



## **HOYA CORPORATION**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

October 28, 2021

## Event Summary

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[Company Name]	HOYA CORPORATION	
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[Event Language]	JPN	
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[Time]	15:00 – 15:38 (Total: 38 minutes, Presentation: 20 minutes, Q&A: 18 minutes)	
[Venue]	Webcast Live	
[Venue Size]		
[Participants]	300	
[Number of Speakers]	3	
	Hiroshi Suzuki	Representative Executive Officer, President & CEO
	Ryo Hirooka Eiichiro Ikeda	Representative Executive Officer & CFO Executive Officer & CTO
[Analyst Names]*	Damian Thong	Macquarie Capital Securities (Japan) Limited
	Masahiro Shibano	Citigroup Global Markets Japan Inc.
	Takahiro Mori	Mizuho Securities Co., Ltd.
	Richard Kaye	Comgest Asset Management Japan Ltd.
	Yu Yoshida	CLSA Securities Japan Co., Ltd.

## Presentation

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**Moderator:** As the time has come, we will now begin the HOYA Corporation second quarter financial results briefing for the fiscal year ending March 2022. The presentation will be held via web conference. Attending from our side today are Hiroshi Suzuki, CEO; Ryo Hirooka, CFO; and Eiichiro Ikeda, CTO.

Today, Mr. Hirooka will give an overview of our business performance and major businesses for the second quarter, and then I will briefly explain the topics of the quarter. This will be followed by a question and answer session, which is scheduled to end at 15:45.

## Financial Overview

(¥bn)	Q2 FY20	Q1 FY21	Q2 FY21	YoY	QoQ
Revenue	140.3	158.0	162.6	+16%	+3%
Pretax Profit	40.2	51.0	54.0	+34%	+6%
Net Profit	31.8	41.3	43.0	+35%	+4%
cf. Operating Profit	43.3	49.4	49.2	+14%	-0%
cf. Operating Profit Margin	30.9%	31.3%	30.3%	-0.6ppt	-1.0ppt

- On a constant currency basis, growth rate was +12% for revenue and +31% for PTP

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**Hirooka:** Revenue was JPY162.6 billion, representing an increase of 16% from the second quarter of the previous year.

On a currency neutral basis, the growth was 12%.

Quarterly profit before tax was JPY54 billion, and quarterly profit was JPY43 billion, both of which are more than 30% higher than last year. As a reference, the profit from normal operating activities was JPY49.2 billion, an increase of 14% compared to last year.

I would like to briefly explain the difference between the profit from operating activities and the profit before tax.

First, there was a foreign exchange gain in this quarter. The amount was JPY3 billion, compared to less than JPY900 million last year, so the difference has turned into a positive in the second quarter.

Also, we recorded an impairment loss of JPY3.1 billion in the second quarter of last year. Since there are no impairments this fiscal year, this portion has become positive in this second quarter, and these 2 main areas

have turned into a large positive, resulting in a different rate of increase in profit from operating activities and profit before tax.

As for this, we have also made a bridge chart as supplementary data in the Quarterly Report, so please refer to that.

## Life Care

(¥bn)	Q2 FY20	Q1 FY21	Q2 FY21	YoY	QoQ
Revenue	90.1	96.8	99.1	+10%	+2%
Pretax Profit	17.7	21.8	23.4	+32%	+7%
cf. Operating Profit	21.2	20.6	19.8	-7%	-4%
cf. Operating Profit Margin	23.5%	21.3%	19.9%	-3.6ppt	-1.4ppt

- On a constant currency basis, growth rate was +6% for revenue and +30% for PTP
- Compared to pre-Covid (FY19 Q2), revenue was -5%

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Continuing on to page 5, the Life Care Business.

Revenue was JPY99.1 billion, an increase of 10% over last year and an increase of 6% on a currency neutral basis.

For reference, compared to FY2019 Q2, 2 years ago, revenue in Life Care decreased 5%. However, in FY2019 Q2, there was a rush of demand before the consumption tax hike, and in our case, this was the quarter in which sales rose significantly, especially at Eyecity contact lenses. So if we take into account the temporary upside that existed at that time, we are reaching about the same level as 2 years ago. So, this was the same situation as in Q1.

Profit before tax JPY23.4 billion, and profit from ordinary operating activities was JPY19.8 billion.

I would like to make 1 more comment. In Q2 of last year, operating profit margin was 23.5%, and this year it was 19.9%.

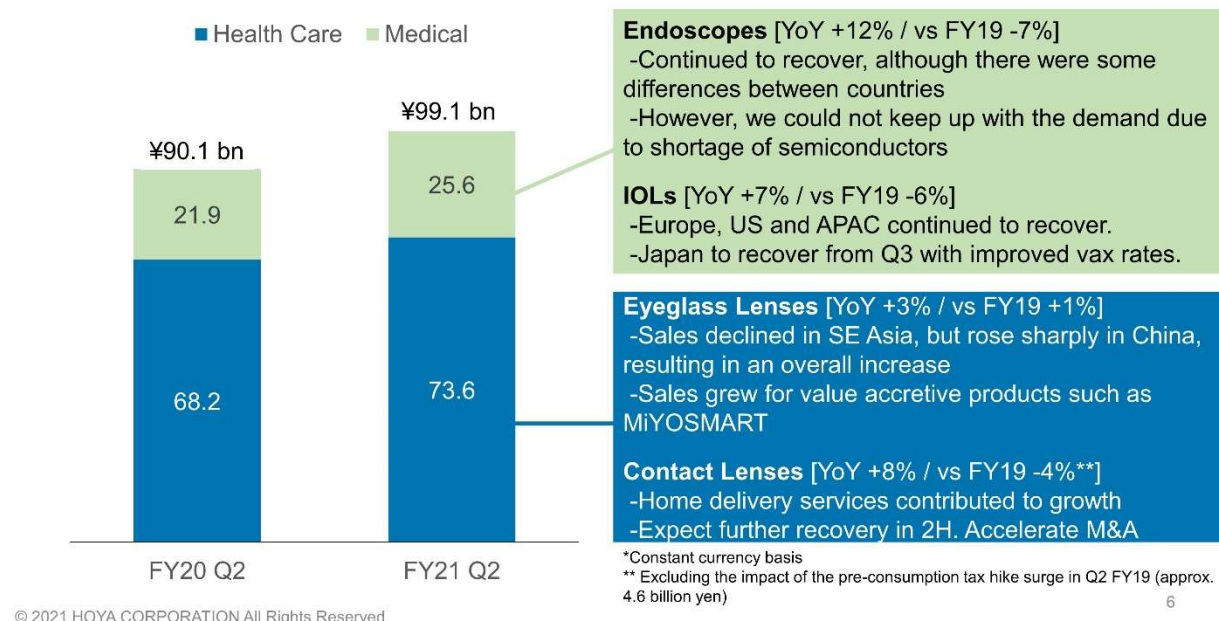
First, last year's Q2 was a quarter with a much higher profit margin than expected. In Q1 last year, sales fell sharply amidst the global lockdown, so we cut costs and controlled the situation. In Q2, we kept expenses under control because we were cautious about how much sales would return, but sales recovered rapidly last year. Therefore, last year, the profit margin was 23.5% for the quarter, which is very high for the Life Care segment.

Revenue is almost back on track this fiscal year, so our spending in sales activities has almost resumed.

As I explained earlier in the financial overview, most of our production, especially eyeglasses, is done in Southeast Asia, including Thailand, Vietnam, and the Philippines, but due to the impact of the Delta variant infection, we are spending a lot of money to protect our supply chain, to secure slightly more staff, test system, vaccination, etc.

In the second quarter, we focused on making sure that the supply chain was working properly, and the efficiency of factories was slightly lower than usual in that quarter.

## Life Care: Revenue by Product



I will continue with the explanation by product. The first is Medical.

For the current fiscal year, sales were JPY25.6 billion, an increase of JPY3.6 billion compared to last year.

Endoscopes are up 12% in real terms on a currency-neutral basis and down 7% compared to FY2019, 2 years ago.

As I briefly mentioned for Q1, there has been shortage of semiconductors for use in processors. Because of this, it has not been possible to manufacture all of the processors, and of course, if processors do not sell, we are not able to sell scopes, so production has not been able to keep up with the orders we have received.

The market has been recovering quite well, and we have been conducting solid sales activities, and we have been able to get a certain amount of orders, but the supply has not been able to keep up, for endoscopes.

I will continue on to the intraocular lenses. We saw a 7% growth compared to last year and a 6% decrease compared to FY2019.

In the U.S., Europe, and Asia, we continue to do well, and we are recovering and exceeding the FY2019 level. In Japan, the market condition is very bad in the first place.

In July and August, especially with the declaration of a state of emergency and the explosion of infections, both hospitals and clinics have been affected, postponing surgeries. Therefore, as the proportion of the

Japanese market is high in our sales of intraocular lenses, we have not been able to recover to the level of FY2019.

Next, Health Care related products. Sales were JPY73.6 billion.

This is an increase of JPY5.3 billion compared to last year. First, for eyeglass lenses, we saw an increase of 3% on a currency neutral basis, which is also above the level of FY2019.

In a similar manner to intraocular lenses, the Japanese market is struggling very much, and the market as a whole is stagnant. Also, as I mentioned earlier with respect to the Delta variant, sales in Southeast Asia have been up and down.

In the meantime, sales in China and Europe have been growing steadily and have exceeded last year's and FY2019 levels.

As I mentioned earlier, for eyeglasses, many of our major factories are especially in Southeast Asia, so we had to pay a certain amount for pandemic countermeasures, and the factories themselves could not operate at full capacity, so while there was no impact on sales, it did have a slight impact on profits.

Next, contact lenses. We saw an 8% growth compared to last year and a 4% decline compared to FY2019.

As I mentioned earlier, 2 years ago, there was a rush demand of about JPY4.6 billion for Eyecity before the consumption tax hike, so the rates excluding that are shown here.

This is the same story as the first quarter, but again, the flow of people has stopped, and people are not consuming contact lenses, which continued in the second quarter, so we have not been able to exceed the FY2019 level.

In the midst of this situation, we have been making new efforts such as home delivery services, and sales have increased to a certain extent and are increasing compared to last year.

## Information Technology (IT)

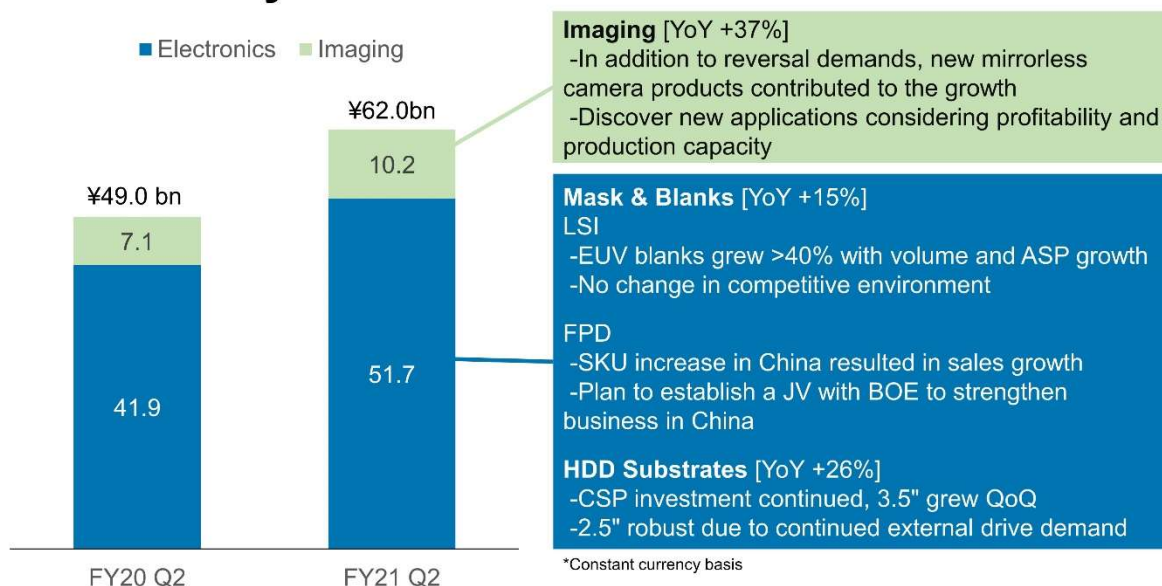
(¥bn)	Q2 FY20	Q1 FY21	Q2 FY21	YoY	QoQ
Revenue	49.0	59.8	62.0	+27%	+4%
Pretax Profit	22.4	30.0	31.0	+39%	+3%
cf. Operating Profit	22.8	29.7	30.1	+32%	+1%
cf. Operating Profit Margin	46.7%	49.6%	48.6%	+1.9ppt	-1.0ppt

- On a constant currency basis, growth rate was +23% for revenue and +35% for PTP

Next, Information Technology Business. With revenue of JPY62 billion, profit before tax of JPY31 billion, and profit from normal operating activities of JPY30.1 billion, we have achieved significant growth in both revenue and profit YoY.

On a currency neutral basis, sales increased 23%.

## IT: Revenue by Product



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I will continue with the explanation by product. First is Imaging.

Sales were JPY10.2 billion, which is an increase of JPY3.1 billion compared to last year. In the information technology field, the imaging-related business was the only business that was greatly affected by COVID-19.

Struggles in camera sales continued from the first half of last year, but from the second half, sales of optical materials and lenses for cameras have been increasing, and this has continued from the first quarter and second quarter, and the current demand is reasonably strong, so we have seen a high YoY growth rate.

Next, Electronics-related products. Sales were JPY51.7 billion.

This is an increase of JPY9.8 billion compared to last year. Masks & Blanks saw a 15% increase YoY.

Both LSI and FPD here have shown significant growth compared to the second quarter of last year. The EUV market continues to grow by more than 40% compared to last year, and the competitive environment has not changed, so sales are growing steadily.

As for large FPD panels, in the second quarter of last year, panel manufacturers saw a significant increase in demand for panels, and they focused on mass production activities, which reduced the number of applications for development.

From the perspective of our mask business, a decrease in development applications meant a decrease in demand, so in the second quarter and third quarter, there was no more sales in the FPD business. So that has come back to normal, and on a YoY quarterly basis, we have seen a significant increase in sales compared to last year. Sales have increased by more than double digits.



As you can see here, we will be further strengthen our supply of FPD masks to the Chinese market, and as we announced last week, we have signed a joint venture agreement with BOE in China.

We still have to go through the necessary procedures such as permits and approvals, and it will be a long time before we can build a factory. However, it is important to build a supply system in each market, so we are planning to build a solid base in China, which is expected to grow in the future.

Then finally, HDD. The substrates saw a 26% YoY growth, which is a very large increase. Both 3.5 inch and 2.5 inch saw significant growth compared to last year.

The positive point is that we have been able to increase sales of 3.5 inch in line with our strategy or plan.

For 2.5 inch, we expect a decrease, and our view remains unchanged that, in the medium term, it is expected to keep declining. However, if we look only at the current situation, we can see that as demand for HDD is sustaining, both 3.5 and 2.5 are contributing to sales and profits for us. This was the result of the second quarter.

## Highlights from the Balance Sheet & Cash Flow

### Cash

- FCF generated in Q2 was 40.4 bn yen (+0.7 bn yen YoY)
- Cash & cash equivalents increased to 386.5 bn yen (+49.1 bn yen YoY)

### CAPEX\*

- Q2 actual was 6.5 bn yen (-2.0 bn yen YoY)
- We expect around 30 bn yen this fiscal year\*\*

### D&A

- Q2 was 10.6 bn yen (+1.7 bn yen YoY); slight increase QoQ (+0.3 bn yen)
- We expect around 43.0 bn yen annual D&A

\*Cash flow basis. Acquisition of PPE

\*\*Decision basis. It may vary depending on the timing of cash-out

Finally, the balance sheet and cash flow.

The figures are as shown on the screen, but I would like to make a few comments on the cash allocation and shareholder return policies. These are our policies and our ideas have not been changed at all.

In terms of cash allocation, we continue to believe that we should actively pursue M&A for growth, especially in the current environment, if we can generate synergies in existing businesses.

Also, in terms of shareholder returns, the policy itself has not changed at all here either, so we have not changed our idea at all about firmly returning money to our shareholders within a certain period of time. We will continue to monitor the market trends and determine the right timing to steadily implement it going forward.

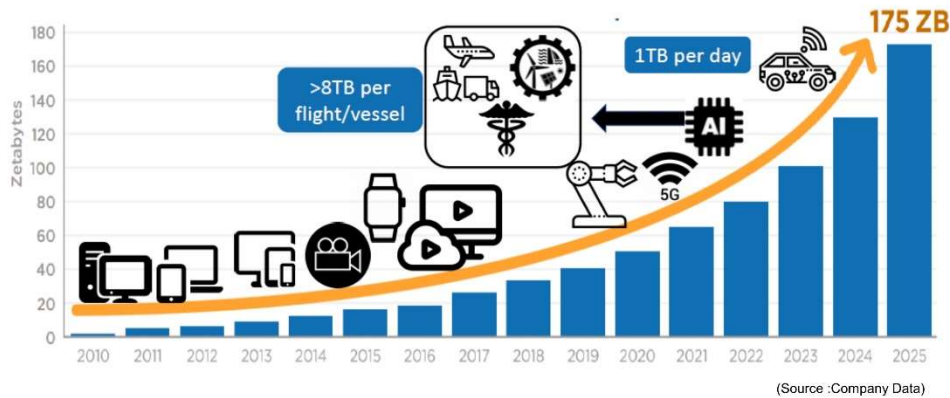
This concludes my explanation.



# A Data-driven World

- Growth of the global datasphere accelerated with the development of technologies such as 5G and artificial intelligence

Global Datasphere



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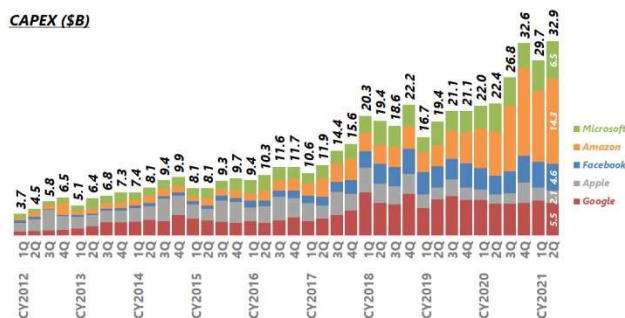
**Moderator:** Next, I would like to give a brief introduction on the topic of hard disks and glass substrates for data centers.

In today's society, data is being used in every field. With the development and penetration of technologies such as 5G, AI, and automated driving technologies, the volume of data distribution continues to grow.

## Growth Opportunity for HDDs

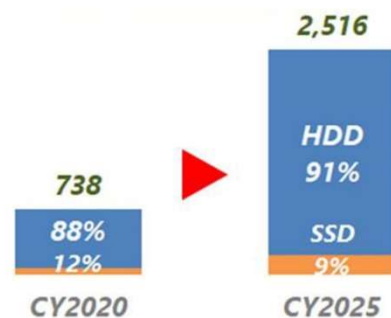
- Along with the growth in the datasphere, GAFAM's CAPEX continued to increase; record high in CQ2
- HDDs are expected to play a leading role in near-line storage, representing 80-90% of the enterprise data storage

GAFAM CAPEX Trend



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Enterprise EB Shipment



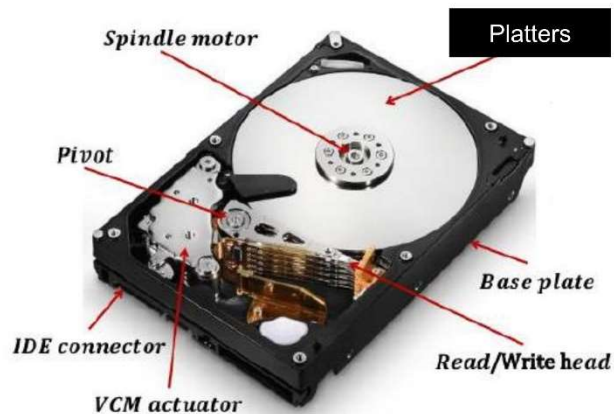
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With the growth in data distribution volume, cloud service providers are increasing their capital expenditures, and GAFAM's capital expenditures reached a record high level in CQ2.

Under these circumstances, HDDs will continue to play a central role, accounting for about 90% of the data capacity shipped to data centers.

## Glass Substrates for HDDs

- The disk-shaped component in an HDD is called a platter
- A platter is a glass or aluminum substrate coated with magnetic material to enable data to be recorded
- Currently, HOYA is the only manufacturer of glass substrates for HDDs



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The glass substrate that we manufacture is used in a hard disk as a platter, which is a part that record data.

The material of the substrate can be aluminum or glass, both of which are not magnetic as they are, so a magnetic film is applied to make the recording media. Currently, we are the only manufacturer of glass substrates for hard disk drives.

## Advantages of Glass

	Aluminum (Al-Mg)	Glass
Rigidity	● May flutter or bend by thinning	● Stable even with thinner platters
Heat Resistance	● NO	● YES

We will discuss this advantage more in detail on the following pages

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The advantages of glass substrates over aluminum substrates can be briefly summarized in 2 points: they are more rigid and stable even when made thinner, and their high heat resistance allows them to be used in HAMR, the next-generation recording technology. I would like to explain it a bit more in detail.

## Two Ways to Increase HDD Data Capacity

- TCO (Total Cost of Ownership) is critical for cloud service providers
- HDDs have increased data capacity by (1) enhancing areal density (2) increasing the number of platters, which has contributed to the improvement of TCO

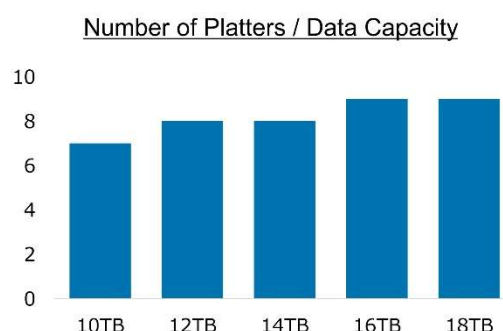
### (1) Improve Areal Density

Shrink bit cells to increase the amount of data that can be written per platter

- ✓ HAMR
- ✓ MAMR
- ✓ ePMR

### (2) Increase Number of Platters

Increase the number of platters per drive by making the platter thinner



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For cloud service providers, the concept of Total Cost of Ownership, or TCO, is of great importance. This is the total cost including all costs related to the data storage and maintenance, and so on.

In a data center, there are of course physical constraints such as site area and the shape of the server rack, so if the data capacity per recording device increases, the TCO will decrease.

Hard disks have been taking 2 main ways to increase data capacity and help customers lower their TCO.

The first is to improve areal density, which is a method to increase the amount that can be recorded per area by shrinking the size of a bit cell. HAMR and MAMR, which use heat and microwaves, fall into this category.

The second is to increase the number of platters per HDD. Since the thickness of existing hard disks is generally fixed at 2.6 cm, HDDs have been able to increase data capacity by making platters and spacers thinner and using more platters.

The highest capacity drive currently available is 18TB with 9 platters.

# (1) Improve Areal Density

- Next gen recording technology HAMR (Heat Assisted Magnetic Recording) requires higher heat resistance due to higher sputtering temperature etc.
- Glass-based platters are the only solution for HAMR adoption, due to higher heat resistance

	PMR	MAMR	HAMR
Max Capacity per Platter (Estimate)	Approx. 2TB	2.3TB-2.5TB	4.4TB*
Required Heat Resistance	Approx. 200°C	Approx. 200°C	Approx. 650°C or higher

\*Potential to go up to 6.7TB in the longer run

Heat Resistance of Platter			
Aluminum	290°C	✓	✓
Glass	710°C	✓	✓

(Source :Company Data, IDEMA Forum 2017, Seagate Analyst Day 2021)

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Among the next generation technologies, HAMR is expected to have the highest recording density, but the magnetic material will be different from the conventional one. As a result, during film deposition, the temperature of the sputtering process becomes extremely high, over 650 degrees Celsius.

Our glass substrate has a heat resistance of 710 degrees Celsius, making it the only option that is compatible with HAMR.

# (2) Increase Number of Platters

- Although it will depend on the composition of the material, glass platters generally have higher rigidity than aluminum and can be made thinner
- By using the most rigid glass substrate, 12 platters can be mounted with a thickness of 0.4 mm.\* (c.f. Today's highest capacity drive: 9 platters / 0.5mm)
- If the platters are made thinner with low rigidity, there is a risk that the platters will deflect and collide with other components, generating particles that affect read/write performance

\*Thinning the other components, such as heads and spacers, is also required.

Material	Aluminum (Al-Mg)	Glass
Rigidity (Young's Modulus)	71 GPa	98 GPa

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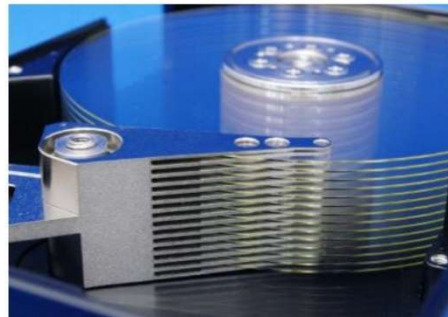
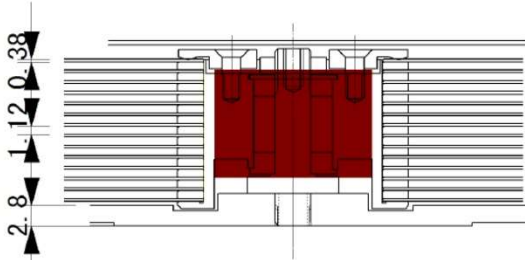
Though it will depend on the material composition, but glass is generally more rigid than aluminum.

Just for your reference, here is an index called Young's Modulus to show the difference in stiffness. With the most rigid glass substrate of our products, it is possible to mount up to 12 platters per drive by reducing the thickness to 0.4mm.

If the platter is forcibly made thinner while its rigidity is still low, the platter may deflect when impact is applied, and particles may be generated by contact with other components. There is a risk that those particles will get in between the head and the platter and affect the read/write process, so rigidity is important.

## (2) Increase Number of Platters - cont'd

- There is potential for us to go further; 14 platters per drive by 0.38mm thickness combined with thinner spacers
- We will continue to enhance our glass substrate supply capacity based on customer needs to support the secular growth of the near-line HDD market



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On the lower right is a reference photo of the mock-up, and there is a potential for us in the future to make the platter thin as 0.38mm thick and to mount 14 platters per drive.

In the future, we will continue to improve our ability to supply glass substrates in response to customer needs and contribute to the development of this data-driven world.

This concludes my very brief explanation of hard disk substrates for data centers.

## Question & Answer

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**Moderator:** We will now move on to the question-and-answer session. Please note that time is limited, so we would like to limit the number of questions to 2 per person. Now, Mr. Yoshida, please.

**Yoshida:** Thank you very much. This is Yoshida of CLSA Securities. First, EUV blanks have increased by more than 40% compared to the previous year, but if you look at QoQ, I think there is not much growth or a slight decrease. Has there been any change in the demand environment?

**Ikeda:** Rather than a change in the demand environment, it is more likely that our newly built manufacturing line in Singapore is now operating close to full capacity. This does not mean that demand is decreasing or anything like that.

**Yoshida:** In that sense, do you think it will be difficult to grow from this level?

**Ikeda:** As we have reported before, we have already placed orders for long-lead-time equipment, and we will continue to increase our capacity to meet customer demand.

**Yoshida:** Thank you. The second point is the impact of COVID-19. This time, Life Care is experiencing supply shortages, worsening profitability, and declining demand. Are there any fields where you expect to see the impact to remain? In particular, what should we think about the profitability of eyeglass lenses for the second half of the year?

**Suzuki:** Before I go on, I would like to talk about the EUVs again. There are grades, such as grades A, B, and C, and the customers are saying that they want the A grade the most, but we have not been able to accommodate them. Although we are close to full in terms of capacity, I think we will enter a phase where we will be able to increase sales by increasing the ratio of A-grade products. I think what we need to do for the next 6 months or so is to increase sales by raising unit prices even before the capital investment comes in.

Also, in the second quarter, we were a little overzealous in our countermeasures against COVID-19, and in anticipation of the many things that might happen, we prepared a large number of people than normal. The vaccine was urgently administered, and the PCR was carried out rapidly.

Perhaps this was meant to create a “bubble”, we had people sleepover in the factory with 3 meals, and naturally, we raised the salary as well, so I think the cost temporarily increased too much. As for that, I am hoping that such things are unlikely to happen in the second half of the year.

It will be different if another variant of COVID-19 comes out and makes a big deal again, but for now we are not too worried about that, but on the other hand, there is a logistic cost.

Logistics costs are a bit of a concern, as we have had to replace a lot of sea shipment with air shipment in 3Q, and there have been cases where prices have simply gone up.

Also, surprisingly, the state of China, the supply of electricity. We have our own factory, so we have to worry about the supply of electricity to our own factory, but we are also worried about the shortage of electricity for those who manufacture parts and materials for our customers, which may affect their top line rather than their profitability. We are a little worried about that.

There is nothing we can do about this, so we do not have any measure to deal with it. What worries us, or why we cannot say with confidence that earnings will get better and better in the second half of the year, is because in the current situation, there are quite a few factors that we are concerned about, in various places.

**Yoshida:** I see. Thank you. That's all.

**Moderator:** Thank you very much. Then, Mr. Kaye, please.

**Kaye:** Thank you. This is Kaye from Comgest. Thank you very much.

For endoscopes, there was a shortage of semiconductors and you were unable to respond enough to demand. Are there any other fields where you are having a similar problem related to the supply chain? What kind of outlook do you have? Please tell us how serious the issue is regarding procurement, including endoscopes.

**Suzuki:** At this point, the only field where sales have been affected due to the lack of supply of parts and materials is endoscopes, and there is no other field. To be honest, though, regarding whether the problem in endoscopes will be solved in the short term, I think it's going to drag on a bit.

What worries us more is that since it has been impossible to manufacture products due to shrinking semiconductor supply, there is actually a business selling demo machines and temporary product loans, which we call loaner, but current sales of demo machines and loaner will affect future sales.

In the end, the business cycle revolves around having people use the products by means of demo machines and loaners, and then convincing them to buy them. Since we have orders, we have already taken orders, and since we have sold demos and loaners, we will continue to be in a situation where business itself will not be able to run smoothly until we can properly produce and accumulate loaners and demos. So even if the supply of semiconductors improves in the short term, I think the business situation will continue to be a bit difficult for a while.

**Kaye:** Thank you very much.

**Moderator:** Mr. Kaye, you have just 1 question?

**Kaye:** 1 question is fine for now. Thank you very much.

**Moderator:** Thank you very much. Then, Mr. Damian Thong, please.

**Thong:** Thank you very much. I am Damian from Macquarie Securities. Thank you.

Just 1 question regarding the market for eyeglass lenses in Japan. How is it? Overseas, there has been a gradual recovery, and in Japan, there is talk of a recovery in the situation, so I would like you to explain this in more detail. That's all.

**Suzuki:** The market for eyeglasses in Japan is not recovering, or it is fine in terms of the number of units, but the eyeglasses for the elderly are not really recovering at all. In short, the unit price of glasses for presbyopia, not for young people, is high, and glasses for the elderly are not selling well.

Recently, we released a lot of new products in 2Q, and even though the new products happened not to be new products for the elderly, I think the overall volume is increasing and the market share is rising, partly because of the new products. The market for the elderly itself has shrunk considerably and has not come back at all, so I think this situation will probably continue for a while.



To be honest, we are unlikely to see an environment for the return of high unit price glasses for the elderly in the short term.

One of the interesting things about our new products is that one of them is an antibacterial lens; it was surprisingly well received.

Also, if you wear glasses and a mask, they will fog up. So, we have made and sold anti-fog glasses that do not fog up, which are also surprisingly well received.

In that sense, market share in Japan is probably increasing, but overall sales are not high, so it seems unlikely that sales will return to the level of the previous year or FY2019, no matter how hard we try.

**Thong:** Thank you very much. Hard disk, may I follow up on one thing? I believe your customer have been able to increase their market share by using your products, and they are quite prominent in the market. Please let us know if you have any recent updates as to when their competitor will start using glass substrates in the future. That's all.

**Ikeda:** Right now, as explained earlier, the latest models that are out there are 16TB to 18TB, with 9 platters per drive. The competitor will continue to use aluminum for 9 platters, and then one more, until the model with 10 platters. We are working with the said company on development activities for more than 11 platters, so there is a possibility for adoption when a product with more than 11 platters will become available. There has not been any decision on adoption, but we are continuing development activities with the said company.

**Thong:** I see. So for 11 platters, 2023, is that correct?

**Ikeda:** I think the 10-platter model will be used for several generations, and as mentioned earlier, it relates to the multiplication with the recording density. Therefore the timing may vary back and forth.

**Thong:** I see. Thank you. That's all.

**Moderator:** Thank you very much. Next, Mr. Mori, please.

**Mori:** This is Mori from Mizuho Securities. Just 1 question, please. Could you tell us about the status of disposable endoscopes after the launch and the future prospects? That's all.

**Suzuki:** We have distributed it to all the major hospitals for them to use it, and we are currently listening to their feedback, or rather, we are distributing demo units. To be honest, production has been lagging behind, so although the demo units have been surprisingly well received, we have not yet reached the point where we can start taking orders. We hope to establish the production system early and we would like to see the figures from around the end of 3Q. It seems to be receiving good feedback.

**Mori:** In that case, since you are probably manufacturing it in Southeast Asia, for example, if the COVID-19 infections there subside, and the production system is strengthened and the volume increases, you will be able to see a certain scale?

**Moderator:** We are making this in Bulgaria.

**Mori:** I see. It is almost like local production for local consumption. Making it close to where the demand is.

**Suzuki:** To tell you the truth, we have never operated a factory in Bulgaria before, so we are working on manufacturing while dealing with all sorts of surprises and problems. That is what we're doing now. We wanted to achieve more quantities, but please note that we are a little behind schedule.

**Mori:** Has this area been affected by the semiconductor shortage?

**Suzuki:** Not directly, but the unit price has gone up. It is more of a sensor. The unit price of sensors is going up, and we are wondering what we should do about it, whether to pass it on or not. You may think that we should not simply pass the cost on to the price since we are a latecomer in the market, but the current situation is that sensor manufacturers and semiconductor manufacturers are raising their unit prices quite a bit.

**Mori:** I see. That's all. Thank you.

**Moderator:** Thank you very much. As the end time is approaching, we will conclude with the next speaker. Mr. Shibano, please.

**Shibano:** I am Shibano from Citigroup Japan. Thank you.

The first point is about how to look at cash. At the end of September, the figure was 386.5 billion yen, which is probably the highest level in 5 years. You mentioned earlier that there are various elements of uncertainty in the second half of the year, but when I think about preparations for such elements, I do not see the need to hold onto this much cash, but I would like to know if there is anything I am overlooking. Thank you.

**Suzuki:** We basically do not want to have this much cash. Due to a variety of reasons, it has been difficult to buy back our own shares currently.

**Shibano:** Understand. Secondly, for eyeglass lenses, I might have asked last time, but I would like to hear about the new leadership, if there are any updates to the strategy or if you are seeing any results. Thank you.

**Moderator:** He is doing well but since it is still a short period of time so I think we should wait a little longer for the results to really come out.

**Shibano:** I see. Thank you.

**Moderator:** Thank you very much. It is still a little early, but this concludes today's briefing. Thank you very much for taking time out of your busy schedule to join us today.

**Moderator:** Thank you very much.

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