yoshida-san. Next, Nakanomyo-san, please continue.

Nakanomyo: Thank you very much.

Yoshida-san asked about EUV, so I'm afraid I'm overlapping a bit. You mentioned that you will increase the capacity in the medium term, but does this mean that you will need to make further preparations for the blanks inspection system itself at an early stage?

Or is the main idea to use the current inspection equipment as a base and modify the surrounding equipment? In the medium term, at what point will you need to make a major investment for the next stage when you have increased your capacity?

Ikeda: First of all, in terms of inspection machines, we have established a new line in Singapore, and of course we have enough inspection capacity to make it work at full capacity. In addition to that, in order to cope with the volume that needs to be increased in the future, as the CEO mentioned earlier, the most important long-delivery item is the inspection machine, so we have already made arrangements for the inspection machine first.

Nakanomyo: In the 3 months period, I understand that the medium-term investment in reserves has become much stronger. Has there been any changes that caused the need for additional measures?

Ikeda: We are now adding one new inspection capacity. We are increasing the number, or rather, we have already placed an order, although delivery is still in the future. However, of course, the inspection machine alone will not be able to produce anything, so we will be adding all kinds of process equipment, such as film forming equipment, to match the capacity of the inspection machine.

Even if we put those in ahead of time, it won't do any good if the inspection machine doesn't show up, so we're trying to time it right. We are trying to figure out how to do this, or rather, we are trying to take care of the long-delivery items first.

Nakanomyo: In that sense, when the one unit you are currently working on and its accessories are fully operational, how much of an increase in sales do you think you will be able to handle?

Ikeda: We have arranged for the capacity of the inspection machine to be about twice as large as the newly built line in Singapore.

Nakanomyo: I see. Thank you very much.

Suzuki: The increase will be something like 140% or 145% of the current level. Beyond that, we don't know yet whether our equipment constitution will be fine as it is when it becomes a high-NA device. Beyond that, including the accuracy of the inspection and the accuracy of the equipment, it is still difficult to know what to buy without a little more time.

Nakanomyo: Thank you very much.

Moderator: Thank you. Kei-san from Comgest, please ask your question.

Kaye: Thank you. Excuse me, thank you for today.

I would like to ask you how much we can expect from the single-use endoscope, which is about to be released.

I understand that Ambu you mentioned earlier is an existing player, and of course you can't be too specific, but I would like to know how much you expect from company E, and what is the difference between Ambu.

Also, what countries and regions will it be deployed in? A few more details would be very helpful. Thank you.

Suzuki: I said, don't ask questions.

For the time being, the markets that can sell products with the CE mark are basically European countries. It's not FDA approved, so it can't be sold to the US, and it's not approved in Japan, so it can't be sold in Japan. For the time being, as the FDA will probably still take a year or a year and a half, for the next year and a half, the focus will be on European countries.

In terms of what's different from Ambu, Pentax is an endoscope manufacturer and has been working in the field of image processing for many years, so the basics, including the usability of the tools and the price, are not much different from what Ambu is doing now.

The biggest difference is that the image processing is well done to a certain level, so the images are good, and since it's an endoscope, you don't just go to look at things, but you do things like sticking a long stick inside and poking. We call that a channel, and since it is indeed an endoscope company, we have created a channel that can be used properly.

So, it's not just a matter of going and looking at things, but it's now better at things like inserting a stick and doing whatever with it, and the images have become better than Ambu's. The question is how it will sell based on those 2 features.

So far, there has been dominance of one company, and since most of Ambu's sales are for this application, perhaps 20% or 30% of those sales, for Europe alone, we're hoping that about 20% will come to Pentax, for the time being.

Kaye: Thank you very much. That's a time span of a few years, right?

Suzuki: We see this actually as a consumable item, which might be surprising. They are viewed as consumables. The hospital also views them as consumables, so when they are replaced, it won't take as long as you might think. It's not a capital investment, it's a consumable. If the doctors and the hospital, or in this case, the emergency room, approve it, we expect it will proceed quite swiftly.

Kaye: Understood. Thank you very much. I have another question.

The second question, if you don't mind, is about the competition in EUV and mask blanks.

As far as you can disclose, I'd like to know what you're hearing about "Company S's" entry, and I think there's a bottleneck related to inspection systems. Can you explain whether or not the competition is likely to change in this regard?

Ikeda: "S" went to our customer's place. Some of our customers really want to purchase from 2 companies, but at the moment, we don't see any situation where they are finding anything better than us in the evaluation, so the competitive situation has not changed that much from the previous fiscal year.

Suzuki: If you ask me about current products, it's very difficult, so I think it's probably most natural to think of future density or future design as the most important factor in entering the market. I think the discussion will be about what "S" can do to get into the "2" or "1" category.

Kaye: Understood. From your company's objective point of view, considering "S's" supply capacity and the procurement capacity of laser tech inspection equipment mentioned earlier, is it actually realistic?

Suzuki: Last time, I was saying, "No, it's not going to work," and ended up being caught up, so this time we will take them as a threat and try to avoid that. Tell them I said, "Come on, come on, come on!"

Kaye: Got it. Thank you very much.

Moderator: Thank you. We are now running out of time, so we will conclude today's briefing.

Thank you very much for taking time out of your busy schedule to join us today.

Suzuki: Goodbye.

Moderator: Goodbye.

[END]
