

# FY19Q4

## Financial Results

May 8, 2020 Earnings Conference

7741.T[ADR:HOCPY US]

HOYA CORPORATION

[With Memo]

Please be aware that this memo is posted for reference and is not a verbatim record of all statements made at the earnings call.

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### Presentation MC:

It is time to begin the HOYA financial results presentation for the fiscal year ending March 2020. Due to the spread of COVID-19, we have decided to conduct this presentation via teleconference. We apologize if there are any circumstances make this teleconference difficult to hear or for any interruptions due to technology issues.

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

## **1. Financial Results** [Ryo Hirooka, CFO]

2. IT Business Overview

3. Life Care Business Overview

4. Summary

5. Q&A

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Presentation MC:

As for today's agenda, CFO Hirooka will cover earnings results for the fiscal year. Following CFO Hirooka, CTO Ikeda will discuss the HOYA Information Technology segment. Finally, CEO Suzuki will provide an overview of performance in our Life Care segment.

The remainder of our time until 4:00 PM will be open for questions and answers.

Those of you participating via PC, please refer to the materials shared on your screens.

Without further ado, CFO Hirooka will begin his portion of today's presentation.

## Financial Overview

| (¥bn)  | Q4 FY18 | Q4 FY19 | YoY  | YoY(%) |
|--|---------|---------|------|--------|
| Revenue  | 141.5   | 135.1   | -6.4 | -5%    |
| Pretax Profit                                  | 31.4    | 27.7    | -3.7 | -12%   |
| Net Profit                                     | 29.2    | 19.7    | -9.5 | -32%   |
| cf. Profit from ordinary operating activities* | 35.1    | 32.6    | -2.5 | -7%    |

Due to the impact of COVID-19 and a ¥4.7bn fine related to a settlement with the US DOJ (endoscope business), both revenue and profit declined YoY.

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Ryo Hirooka, CFO:

I will conduct my portion based on the materials you see on your screens.

HOYA revenue amounted to ¥135.1 billion, down ¥6.4 billion (-5%) year on year.  
Quarterly profit before tax was ¥27.7 billion, down ¥3.7 billion (-12%) year on year.  
Quarterly profit was ¥19.7 billion yen, down ¥9.5 billion (-32%).

## Constant Currency Basis (CCB)

| (¥bn)         | Previous Rate (A) | Current Rate (B) | FX Impact | YoY  | YoY(%) |
|---------------|-------------------|------------------|-----------|------|--------|
| Revenue       | 138.0             | 135.1            | -2.9      | -3.5 | -3%    |
| Pretax Profit | 27.9              | 27.7             | -0.3      | -3.4 | -11%   |
| Net Profit    | 19.9              | 19.7             | -0.2      | -9.3 | -32%   |
| Average Rates | (A)Q4 FY18        | (B)Q4 FY19       | Variance  |      |        |
| US\$          | ¥110.27           | ¥109.11          | +1.1%     |      |        |
| EURO          | ¥125.27           | ¥120.06          | +4.2%     |      |        |
| BAHT          | ¥3.50             | ¥3.44            | +1.7%     |      |        |

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Ryo Hirooka, CFO:

Next, I will address the impact of foreign currency translation.

The bottom section of this slide presents our main currencies, which consist of the U.S. dollar, the euro, and the baht. Compared to last year, the yen was stronger in general related to these currencies.

In real terms, the year-on-year change in revenues amounted to minus ¥3.5 billion (-3%) after excluding the impact of foreign currency translation. Profits were not impacted by foreign exchange significantly.

Further, quarterly profit before tax increased when excluding the ¥4.7 billion in settlements with the U.S. Department of Justice.

The significant difference between profit before tax and quarterly profit is the non-deductible ¥4.7 billion in settlements with the U.S. Department of Justice recorded in Q4, which resulted in a significant change in effective tax rate in contrast to Q4 of last year in which we recorded a significant decrease in taxes and effective tax rates related to the capital restructuring we conducted for a company purchased in prior years.

## Notes RE: Special Items

### Comprehensive Income Statement

| (¥bn)         | Q4 FY18 | Q4 FY19 | YoY  |
|---------------|---------|---------|------|
| Income        | 143.6   | 136.6   | -7.0 |
| Expenses      | 112.2   | 108.9   | -3.3 |
| Pretax Profit | 31.4    | 27.7    | -3.7 |

Expenses included a ¥4.7bn fine related to a settlement with the US DOJ for our endoscope business.

## Life Care Earnings

| (¥bn)               | Q4 FY18 | Q4 FY19 | YoY    | YoY(%) |
|---------------------|---------|---------|--------|--------|
| Revenue*            | 96.3    | 88.4    | -7.9   | -8%    |
| Pretax Profit       | 15.8    | 9.0     | -6.8   | -43%   |
| cf.Operating Profit | 18.1    | 14.4    | -3.7   | -20%   |
| cf.OP Margin        | 18.8%   | 16.3%   | -2.5pt |        |

\*External revenue

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Ryo Hirooka, CFO:

Life Care segment sales amounted to ¥88.4 billion, a decrease of ¥7.9 billion (-8%) year on year.

Profit before tax amounted to ¥9.0 billion, ¥6.8 billion lower (-43%) year on year.

As I mentioned earlier, our recording of ¥4.7 billion in settlements with the U.S. Department of Justice in connection with our endoscope business had a major negative effect on quarterly profit before tax.

## Life Care Earnings (CCB)

| (¥bn)               | Previous Rate | Current Rate | FX Impact | YoY  | YoY(%) |
|---------------------|---------------|--------------|-----------|------|--------|
| Revenue*            | 90.8          | 88.4         | -2.4      | -5.5 | -6%    |
| Pretax Profit       | 9.0           | 9.0          | -0.0      | -6.8 | -43%   |
| cf.Operating Profit | 14.6          | 14.4         | -0.2      | -3.5 | -19%   |

\*External revenue

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Ryo Hirooka, CFO:

Foreign currency translation had a negative ¥2.4 billion impact on the Life Care segment and sales decreased ¥5.5 billion in real terms (-6%).

Sales for January and February were higher year on year on a real basis. However, the impact of COVID-19 on March Life Care segment sales resulted in a 6% decrease for Q4 performance.

## IT Earnings

| (¥bn)               | Q4 FY18 | Q4 FY19 | YoY    | YoY(%) |
|---------------------|---------|---------|--------|--------|
| Revenue*            | 43.7    | 45.7    | +1.9   | +4%    |
| Pretax profit       | 18.4    | 19.9    | +1.5   | +8%    |
| cf.Operating Profit | 18.3    | 19.5    | +1.2   | +7%    |
| cf.OP Margin        | 41.8%   | 42.8%   | +1.0pt |        |

\*External revenue

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Ryo Hirooka, CFO:

Information Technology segment sales for the fiscal year amounted to ¥45.7 billion, an increase of ¥1.9 billion (+4%) year on year.

Profit before tax amounted to ¥19.9 billion, ¥1.5 billion higher (+8%) year on year.

Performance in the Information Technology segment continued to be favorable throughout Q4 as well.



## IT Earnings (CCB)

| (¥bn)               | Previous Rate | Current Rate | FX Impact | YoY  | YoY(%) |
|---------------------|---------------|--------------|-----------|------|--------|
| Revenue*            | 46.1          | 45.7         | -0.4      | +2.4 | +5%    |
| Pretax profit       | 20.1          | 19.9         | -0.2      | +1.7 | +9%    |
| cf.Operating Profit | 19.7          | 19.5         | -0.2      | +1.4 | +8%    |

\*External revenue

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Ryo Hirooka, CFO:

The Information Technology segment did not experience a significant impact due to foreign currency translation. On a real basis, sales were up ¥2.4 billion, while profit before tax was up ¥1.7 billion.

## Earnings by Sub-Segment

| (¥bn)  | Q4 FY18 | Q4 FY19 | YoY            | YoY(%)         |
|--|---------|---------|----------------|----------------|
| Health Care<br>(Eye Glasses/Contact Lenses)  | 72.0    | 64.5    | -7.5<br>(-5.7) | -11%<br>(-8%)  |
| Medical<br>(IOLs/Endoscopes/Artificial Bone) | 24.2    | 23.9    | -0.4<br>(+0.3) | -2%<br>(+1%)   |
| Electronics<br>(Blanks/HDD Substrates)       | 34.8    | 38.7    | +3.9<br>(+4.2) | +11%<br>(+12%) |
| Imaging                                      | 8.9     | 6.9     | -2.0<br>(-1.8) | -22%<br>(-21%) |

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

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Ryo Hirooka, CFO:

Health care-related product (eyeglass lenses, contact lenses) sales were ¥64.5 billion, down ¥7.5 billion (-11%) year on year.

The figures in parentheses represent results and change ratios excluding the impact of foreign currency translation. real basis a decrease of ¥5.7 billion year on year.

With the yen trending stronger against the dollar and euro, foreign exchange translation had a negative impact on eyeglass lens performance. As a result, sales were 11% lower year on year when considering foreign currency exchange, or 8% lower when excluding the impact of foreign currency exchange.

For Q4, eyeglass sales were 10% lower year on year. Due to the impact of COVID-19, sales were lower year on year in China and Korea. We saw the same pattern in Europe, the Americas, and Japan beginning in March. March sales were significantly lower year on year. AS a result, quarterly sales were 10% lower.

Contact lens sales were 3% lower year on year. We did not forecast much growth, assuming that the September rush in demand before the increase in consumption tax would have a negative rebound effect through Q3. Despite this forecast, we recorded higher sales for January and February. However, the expanded stay-at-home orders in March led to a 3% decline in sales year on year.

Medical-related product (intraocular lenses, endoscopes, etc.) sales amounted to ¥23.9 billion, a ¥400 million decrease (-2%).

In real terms, sales increased ¥300 million (+1%) after excluding the impact of foreign currency translation, essentially level year on year.

Intraocular lens sales were 14% higher year on year, mainly due to the impact of our

acquisition in late January of last year. Excluding the impact of our acquisition, intraocular lens sales grew in excess of 5%. Japan showed a strong double-digit growth, while sales in China and other markets in Asia were slow. In Europe, as well, we recorded double-digit sales for January and February. In March, however, the impact of COVID-19 resulted in a sharp drop in sales, leading to lower year-on-year performance for Q4.

Endoscope sales were 8% lower when excluding the impact of foreign currency exchange. In addition to slow Q4 sales in China, Korea, and Asia, March sales could not make up for the difference due to the timing of the COVID-19 outbreak. Generally, we experience strong sales in March. Although we do have a backlog, we have not been able to ship product.

Electronics-related product (blanks, HDD substrates) sales rose in the double digits, amounting to ¥38.7 billion up ¥3.9 billion (+11%) year on year. EUV demand continued to be strong as semiconductor blank sales rose 15%. EUV growth was more than 50% higher compared to the prior year. FPD-related mask sales were unaffected by COVID-19, with OLED driving double-digit growth. While sales of 2.5" HDD substrates were lower, sales of 3.5" products rose, resulting in 6% overall growth for HDD substrates.

Imaging related product sales amounted to ¥6.9 billion, down ¥2.0 billion (-22%) year on year.

The camera-related market continues to contract, resulting in steep sales declines. Imaging-related products now only account for about 5% of group sales. Although we need to streamline this business more, the impact on group earnings is small and decreasing.

## Balance Sheet

| (¥bn)                   | Q3 FY19 | Q4 FY19 | QoQ                |
|-------------------------|---------|---------|--------------------|
| Non-current Assets      | 291.2   | 289.8   | -1.3               |
| Current Assets          | 522.3   | 521.2   | -1.1               |
| Capital                 | 652.8   | 629.3   | -23.6 <sup>1</sup> |
| Non-current Liabilities | 31.1    | 49.4    | +18.2 <sup>2</sup> |
| Current Liabilities     | 129.5   | 132.4   | +2.9               |
| Total Assets            | 813.4   | 811.0   | -2.4               |

<sup>1</sup> & <sup>2</sup> We plan to obtain 100% of the shares of a JV established this quarter. Therefore, we have recognized this future transaction as a liability, posted to capital as minority interest.

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Ryo Hirooka, CFO:

We did not experience significant changes on our balance sheet. Notes (1) and (2) here refer to technical accounting issues.

The intraocular lens business established a JV to generate more sales in China. However, we have decided to acquire the equity of our partner in the JV in the future. Therefore, we have recorded a liability and reduced our capital account.

## Cash Flow

| (¥bn)   | Q4 FY18 | Q4 FY19 | YoY                                       |
|---|---------|---------|---|
| Operating CF                                      | 46.6    | 43.2    | -3.4                                      |
| Investing CF                                      | -26.3   | -13.7   | +12.6 <span style="color: blue;">1</span> |
| Financing CF                                      | 0.2     | -12.4   | -12.5 <span style="color: blue;">2</span> |
| Cash & Cash Equivalents<br>at the end of the term | 293.4   | 318.0   | +24.6                                     |

1 Cash outlay decreased compared to the year-ago quarter, in which we acquired Mid Labs and Fritz Ruck.

2 Cash outlays increased due to share buybacks.

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Ryo Hirooka, CFO:

Cash flows from investing activities increased ¥12.7 billion. In other words, cash outlays for investments decreased for the year. In Q4 of the prior fiscal year, we acquired two companies (Mid Labs, Fritz Ruck), which involved significant cash outlays. Meanwhile, the bulk of ¥13.7 billion in Q4 of this year went to capital investment outlays for EUV manufacturing lines in Singapore, an HDD substrate plant in Laos, and other investments.

Cash flows used in financing activities were related to outlays for share buybacks.

## Results of Share Buyback

### Share Buyback #1

Maximum Amount: ¥60 bn  
Period: May 8, 2019 to October 28, 2019  
Amount Repurchased: 3,085k shares (worth ¥24.1 bn)  
➡Canceled

### Share Buyback #2

Maximum Amount: ¥50 bn  
Period: October 30, 2019 to April 23, 2020  
Amount Repurchased: 2,470k shares (worth ¥22.6 bn)  
➡To be canceled

HOYA repurchased shares worth ¥46.7 bn in total.

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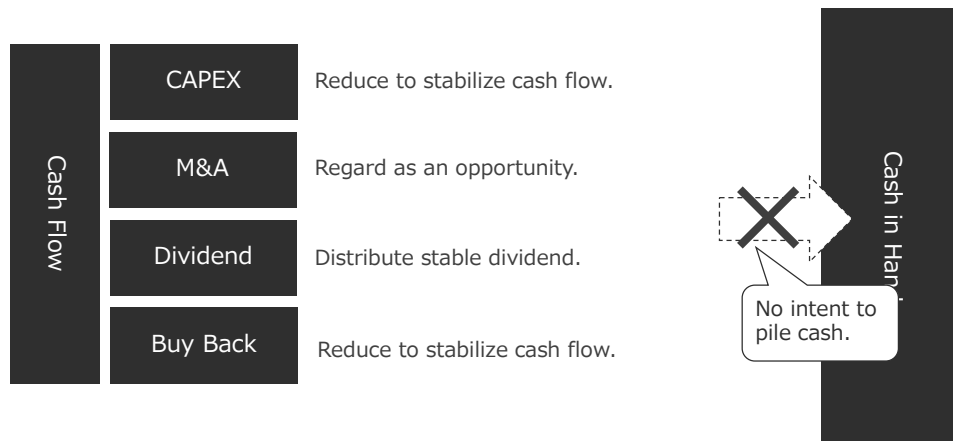
Ryo Hirooka, CFO:

Our second share buyback consisted of ¥22.6 billion in buybacks. We intend to cancel the shares purchased.

A portion of our buybacks extended into April; however, we conducted ¥46.7 billion in purchases for the fiscal year.

## Cash Allocation Strategy

Prioritize investment for future growth. Our policy to return excess cash to shareholders remains unchanged. However, under the current situation, HOYA will change the execution of cash allocation provisionally until the uncertainties related to COVID-19 have been mitigated.



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Ryo Hirooka, CFO:

We have been asked how we intend to allocate cash in this environment; therefore, I will explain our basic approach at this point.

Fundamentally, we do not intend to change our historic approach. We prioritize investments for future growth, returning excess cash to our shareholders, rather than accumulating cash internally.

On the other hand, the impact of COVID-19 is extremely uncertain. Accordingly, we will limit capital investment until these uncertainties have been resolved to a certain extent. We will expend cash for investments this year in our HDD substrate plant in Laos and EUV manufacturing line. We will revisit all other investments in our annual plan from scratch. We continue to investigate M&A investment opportunities, but we have not found any acceptable valuations at this time. Any opportunities we find in this environment will be pursued actively.

Our forecast for dividends is unchanged at ¥45 per share. Accordingly, we plan to pay an annual dividend of ¥90 per share.

1. Financial Results
- 2. IT Business Overview [Eiichiro Ikeda, CTO]**
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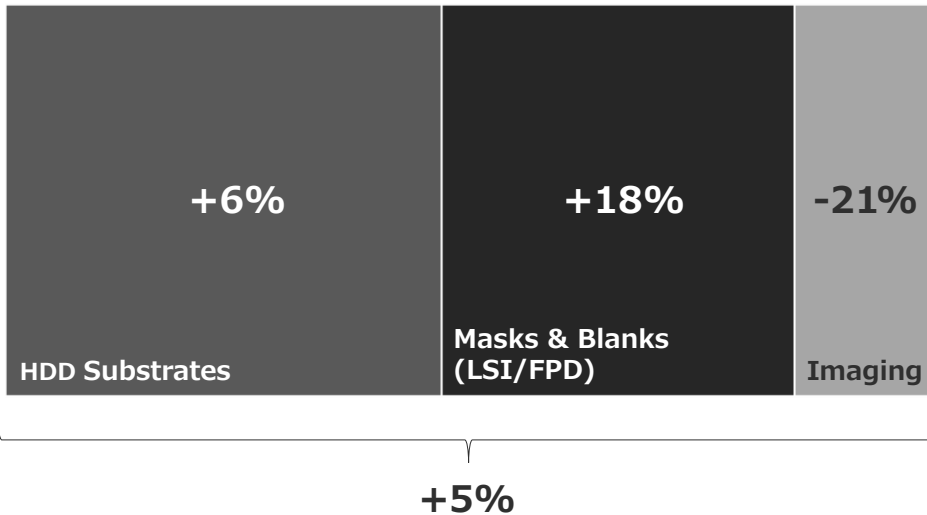
Presentation MC:

Next, Mr. Eiichiro Ikeda, CTO, will give his presentation about the Information Technology segment.



## IT Snapshot

YoY Sales Growth (Like-for-Like)



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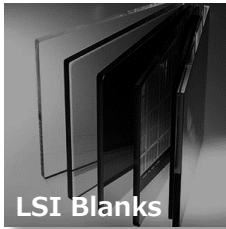
Eiichiro Ikeda, CTO:

The Information Technology segment recorded improved sales and profits, with ¥45.7 billion in sales (+4% year on year), ¥19.9 billion in quarterly profit before tax (+8%), and 42.8% in operating profit ratio (+1.0 points).

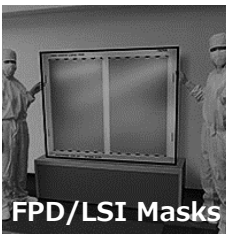
As shown on this slide, sales growth was 5% when considering the impact of foreign currency exchange.

By product, HDD Glass Substrate sales were up 6%, masks and blanks were up 18%, and imaging sales fell 21%.

## Overview by Product



EUV blanks showed stable growth driven by customer demand. HOYA opened new production lines in Singapore to cater to the growing demand. We are ramping up in line with our schedule. We expect leading-edge products to continue to grow, driven by smartphone SoCs and 5G-related products.



HOYA grew the business by gaining market share in China. We did not see an obvious impact from COVID-19. OLED is driving demand as OLED requires more numbers of masks compared to LCD. We will continue to focus on value-added products including OLED and PSM.

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Eiichiro Ikeda, CTO:

Blanks for Semiconductors

This year, both EUV and optical recorded higher sales. The end user markets for PCs and tablets was lower than the prior fiscal year; however, development activities among our customers continued to be strong. Among others, our main client, TSMC's applications for mass production of 7nm was extremely strong, leading to this result. Sales of EUV mask blanks were more than 50% higher compared to the prior fiscal year. Looking at the financial results from exposure device manufacturers, we see that four devices were shipped during Q4 and devices in operation in the field is proceeding favorably. The increase in the number of exposure devices in operation and strong development activities among semiconductor manufacturers lead us to expect significant growth in the future for EUV mask blanks. We have installed an EUV production line in Singapore which is progressing as planned. We shipped samples for customer certification in Q4 and we already received certification for certain parts in April. We hope to expand production capacity in the future for these products. Addressing the impact of COVID-19 on our internal operations, we have seen a decrease on capacity in Malaysia due to the lockdown in that country. At the same time, we are operating in Singapore and the impact of COVID-19 on our businesses as a whole has not been excessive.

Hiroshi Suzuki, CEO:

A notable trend for Q4 was the rising numbers of EUV mask blank samples for the next node. Unit prices were low, as the specifications for the products were not provided. In general, development has shifted from the current node to the next node.

FPD/LSI Masks

FDP mask sales experienced double-digit growth compared to the prior year. The Chinese market continued to be strong, growing 1.8 times, driving significantly higher sales for our

overall business.

In G8 masks and lower, our main battlefield, we saw the effects of stepped-up sales activities for OLED targets over the last year or so. Three-fourths of Q4 sales were to China and Taiwan.

To grow our business, our area focus in the near future will be on China for OLED and other high-value-added product applications. We did not see any particular impact of COVID-19 on our production facilities in Korea and Taiwan.

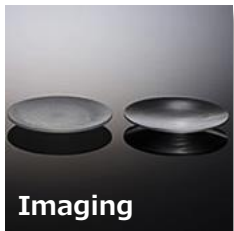
Hiroshi Suzuki, CEO:

We have made masks for OLED applications for quite some time, although products for 400ppi do not exist to the extent being discussed in the world markets. While high-end mobile phones have not sold well, masks for 400ppi applications were released more than expected during Q4.

## Overview by Product



Sales of 2.5" continued to decline, cannibalized by SSDs in areas including notebook PCs. 3.5" sales grew over 90% YoY driven by the 16TB drive for data centers. Our new factory in Laos started to ship sample products to customers for qualification.



The structural decline of digital camera lenses accelerated due to COVID-19. In contrast, we expect surveillance camera lens sales to revive as they will be utilized to contain COVID-19. We will continue to develop new market opportunities for our glass lenses.

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Eiichiro Ikeda, CTO:

HDD Glass Substrates

To make one correction, the slide indicates that sales of 3.5" products grew over 90%; however, Q4 growth was actually around 50%. The 90% figure is for the fiscal year. HDD overall experienced 6% growth. 2.5" product sales fell more than 10%, while 3.5" products increased 50%. 3.5" products not only covered the decrease in 2.5", but also provided growth as we anticipated.

2.5" products experienced further replacement by SSDs for use in PCs. SSDs have been selected for use in new game console models, leading us to forecast another 20% decrease for 2.5" products. 3.5" products are designed for data centers and sales currently rely on customer 16TB products. Although currently affected by data center distribution, we understand that the most important factor is not short-term demand fluctuations, but rather having the three HDD manufacturers use our glass substrates. More recently, difficulties in MAMR have led to the adoption of energy assist PMR in exchange. However, the improvement in recording density is limited only to a few percentage points. Further recording density improvements will require HAMR. HAMR drive (requiring glass substrates) development activities are underway, including manufacturers in the MAMR camp. In addition, in terms of multiple layer products, models of 10 or more layers require glass substrates and all manufacturers are engaged in development activities. We believe it is important to conduct development activities for HAMR and multi-layer devices with every manufacturer. Our Laos factory is capable of manufacturing samples. In April, we began to ship samples to customers for certification. Certification will take several months and we expect to be able to start mass production on schedule during the second half of the fiscal year. COVID-19 has not had a significant impact on our Vietnam factory in terms of distribution. Our Laos factory closed temporarily, but did not experience significant impact as we have not entered mass production.

Hiroshi Suzuki, CEO:

Although 2.5" sales decreased more than 10%, we do not perceive this as such a major contraction. While sales contracted, HDD for notebook PCs were produced in numbers during Q4. The impression is that the transition to SSDs has decelerated. We do not know exactly what will happen in the future, however. These were the impressions looking at Q4 by itself. From our perspective, we increased the price of our substrates, but were not able to make sales during the quarter.

#### Imaging-Related Products

We have already assumed that digital cameras will experience negative growth. However, COVID-19 has further accelerated contraction of the market. Production adjustments have combined to result in a significant decrease compared to the prior fiscal year. We recognize that the digital camera market will shrink further in the future. HOYA will continue to focus on camera applications such as surveillance cameras, but we believe we must reduce fixed costs as these applications may take time to contribute to growth. There was no particular impact of COVID-19 on production facilities.

Hiroshi Suzuki, CEO:

February performance was poor as all factories suspended operations. However, production for CCTV lenses started up in significant numbers in March. We assume that these will be used to track people infected with COVID-19.

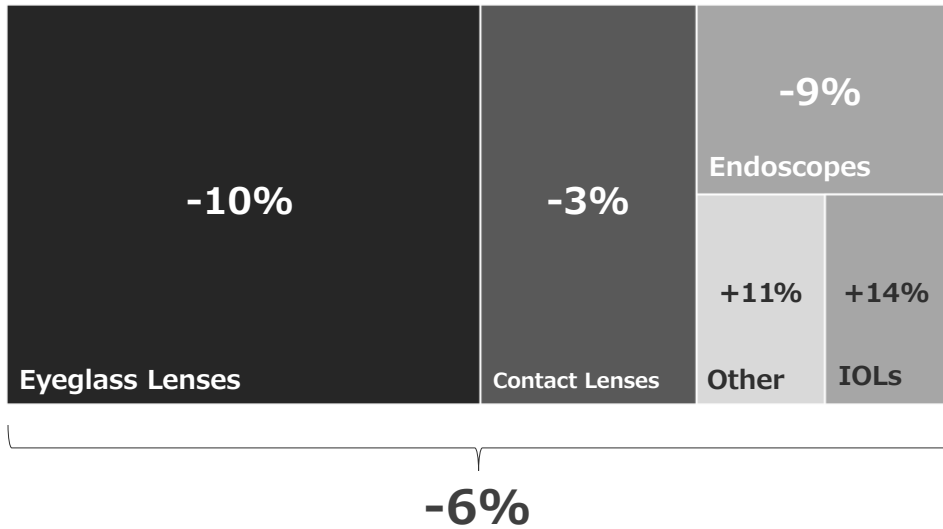
1. Financial Results
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Presentation MC:

Next, Hiroshi Sukuzi, CEO, will give his presentation about the Life Care segment.

# Life Care Snapshot

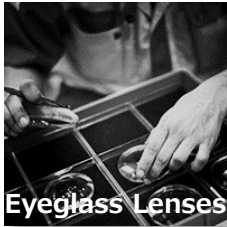
YoY Sales Growth (Like-for-Like)



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## Overview by Product



End customer demand declined significantly, due to retail store closures and movement limitations. Store closures are a critical factor for the industry as online exposure is only 5% to 7%. We will capture pent-up demand in China and Korea, where new infection numbers are starting to decelerate.



In line with our expectations, we saw a reverse impact after front-loaded demand due to the consumption tax hike, totaling around ¥1.1bn. Our sales were also affected by a partial closure of our retail operations during the second half of March. Including M&A, our stores totaled 336 stores as of end of March.

### Eyeglass Lenses

Sales in China fell 90% in February, but began rising during the second half of March. South Korea fell between 40% and 50% during March. Performance in these two countries was the biggest factor causing sales to drop in Q4. On the other hand, sales rose between 1% and 2% in Europe and the Americas in January and February. The spread of COVID-19 in March was a significant drag on performance.

### Contact Lenses

Many customers made new purchases of supreme comfort lenses (silicon hydrogel lenses). Further, many customers continue repeat purchases of the first lenses they buy. We expect average unit prices will continue to rise based on what we saw during the quarter.



## Overview by Product



The COVID-19 outbreak resulted in fewer cataract procedures in Asia and Europe. Sales in Japan progressed stably and the two companies (Mid Labs/Fritz Ruck) acquired in Jan. 2019 showed outstanding performance. As a result, overall sales were positive.



In addition to strong sales in Russia, our bronchoscopes showed robust sales in Europe through ER and ICU channels due to COVID-19. US sales were down due to delays in approval. COVID-19 negatively impacted sales in Asia.

Hiroshi Suzuki, CEO:  
Endoscopes

Our competitor released a new endoscope. While the functions were not significantly surprising, we were impressed with the company and the capabilities provided that would be difficult for even experts. The Japanese and Korean markets use endoscopes slightly differently than other markets. In Japan and Korea, doctors mainly take pictures of the affected area during an examination. In other countries, it is common to take video footage since patients are anesthetized for examination. The root technologies for product that take still pictures versus products that take video are different. Our competitor has been able to effectively combine both in one, surprising experts with its capabilities. We are still not sure what the market reception for this product will be. There may not be much change. This competing product combines video and still photos, while providing compatibility with older products, which is difficult to pull off. I imagine our competitor ran into many difficulties in developing their product.

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## Status of Life Care Business RE COVID-19

|                 | Production/Supply Chain                     | End Demand  | Outlook After Activity Restrictions Eased   |
|-----------------|---|---|---|
| Eyeglass Lenses | Reduce production to align with end demand. | Significant decline in demand due to lock downs and activity restrictions resulting in retail closures. | Return to normal levels after three months as economic activity resumes. (China and Korea starting to show signs of recovery) |
| Contact Lenses  | No remarks.                                 | Lost sales opportunities due to voluntary stay-at-home request made by the Japanese government.         | Expect pent-up demand since majority of contact lenses are consumables (disposables).   |
| IOLs            | Reduce production to align with end demand. | Demand decreasing, since cataract surgery has been deemed an elective surgery.                          | Expect slow recovery. Patients (generally elderly) being susceptible to COVID19 may hesitate to visit hospitals.              |
| Endoscopes      | No remarks.                                 | Increased demand for bronchoscopes. Majority of endoscopic procedures deemed elective.                  | Gradually return to normal as elective procedures are performed.  |

Hiroshi Suzuki, CEO:

Next, I will address results for April of this year.

### Eyeglass Lenses

As of last week, eyeglass lens sales were down 78% year on year. We rebounded from a bottom in the prior week, seeing an increase of between four and five percentage points. The week of April 20 was the lowest point for sale performance. Korea was the quickest to rebound, recovering to more than 80% compared to the same period in the prior fiscal year. China and Germany were the next-quickest regions to recover, up to almost 70% and 38%, respectively, during the week of April 26. Germany came back quickly, doubling the prior week to reach nearly 40% of last year's results. The worst-performing regions were India, at almost zero sales, and the UK at only 5%. We expect this business to return slowly over time, likely in May, June, and July. Our competition has stated that their eyeglass stores will experience a rush from consumers once the lockdown ends. I don't expect this will happen and that any business lost will not likely return. At the moment, we are looking to return to previous year levels in about three months.

### Contact Lenses

Our retail contact lens business in Japan is moving along at 20% lower performance year on year. We operate about 350 stores, 140 of which are closed. These stores are closed because they are located in shopping malls that are closed themselves. Even so, we have maintained 80% of previous-year sales figure thanks to home delivery sales. Since the COVID-19 commotion began, we started delivering the identical contacts at the same prescription to customer homes. Since home delivery sales account for about 40% of total sales, we haven't seen as great a drop in sales as one would expect when stores are closed. Some customers have turned to online orders for their products, so our recovery will depend on how many customers return to shopping malls in the future. Most likely, the recovery will be slow.

With many consumers not using contact lenses in the home, the demand disappearing during this lockdown will likely remain unrecoverable. We don't expect consumers to run to our stores as soon as their stock of contacts is gone. We believe sales will recover in two months or so.

#### Intraocular Lenses

Intraocular lens sales are moving forward at about 50% of the same period in the previous fiscal year. Japan may be a little less than that. Since many people with cataracts are older patients who are avoiding hospitals right now, cataract surgeries may decline for a while. China and Europe, however, are rebounding. China has returned to about 60% of prior year, while Europe has returned to between 10% and 20% recently, from essentially zero earlier.

#### Endoscopes

Japan and the United States are down between 30% and 40% compared to the year-ago period. However, Europe and Asia are outperforming prior year. Digestive tract applications have fallen across every region. However, demand in Asia and Europe for endoscopes used in ICUs for work on lungs is rising dramatically. Medical workers use endoscopes to better see when they insert tubes in patients. Although disposable endoscopes would be better, production of disposable devices by Ambu, the sole maker of these tools, has not kept pace. Therefore, we have received a major rise in inquiries and sales have outperformed prior year. We are moving forward in the development of disposable bronchoscopes, which we expect to release this year to the market. Unfortunately, we are not likely meet demand for the current pandemic.

Basically, the demand for endoscopes will not go away, and will recover in the short term. Demand depends on national budgets, and national hospital budgets will have a long-term impact on the future of this business. We will likely see a recovery over the short term, however. We will need to take a closer look over the long run.

## Status of IT Business RE COVID-19

|                | Production/Supply Chain  | End Demand  | Outlook After Activity Restrictions Eased   |
|----------------|--|---|---|
| Blanks         | Temporary closure of Malaysia factory (polishing of standard blanks). Restarted operations, though utilization still fairly low. | End demand for consumer products face reduced demand. Leading-edge R&D maintains momentum.                        | -   |
| FPD/LSI Masks  | No remarks.  | No obvious impact.  | -   |
| HDD Substrates | Temporary closure of new Laos factory. Restarted operations.   | 2.5" end demand related to consumer products face reduced demand. 3.5" is seeing increased demand due to WFH etc. | -   |
| Imaging        | No remarks.  | Digital camera demand declining due to activity restrictions.   | Digital camera demand may not recover for a while. We may see increased demand for surveillance cameras used to contain epidemic. |

Hiroshi Suzuki, CEO:

Next, I will address results for April of this year.

### Blanks for Semiconductors

Sales of blanks for semiconductors are moving along at between 3% and 5% ahead of prior year.

### FPD Masks

Sales of FPD masks are moving along at between 10% and 15% ahead of prior year.

### HDD Substrates

We have one customer who owns a manufacturing facility in the Philippines. This facility is experiencing a decline in operating capacity, which has resulted in an issue for us supplying certain components. Therefore, sales have declined slightly when looking at April performance alone. We are not overly concerned, as we believe this situation will recover during the second half of May.

### Imaging-Related Products

Weak performance in imaging-related products continued through April. Speaking frankly, April seemed to be a month signaling the end of the interchangeable lens camera market, including the market for mirrorless cameras.

## Initiatives Related to COVID-19

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- Prioritize safety of employees and other stakeholders.
- Cost reductions to secure profit as much as possible.
  - Cancel overseas business trips
  - Freeze hiring
  - Execute different working style (no-pay leave, short working hours)
  - Restrain sales promotion expense
  - Restrain purchase activity
  - Close/integrate production sites
  - Adjust production lines
  - Restrain capital investment
- Assuming the situation continues, we will consider business structure reforms to adjust to a post-COVID-19 era.

1. Financial Results
2. IT Business Overview
3. Life Care Business Overview
4. Summary
- 5. Q&A**

Presentation MC:

Next, we will begin our Q&A session.

Anyone with questions, please click the “raise hand” icon. If you are participating by phone, push the star button and the number nine. Please state your company and your name before asking your question.

Due to time limitations, we must limit questions to two per person. Thank you for your understanding.

## Q&A -1

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Q

**Nihon Keizai Shimbun Reporter (Masuda)  
Response to COVID-19**

In the slide titled, *Initiatives Related to COVID-19*, you state that you are considering business structure reforms with a view toward the long term. What does this mean, exactly? HOYA maintains a wide supply chain throughout Asia, so we believe we can take various measures, including moving this chain to Japan.

A

Rather than changing the supply chain, we are considering structural reforms to lower fixed costs in businesses where demand is shrinking. While risks could increase on the one hand, we want to consolidate production, integrating inefficient operations from one location to another. Even in indirect departments that we cannot change normally, we want to use the current situation as an opportunity to raise efficiencies in areas that aren't operating at peak. We want to change how we approach production in certain areas of our Life Care Business. As we disperse risk in certain areas, we may also attract risk in some ways. This integration will represent a combination of such risks.



## Q&A -2

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Q

**Nihon Keizai Shimbun Reporter (Masuda)**  
**Cash Allocation**

Do you intend to maintain cash on hand of ¥300 billion as you have done in the past? You have also stated your intention to maintain stable dividends. Do you mean payout ratio or dividend amounts here?

A

We mean that we do not intend to cut dividends at present. We are not tied exactly to ¥300 billion in cash on hand, but we will be putting share buybacks on the shelf for a while. Rather than worrying about cash, we believe there may be opportunities for M&A in the future. The most difficult challenge has been valuations, but they are beginning to approach our standards. In this sense, there seems to be more opportunities for M&A than before, so we want to have cash on hand as funds for M&A. Although text discussing our future may be opaque, if anything, we believe there will be positive opportunities to use our cash. Therefore, we think maintaining cash reserves at this point is better than conducting share buybacks.

# Appendix

## Annual Earnings

| (¥bn)  | FY18  | FY19  | YoY   | YoY(%) |
|--|-------|-------|-------|--------|
| Revenue  | 565.8 | 576.5 | +10.7 | +2%    |
| Pretax Profit                                  | 144.7 | 147.3 | +2.6  | +2%    |
| Net Profit                                     | 122.1 | 114.6 | -7.5  | -6%    |
| cf. Profit from ordinary operating activities* | 148.5 | 154.5 | +6.0  | +4%    |

Achieved record high revenue and pretax profit.

## Life Care Annual Earnings

| (¥bn)               | FY18  | FY19  | YoY    | YoY(%) |
|---------------------|-------|-------|--------|--------|
| Revenue*            | 373.4 | 375.0 | +1.7   | +0%    |
| Pretax Profit       | 69.3  | 62.2  | -7.1   | -10%   |
| cf.Operating Profit | 74.2  | 70.0  | -4.3   | -6%    |
| cf.OP Margin        | 19.9% | 18.7% | -1.2pt |        |

\*External revenue

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## IT Annual Earnings

| (¥bn)               | FY18  | FY19  | YoY    | YoY(%) |
|---------------------|-------|-------|--------|--------|
| Revenue*            | 187.5 | 196.7 | +9.2   | +5%    |
| Pretax Profit       | 80.6  | 88.1  | +7.5   | +9%    |
| cf.Operating Profit | 79.6  | 88.6  | +9.0   | +11%   |
| cf.OP Margin        | 42.4% | 45.0% | +2.6pt |        |

\*External revenue

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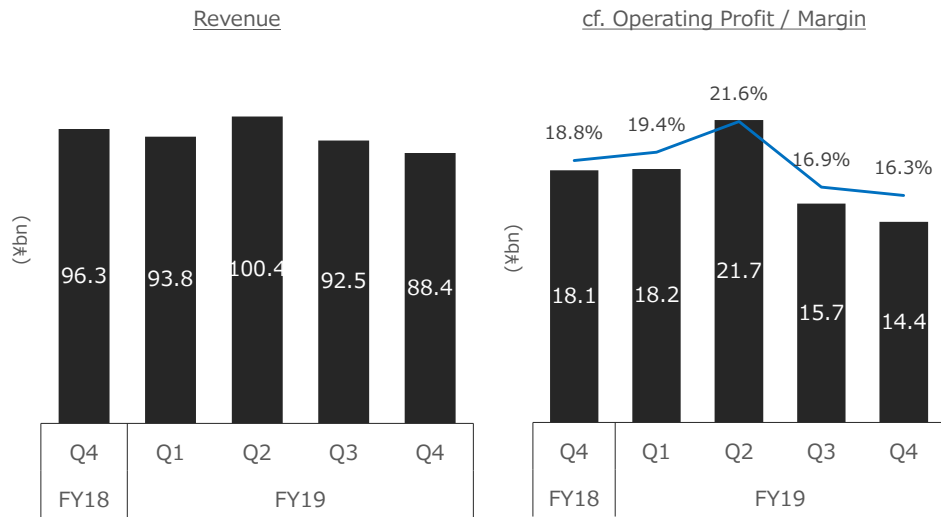
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## Annual Cash Flow

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| (¥bn)   | FY18  | FY19  | YoY   |
|---|-------|-------|-------|
| Operating CF                                      | 146.6 | 163.4 | +16.8 |
| Investing CF                                      | -70.1 | -47.4 | +22.8 |
| Financing CF                                      | -32.8 | -85.5 | -52.7 |
| Cash & Cash Equivalents<br>at the end of the term | 293.4 | 318.0 | +24.6 |

# Life Care QoQ Earnings

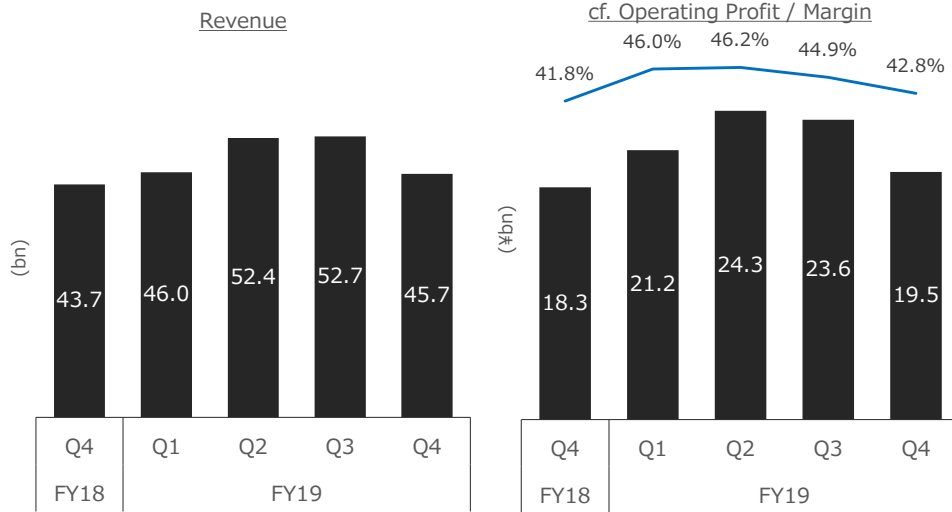


\*External revenue

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# IT QoQ Earnings



\*External revenue

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## Notes

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- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2020 is referred to as “FY19” throughout this document.
- ✓ Figures less than ¥100 million are rounded down. Accordingly, some discrepancies may occur among totals. Ratios are calculated using actual numbers.
- ✓ Like-for-Like figures exclude foreign exchange and M&A impact as well as other extraordinary factors.
- ✓ Profit from ordinary operating activities is calculated as reference information for investors; calculated by deducting finance income/costs, share of profits(loss) of associates, foreign exchange gain/loss and other temporary gain/loss from pretax profit.
- ✓ We have omitted a detailed breakdown of financial statements.  
Please refer to the *tanshin* or the quarterly report for detailed numbers.  
<http://www.hoya.co.jp/english/investor/library.html>

## Forward Looking Statement

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HOYA may make comments and disclose information which include forward-looking statements with respect to HOYA's plans and future performance. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements and are based on management's assumptions and beliefs in light of the information available when such statements were prepared, including exchange and interest rates, international situations, market trends and economic conditions, competition, production capacity, estimates of revenues, operating margins, capital expenditures, cash, other financial metrics, expected legal, arbitration, political, regulatory, clinical or research and development capabilities, results or practices, customer patterns or practices, reimbursement activities and outcomes, effects of pandemics or other widespread health problems such as the ongoing COVID-19 pandemic on our business, and other such estimates and results. HOYA does not guarantee the accuracy or completeness of such information and HOYA does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.