HOYA

FY20Q2 Financial Results

October 27, 2020 Earnings Conference

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HOYA CORPORATION

[With Comments]
Please be aware that comments are provided for reference and are not a verbatim record of all statements made at the earnings call.

Presentation MC:
It is time to begin the HOYA financial results presentation for the second quarter of the fiscal year ending March 2021.
In order to prevent the spread of COVID-19, we will continue to hold the conference through a web conference system.
Please note that conversations may be difficult to hear or temporarily blocked depending on the communication environment, etc.
The explanators from our side today are Hiroshi Suzuki, CEO, Ryo Hirooka, CFO, and Eiichiro Ikeda, CTO.

As for today's agenda, CFO Hirooka will cover earnings results for the fiscal first quarter.
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.
For everyone participating from PCs today, please refer to the materials shared on the screen.

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

1. **Financial Results** **[Ryo Hirooka, CFO]**
2. IT Business Overview
3. Life Care Business Overview
4. Summary
5. Q&A

(Ryo Hirooka, CFO)
This is Hirooka, thank you for joining us today. We will now explain the results over the past three months.

Financial Overview

(¥bn)	Q2 FY19	Q2 FY20	YoY	YoY(%)
Revenue	154.1	140.3	-13.8	-9%
Pretax Profit	44.2	40.2	-4.0	-9%
Net Profit	35.0	31.8	-3.2	-9%
cf. Profit from ordinary operating activities*	45.2	43.3	-1.9	-4%

The impact of COVID-19 eased, and the rate of decline in both sales and earnings improved.

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(Ryo Hirooka, CFO)
This is a summary of business results.
Revenue is 140.3 billion yen. This represents a decrease of ¥13.8 billion and a decrease of 9% compared to the previous year.
Quarterly profit before tax was ¥40.2 billion, a negative ¥4 billion compared to the previous year. The rate of decline in profits is 9%.
Quarterly profit is 31.8 billion yen, a decrease of 3.2 billion yen, and a decrease of 9% compared to the previous year.
As a whole, the impact of COVID-19 has been alleviated to a large extent, and both sales and profits have improved significantly compared to Q1.
And in Q2 last year, there was a last-minute surge in demand before the consumption tax hike, and it will be mainly for contact lenses.
Sales grew significantly last year, so when considering this,
I think that in reality sales growth was in the range of negative 5%-6%.

Constant Currency Basis (CCB)

(¥bn)	Previous Rate (A)	Current Rate (B)	FX Impact	YoY	YoY(%)
Revenue	140.8	140.3	-0.5	-13.4	-9%
Pretax Profit	40.5	40.2	-0.3	-3.7	-9%
Net Profit	32.1	31.8	-0.2	-2.9	-8%

Average Rates	(A)Q2 FY19	(B)Q2 FY20	Variance
US$	¥107.67	¥105.25	+2.2%
EURO	¥118.95	¥124.59	-4.7%
BAHT	¥3.51	¥3.36	+4.3%

(Ryo Hirooka, CFO)
Next part is the impact from foreign currency translation.
You can see the movement of the major currencies, the U.S. dollar/euro/baht, at the bottom of a page.
Overall, the dollar and the baht were weaker, the euro was stronger against the yen respectively.
As a result, revenue is largely offset by the yen's appreciation against the U.S. dollar and the yen's depreciation against the euro.
The impact of foreign currency translation is approximately ¥500 million.
Taking this into account, net sales declined by 9%, to a negative ¥13.4 billion.
With regard to quarterly income before tax and quarterly income, the impact amount is ¥300 million and ¥200 million, so the rate of decrease in income remains almost unchanged at 9% and 8%, respectively.

Notes RE: Special Items

Comprehensive Income Statement

(¥bn)	Q2 FY19	Q2 FY20	YoY
Income	155.3	141.7	-13.7
Expenses	111.1	101.5	-9.6
Impairment Loss	-	3.1	+3.1
Pretax Profit	44.2	40.2	-4.0

The company recognized goodwill impairment due to delays in clinical trials and approval at a previously acquired overseas subsidiary due to COVID-19 and other factors.

(Ryo Hirooka, CFO)
This is a special factor in the statement of comprehensive income.
For details of the bridge chart, ranging from profit before tax to profit from ordinary operating activities, please refer to page 11 of the Quarterly Report for the three months ended Sep.30,2020.
In large part, an impairment loss of ¥3.1 billion has been recorded this time.
In the past, we acquired medical devices for a considerable upfront investment.
However, due to the impact of COVID-19, clinical trials and the acquisition of regulatory approval are expected to be delayed, and without postponing the acquisition, we decided the impairment of goodwill.

Life Care Earnings

(¥bn)	Q2 FY19	Q2 FY20	YoY	YoY(%)
Revenue*	100.4	90.1	-10.3	-10%
Pretax Profit	20.6	17.7	-2.9	-14%
cf.Operating Profit	21.7	21.2	-0.5	-2%
cf.OP Margin	21.6%	23.5%	+1.9pt	

*External revenue

(Ryo Hirooka, CFO)
Next, I would like to explain the results by segment.
As for the Life Care Division, the result is 90.1 billion yen in revenue, a decrease of 10.3 billion yen, and down 10% compared to the previous year.
Quarterly profit before tax is 17.7 billion yen. This represents a decrease of ¥2.9 billion and a decrease of 14% compared to the previous year.
The impairment loss described earlier was incurred in the Life Care segment.
Profit from ordinary operating activities declined 2% to a decrease of ¥500 million year-on-year. The profit margin is 23.5%, which is a very high level for life care.
Later, I will explain by product, and I think it may also come out from the later CEO and CTO. The overall life care showed that the recovery of the market was better than the 90%, but we were cautious about keeping the cost down while carefully looking back to this level. In particular, the recovery in sales in the eyeglass lens business division has led to an extremely high-profit margin. However, in the second half of the fiscal year, we plan to return costs to normal, as cost containment alone is not enough to keep sales above 100% or recover to a level similar to the previous fiscal year.
In this quarter, the profit margin is extremely high, but I hope that you understand that this is largely a factor in controlling costs.

Life Care Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	90.0	90.1	+0.1	-10.4	-10%
Pretax Profit	17.8	17.7	-0.0	-2.9	-14%
cf.Operating Profit	21.5	21.2	-0.3	-0.2	-1%

*External revenue

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(Ryo Hirooka, CFO)
This figure shows the impact of foreign exchange rates in the Life Care Division. However, the impact of both the weaker dollar and the stronger euro has been offset, and there has been almost no currency translation impact.

IT Earnings

(¥bn)	Q2 FY19	Q2 FY20	YoY	YoY(%)
Revenue*	52.4	49.0	-3.5	-7%
Pretax profit	24.3	22.4	-1.9	-8%
cf.Operating Profit	24.3	22.8	-1.4	-6%
cf.OP Margin	46.2%	46.7%	+0.5pt	

*External revenue

(Ryo Hirooka, CFO)
Information and Technology segment.
Revenue is 49 billion yen, a decrease of 3.5 billion yen and a decrease of 7% compared to the previous year.
Quarterly profit before tax is 22.4 billion yen or a decrease of 1.9 billion yen to a negative 8%.
We will later explain where the increase and the decrease have occurred by the product.
Although both sales and profits declined, the profit margin was 46.7%, meaning that we were able to maintain it.

IT Earnings (CCB)

(¥bn)	Previous Rate	Current Rate	FX Impact	YoY	YoY(%)
Revenue*	49.5	49.0	-0.6	-2.9	-6%
Pretax profit	22.6	22.4	-0.2	-1.7	-7%
cf.Operating Profit	23.1	22.8	-0.2	-1.2	-5%

*External revenue

(Ryo Hirooka, CFO)
Nextly, the impact of exchange rates on information and communications.
When selling in foreign currencies, it is often denominated in dollars, so the impact of foreign exchange rates is more pronounced than that of Life Care.
The effect is 600 million yen, so a 2.9 billion yen decrease in real terms results in a decrease of 6%.

Earnings by Sub-Segment

(¥bn)	Q2 FY19	Q2 FY20	YoY	YoY(%)
Health Care (Eyeglasses/ Contact Lenses)	76.1	68.2	-7.9 (-7.7)	-10% (-10%)
Medical (IOLs/Endoscopes/ Artificial Bone)	24.4	21.9	-2.4 (-2.7)	-10% (-11%)
Electronics (LSI & FPD/ HDD Substrates)	43.0	41.9	-1.1 (-0.6)	-3% (-1%)
Imaging	9.4	7.1	-2.3 (-2.3)	-25% (-24%)

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

(Ryo Hirooka, CFO)
I am touching the part by sub-segment products.
First, healthcare. Healthcare, which includes eyeglasses and contact lenses, the sales were 68.2 billion yen, a decrease of 7.9 billion yen compared to the previous year, resulting in a decrease rate of 10%.
Figures in parentheses exclude the impact of foreign currency translation. Therefore, excluding the impact of foreign currency translation, net sales decreased by 7.7 billion yen and 10%, respectively.

Regarding eyeglass lenses, sales were down 1%, returning to almost the same level as the previous year.
On the other hand, contact lens sales declined by 25% compared to the previous year. As I mentioned earlier, last year's Q2 saw a substantial surge in demand prior to the consumption tax hike, so in real terms, we saw a decline of 10% to 10% or more.
As for the glasses lens, there are quite a lot of differences depending on the country. When we look at it by region, Europe exceeded the previous year. As for the U.S. and the Asian region, although there are some ups and downs depending on the countries, the recovery seems to be slightly behind that of Europe.
Regarding contact lenses, there was a last-minute surge in demand prior to the tax hike last year, but in addition to this, we also think that the impact of people's going out less and the impact of the decline in the number of cases of using due to factors such as telework is continuing.

Next is medical, which includes intraocular lenses, endoscopes, etc. Sales were 21.9 billion yen. This is a negative 2.4 billion yen and a decrease of 10% compared to the previous year. In effect, this is a negative 2.7 billion, or 11%, due in part to the impact of foreign currency translation. Regarding intraocular lenses, there are differences among countries, the same as

eyeglasses, the result was a 12% decline in this quarter. In September, especially in Europe, the number of surgery cases is increasing, so the situation is recovering.
Regarding endoscopes, sales were down 17% from the previous year. We believe that the use of hospital scopes is returning to a large extent as a market situation, but hospitals and clinics hadn't moved in the direction of buying scopes, Sales is17% negative.

Electronics-related products, which include LSIs, FPDs, and HDD substrates. Sales were ¥41.9 billion, a decrease of ¥1.1 billion from the previous year. Excluding the impact of foreign exchange rates, the impact was negative ¥600 million, or 3% on a yen basis and negative 1% if the impact of foreign exchange was excluded.
Looking at each of them briefly, for LSI, blanks remain very strong and EUV sales are also increasing more actively, growing more than 50% compared to the previous year.
For FPD large panels, we have slightly deviated to the minus. This is due in part to the trade relationship between Japan and China, the environment is such that sales to customers in China are declining slightly.
Finally, in terms of HDD substrates, sales were down 10% from the previous year. First of all, 3.5-inch, which has continued to grow steadily and grew by more than 35%. On the other hand, I have mentioned that 2.5 inches is always going down, and 40% down compared to last year. The base strategy is to offset the 2.5-inch shrinkage by 3.5-inch growth, but the total growth for this quarter was negative 10%

The final part is Imaging. The sales was 7.1 billion yen. A decrease of ¥2.3 billion compared to the previous year results in a 25% decrease. This is attributable to the continued shrinkage of the market for camera-related products in conjunction with previous trends due to the continuing harsh conditions. In this regard, as I have always mentioned, rather than the idea of increasing or maintaining sales, we are focusing on maintaining or increasing profitability by reducing costs in line with the market. In addition, as you can see when you look at the amount, if you look only at the Imaging, it was down 25%, but in terms of the amount, the impact on the company as a whole is not that great.

Balance Sheet

(¥bn)	Q1 FY20	Q2 FY20	QoQ	
Non-current Assets	288.3	285.4	-2.9	1
Current Assets	499.3	540.5	+41.3	2
Capital	637.2	663.6	+26.4	
Non-current Liabilities	49.5	46.3	-3.2	
Current Liabilities	100.9	116.1	+15.1	
Total Assets	787.6	825.9	+38.3	

1 Decrease due to impairment of goodwill of an overseas subsidiary.

2 Increase due mainly to an increase in cash of 35.9 billion yen.

(Ryo Hirooka, CFO)
The next part is the balance sheet There is no such large movement, at the non-current asset level, this is the portion of the goodwill impairment charge, which we explained earlier. The increase in current assets is due to the fact that profitability has recovered, and in this situation, cash has increased due to the fact that we have somewhat controlled working capital.

Cash Flow

(¥bn)	Q2 FY19	Q2 FY20	YoY	
Operating CF	44.7	48.4	+3.7	
Investing CF	-11.1	-8.7	+2.4	
Financing CF	-7.5	-1.8	+5.6	1
Cash & Cash Equivalents at the end of the term	298.4	337.4	+39.0	

1 Cash outlays from financing activities decreased, since the company conducted a share buyback in the year-ago quarter.

(Ryo Hirooka, CFO)
Cash flow statement. This is a repeating of my comment earlier. The profitability has recovered and operating cash flow has increased from the previous year by controlling working capital.

Share Buyback

We were temporarily adjusting cash allocation balance due to uncertainty, but given that visibility is starting to improve, we will conduct share buybacks.

Maximum number of shares to be repurchased : 4 mn
Maximum acquisition price: 40 bn yen
Period: October 28, 2020 to January 20, 2021
➡To be cancelled after repurchasement.

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(Ryo Hirooka, CFO)
At today's Board of Directors meeting, we have resolved to repurchase our own shares. The maximum number of shares is 4 million shares. The maximum aggregate purchase price is 40 billion yen, and the acquisition period is from October 28 to January 20. After the acquisition, the Company plans to retire the shares as usual. We also decided to pay an interim dividend of ¥45, which is the same as previous year.
As we talk about dividends and treasury stock, I would like to touch on cash allocation and shareholder returns. Basically, our policy has not changed significantly even before and after COVID-19. Our stance remains that we have prioritized CAPEX and M&A, and have held a decent amount of cash on hand in order to implement it flexibly. After COVID-19 emerged, there were two factors, and there were some uncertainties about our business performance and the future of our business. In addition, we had the idea that there would be more opportunities for M&A, including the valuation. Therefore, we held slightly more cash than usual. We have been advancing in this manner, during the past six months, we had at least a certain level of prospects for COVID-19 at the moment, and to implement M&A flexibly at this point. However, As a result, we did not expect the valuation to go down so much. Therefore, we return our idea to before COVID-19 and continue to give priority to the idea of having a little more cash for M&A. We would like to return cash, we do not use, to our shareholders. Regarding share repurchases, one difference from the previous repurchase was that the period was changed from six months to three months. I think that by going beyond the three-month period, we will be able to make M&A and return profits to shareholders while increasing options a little more flexibly in the future, so this time we have set the plan in the form of three months. That's the end of the explanation from me.

1. Financial Results

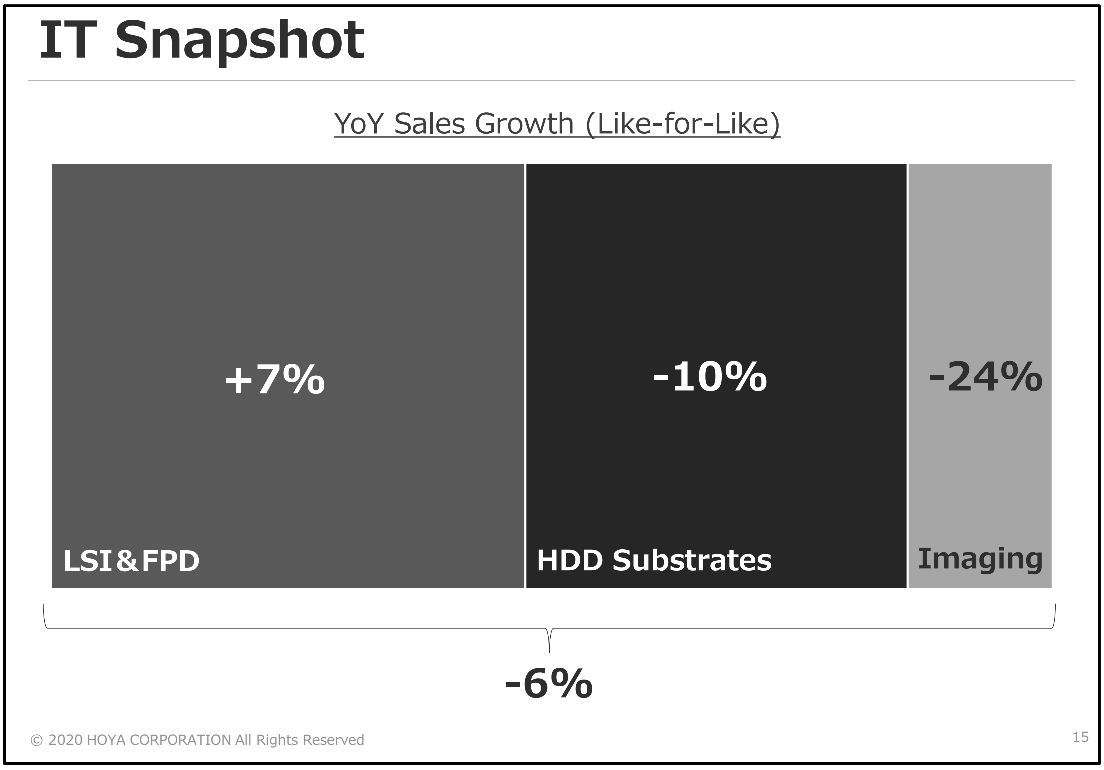
2. IT Business Overview [Eiichiro Ikeda, CTO]

3. Life Care Business Overview

4. Summary

5. Q&A

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



(Eiichiro Ikeda, CTO)
I will be presenting about the Information Technology segment.
Starting off with the overall sense of the year, as you can see on this slide, revenue amounted to ¥49.0 billion, with profit from operating activities at ¥28.8 billion, with both down between 5% and 6% year on year.
Although sales and profit both decreased, we were able to manage our costs, with a profit ratio of 46.7%, up 0.5% year on year and showing that we have been able to maintain our profit ratio.

Going product-by-product, we can see from the screen that HDD glass substrates were down 10%. In the quarter, electronics (LSI & FPD) were up 7% and the optical area is down 24%.

Overview by Product

Sales of EUV blanks grew roughly 50% YoY. Sales of optical products declined slightly due to an inventory buildup caused by the Japan-Korea trade dispute in the year-ago quarter. We are considering further capacity expansion in response to increased customer investments in EUV.

Demand for TV masks increased due to shelter-at-home demand caused by COVID-19. Panel manufacturers shifted their focus to mass production, which led to a decrease in R&D demand. In addition, sales of masks for smartphones in China decreased due to the trade war between the US and China. The company will continue to focus on highly functional/high-value-added masks in the future.

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(Eiichiro Ikeda, CTO)

Now, I'll present an overview per business.

Mask Blanks for Semiconductors
First of all, in the blanks business, EUV continued to perform well this fiscal year, growing at a steady rate of about 50% year on year. On the other hand, the optical side had impact during the same period the previous year from Japan-South Korea trade conflict; at the time, that had the particular effect of South Korean customers stockpiling inventory to a bit of an extreme. So, if we compare quarter to quarter, the optical side ends up slightly down this year. Also, and this is about the EUV production line newly-established at the Singapore factory, at the time of the previous financial results announcement, though there were some details explained here - like COVID-19-impacted immigration restrictions for facility setup personnel - these concerns have dissipated with the relaxation of border restrictions between Japan and Singapore as of last month. Manufacturing, product certification, as well as manufacturing launches and production capacity expansions are currently proceeding smoothly as planned without major issues.

Furthermore, as stated in this slide, we are seeing ongoing EUV investment from our customers; therefore, we have launched more concrete studies into further boosting our EUV production capacity.

FPD/LSI Masks
Over to FPD, demand increased for masks for televisions driven by people staying at home because of COVID. Also, the slight shift from panel manufacturers from development to mass production caused decreased demand for development for televisions. As a result, the demand for masks as a whole is decreasing. Also, and this is a bigger factor, the impact from

U.S.-China trade frictions has hit on the mask business for Chinese smartphones, especially high-end ones. With this decrease, impacted by this factor, the business is down versus the previous fiscal year. We anticipate that this trend will continue into the next quarter.

Overview by Product

Despite the data center market entering an inventory digestion phase, 3.5" sales continued to achieve double-digit growth. On the other hand, sales of 2.5" were down due to accelerated declines in the 2.5" market, owing mainly to the adoption of SSDs in new game consoles. Overall sales declined as a result. The next peak of the data center investment cycle is expected to return next spring.

Demand for products for digital cameras remained weak due to COVID-19 (our sales did not decline as much as the overall market, since we gained market share in high-end products.) We will expand sales for new applications, including surveillance cameras, which are expected to become increasingly sophisticated. We plan to maintain profitability through structural reforms.

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(Eiichiro Ikeda, CTO)

HDD Glass Substrates
Next is glass substrates for hard disks, where overall revenues fell by 10%. Going through each of the 2.5" and 3.5" portions, the 2.5" side dropped significantly, about 40% down year on year. As mentioned before, the reasons for these include the further erosion of share by SSDs in the PC market, causing the overall 2.5" market to shrink. For this quarter, there was also significant impact from decreases in applications for game consoles. 2.5" sales have consistently had a seasonality of peaking in Q2 and bottoming out in Q4, with the Q2 peak caused by growing demand in game consoles toward the year-end sales season. We knew that all game consoles released from this year forward would have HDDs replaced with SSDs, and as said from several quarters of presentations ago, gaming sales would disappear. Up through last year, there were still some game applications in HDDs in Q2, those sales disappeared as they were replaced with SSDs. So, if we look year on year, this was a quarter that was severely impacted. We expect continuing decreases in 2.5" drives.

3.5", on the other hand, are on a steady increase, up more than 140% year on year. As a result, this was the first quarter in which 3.5" sales turned the tables on 2.5" sales. Although we do not disclose the profit ratio for the HDD glass substrate business alone, even if 3.5" were a main product taking up the majority, there would not be major impact on profitability - as you can probably guess from the profitability figures of IT overall. About the 3.5", current mass-production HDDs are 16TB models. The upcoming 18TB HDDs are in the end-user certification processes, and we are continuing to obtain HDD certification for substrates. Up to 18TB models, layer counts are unchanged from 16TB ones, so customer glass substrate adoption will be unchanged. For the following 20TB models, HDD manufacturers are trying to maintain the current layer count without increases; however, roadmaps going forward for 22TB and 24TB and such show layer increases or adopting HAMR. Development is unchanged here with regard to all customers. Despite ongoing delays in our customers' HAMR installation timeframes, the MAMR camp is shifting toward HAMR development due to limited improvements expected in recording density, with backup development moving toward more layers. Therefore, there is no change in our scenario that glass substrates will be necessary regardless, since to increase HDD capacity, HAMR would be used to improve the recording density, and/or layer count would increase to increase area.

Imaging-Related Products
Our last area is imaging-related products; with cameras down, we are of course expecting negative growth, but demand slowdowns are being exacerbated by COVID-19, with significant drops if we also incorporate production adjustments. This trend is generally expected to continue, so while it is natural to develop other applications, as Hirooka mentioned earlier we will continue to focus on cost reductions.

1. Financial Results
2. IT Business Overview
3. **Life Care Business Overview** **[Hiroshi Suzuki, CEO]**
4. Summary
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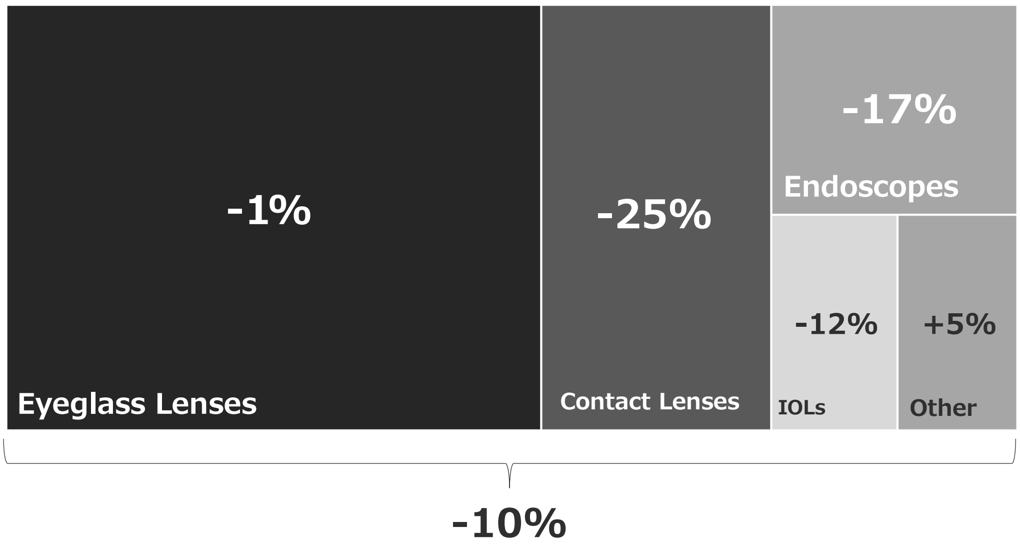
Presentation MC:
Next, Mr. Hiroshi Suzuki, CEO, will give his presentation about the Life Care segment and a general overview.

Life Care Snapshot

YoY Sales Growth (Like-for-Like)



Overview by Product

Demand recovered steadily and sales were on a par with the previous year. In Europe, where we recorded high growth rates, customers avoided the dense urban chains, choosing suburban independent stores. This resulted in a temporary product mix improvement. We expect sales to return to a growth trajectory and expenses to return to normal levels in Q3, while keeping a close eye out for a second lock-down and other factors.

Although the impact of COVID-19 was smaller than in the previous quarter, sales fell sharply compared to the same period in the previous fiscal year, when there was a last-minute surge in demand prior to the consumption tax hike. In addition, estimates indicate that the speed of inventory consumption by users is slowing due to a decrease in the frequency of outings. Considering future developments, we plan to begin trial operations, such as layaway services, in response to the *new normal*.

Eyeglass Lenses
Vision care (eyeglass lenses) ended down 1%, but the upsides in Q2 were in Europe and then China. These two areas grew year on year, generating considerable positives. Downsides came from the United States, as well as Japan's consumption tax impact from last year. Both were down year on year. Other negative areas in Q2 included South Korea, South America, Turkey, and India. All together, the business was down 1%.
Our current figures up to October 17 only cover an aggregate of all regions on a physical quantity basis; however, these are positive. So far, if we look only at October, we see growth of 6% to 7% measured by physical quantities year on year, and while this doesn't necessarily mean Q3 will be positive year on year, we are working under that assumption. As Hirooka explained earlier, what I was a little surprised at in Q2 was that eyeglasses profitability was very good this quarter, with one element being high sales with costs kept relatively low. However, we also saw quick ramp-ups at small shops, especially in Europe. Overall, while large shops and chains saw slow recoveries, small local eyeglass shops recovered faster. Unit prices have improved a lot due to small local eyeglass shops tending to sell expensive items and selling even more expensive items in an attempt to supplant poor performers in Q1. This may be a special phenomenon limited to Europe, but this had the effect of boosting overall profit; however, this was simply because the mix happened to be positive. Chains will of course recover going forward, so I feel this is just a transient trend we are seeing in Q2.

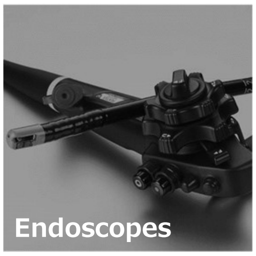
Contact Lenses
Next up is contacts. Contacts are down significantly year on year due to impact from Japan's consumption tax hike last year. If we exclude this and look at the actual situation, we have a market that seems to be shrinking by about 7% to 8%.
Even if the consumption tax hike hadn't happened last year, we would likely have seen a market shrinkage of a bit less than 10%, mostly driven by telecommuting. If we look at sales, even from demographics we see a lot of people in their 20s, with sales down significantly in

urban areas versus suburbs - this means people are staying home and telecommuting instead of going to the office, meaning they're okay with glasses and causing a commensurate shrinkage in demand for contacts. That's our impression of the situation. Looking ahead, the market will shrink somewhat, and this will probably continue for some time. It's been said that since this won't recover on the short term, new shop openings will be limited somewhat, and that since the flow of people is changing with COVID-19, the trend will be to relocate existing stores and focus on scrap-and-build. Here, we are considering store relocations and renovations. Otherwise, we will probably see some competitors give up in the face of market shrinkage, so we will focus on M&A and build on sales. Our impression of the road ahead is using M&A to lift up existing stores and raise sales rather than focus on sales from opening new stores.

One more thing, and this may be a bit of a longer trend than just Q2, but unit prices are rising. Unit prices are up overall for contacts, and I believe this is bifocals. Bifocal contacts let you see both close up and far away, and while the growth is slow, their share of the whole is increasing. We're looking at a solid 10% or so now. Originally these were really only a few percent, but over the past few years that's slowly risen, and their unit prices are high, pushing up the unit prices overall. Plus, we have a new element in our *supreme comfort lenses*, sitting in a high price range vs. our existing products. Some people have shifted toward these products, increasing overall unit prices. However, while unit prices are rising, we expect a full-scale recovery from next year and onward from the considerable unit quantity drop we have had.

Overview by Product

The number of cataract operations gradually recovered, mainly in overseas markets. At the same time, the scale of the decline in sales improved compared to Q1, which suffered a severe hit. Sales in the Chinese market expanded significantly through a joint venture established in May of this year. We expect to see growth as soon as channel inventories normalize.



Demand for endoscopes has been slower to recover due to ongoing restrained investment/postponed replacement by hospitals due to the impact of COVID-19 worldwide. Limitation on patient procedures in hospitals and restrictions on access to hospitals are also continuing. We are strengthening the organizational structure of the U.S. operations, which has been an issue for some time. We plan to reinforce sales activities utilizing online tools.

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Hiroshi Suzuki, CEO:

Intraocular Lenses
Next is intraocular lenses. Just looking at Q2, overseas areas were relatively good; however, demand at large-scale hospitals in Japan did not return. People were unwilling to go to places like general and/or university hospitals, with surgeries falling at these locations and resulting in negative year on year performance in this area. However, recovery was relatively swift in Europe, with performance flat or even up in Q2 year on year. Further, even in Japan our quantity numbers from October show that this is recovering to near flat levels year on year. Recovery is back to about 98% or 99%, so our view is that Q3 figures will exceed the previous year's levels.

China presents a bit of a worry for us. Though numbers are up and business is expanding in China, bid methods are changing with local governments, and they're giving out all work to the cheapest bidder in a winner-take-all competition. We're seeing everyone starting to put out low prices, making it look like prices are going to collapse in China. We may be able to make sales in this situation, but profit-wise we're a little concerned.

Endoscopes
Next is Pentax endoscopes. This one is a somewhat puzzling area with lower revenues and increased profits. The data has a number of twists and turns. Especially in the United States, from Q1 into the beginning of Q2 when sales dropped sharply, personnel were drastically cut. In Europe, instead of cutting personnel, governments covered a portion of their salaries, whereas layoffs are the usual response in the US, causing a tight shrinkage of business scale...Q2 ended with a considerable drop in sales, but still managed a profit.
This won't be viable going forward, so if we don't increase our tightened outlays, we won't be able to move forward. We plan on acting accordingly. However, on the sales side there is

hospital CAPEX, and hospital capacity for capital investment has really, really dropped sharply on a global basis. We believe endoscopes are seeing similar usage levels as last year. Sales will probably take some time to return to levels comparable to last year's, considering hospital financial situation.

Unfortunately, though we were planning to release a disposable endoscope in Q3, this is looking to be moved to next year due to stumbles with European certification.

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4. **Summary** **[Hiroshi Suzuki, CEO]**
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(Hiroshi Suzuki, CEO)
Something that occurred to me in Q2 was that in blanks - the 17nm and 20nm ones about two generations back, or in general terms the ones for ArF immersion - we saw a fair bit better performance than expected, and I wondered what this meant. My sense is that, in the development of 7nm/5nm blanks, there is the option of using EUV or not. For layers where they opted not to go with EUV and doubled or tripled these, there was probably a surprising amount of work at the blanks level or with the related nodes. We knew that with advances in nodes, we would see more layers, but we weren't sure what would change in what way. Now, we are seeing a surprising increase in this area.

One other thing is the outrageous delivery dates for EUV inspection equipment, so we have to order early. Things are stretched relatively thin with only one manufacturer of inspection equipment - plus, not being able to get purchased equipment up would be a problem for us, meaning it'd be pretty far out when we'd get a new one if we tried that. That means we need to get ahead of others and put in our orders early.

Digital cameras are on the decline and becoming more and more clustered with maniac users, who are the only people who are buying them. In interchangeable lenses, connoisseur favorites like those from Tamron and Sigma are doing surprisingly well versus the mainstream offerings from makers like Nikon and Canon. Seems like that's what the world of camera maniacs is like.

Also, though this is a small business of only about two to three billion yen, we have a business making powders and such for refining work in manufacturing medicines. These are also used as part of making vaccines, so we had hopes that they might be used during COVID. However, a virus has a very simple structure, so simple that you almost couldn't call it a living organism, and we were disappointed when we were told our products weren't needed because of it not being able to generate impurities.

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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

Q

Yoshida, Analyst, CLSA Japan:
EUV sales jumped from Q1 to Q2; which nodes were driving this growth?

A

Eiichiro Ikeda, CTO:
Production was in 7nm, with development moving from 3nm to 2nm; this is what drove sales.

Hiroshi Suzuki, CEO:
We're at the peak currently for qualification of the upcoming 2nm and 3nm blanks nodes. This peak will continue until the next quarter, after which we'll move to the masks and fabs phases. If we work backward, the sense is that we're at one year prior to the fab process solidification and ramp-up.

Q&A -1

Q

Yoshida, Analyst, CLSA Japan:
MPU vendors are apparently also using foundries; how does this impact masks and blanks? What's the competitive environment like?

A

Hiroshi Suzuki, CEO:
There's no quality or price impact in respect to blanks, so we feel this will lead to a slight upward influence on overall demand; however, this doesn't mean that there will be a broad impact on blanks.
We're ambivalent currently when it comes to MPU vendors outsourcing. If those orders were to go to our customers, that would be a positive for us.

Q&A -2

Q

Komiya, Analyst, Mitsubishi UFJ Morgan Stanley
With significant changes in the business environment in the first half of the year, what's the context behind being able to flexibly control your fixed costs? What lessons have you gained from the coronavirus?

A

Hiroshi Suzuki, CEO:
Speaking frankly, I think we may have hit the brakes too hard and been too slow to hit the gas. We hit the brakes expecting a worst-case scenario like in the Lehman shock, but the lesson was in fact that recovery was faster than expected, and we probably missed that wave by being too slow on the accelerator. Especially in the life care area, if we had been more apt with the gas pedal, we would have had a good opportunity to capture market share.

Q&A -3

Q

Shibano, Analyst, Citigroup:
What is the timing and leadtime for additional capital investment for EUV mask blanks? How long will you be able to accommodate the already-increased production capacity?

A

Hiroshi Suzuki, CEO:
Previously, buildings took the longest lead time with two years, and since we now already have the location we would normally be able to execute faster. However, when considering the equipment with the longest lead times, we think it will be about two years plus a bit until all equipment is in place and contributing to sales.

Q

Shibano, Analyst, Citigroup:
How long will you be able to accommodate the already-increased production capacity?

A

Hiroshi Suzuki, CEO:
It depends on the specifications, but if we go by our assumed current specs, capacity should be sustained for about two years. If specifications change, capacity could be saturated within two years, making additional capital investment an option we are considering.

Q&A -3

Q

Shibano, Analyst, Citigroup:
What kind of future additional investment is there from new HDD customers?

A

Eiichiro Ikeda, CTO:
As demand for 2.5" drives continues to decline, we believe that converting 2.5" equipment to 3.5" will be able to cover a fair portion of our numbers. This does not mean we need to consider capacity beyond what we have at the new Laos plant at this time.

Hiroshi Suzuki, CEO:
20TBs offer growth potential in a big way going forward. There's a question of whether 20TB drives will be done with 9 or 10 layers. The current situation is that 20TB is unachievable at current recording density unless it's 10-layer. The options are that if you can increase recording density per square centimeter by about 7% or 8% and stay at 9 layers, you can get away with one generation of aluminum; if not, then it's glass. I think we'll be able to determine whether we'll be able to pack it in technologically in this coming year based on whether or not 20TB drives use glass.

Q&A -4

Q

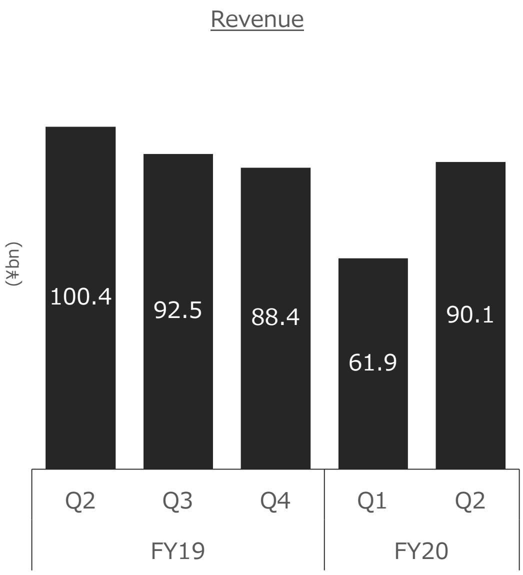
Richard Kaye, Analyst, Comgest Asset Management:
What's the reason for delayed approval of disposal endoscopes?

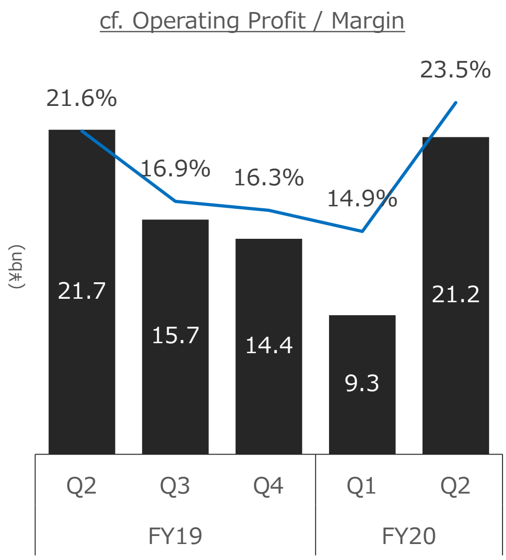
A

Europe's approval procedures (MDR) have been muddled due to COVID-19, and the process hasn't gone very well as a result. Also, we had an internal preparation issue preventing us from getting the data sent out. The current situation is that it will probably be delayed by about half a year, to Q2 of next year (the July-September quarter).

Appendix

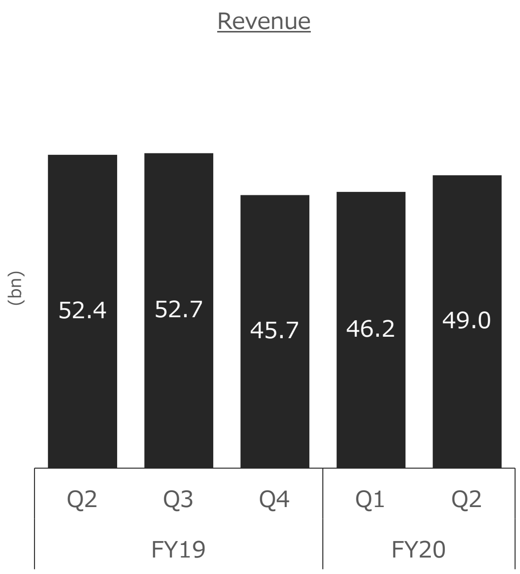
Life Care QoQ Earnings

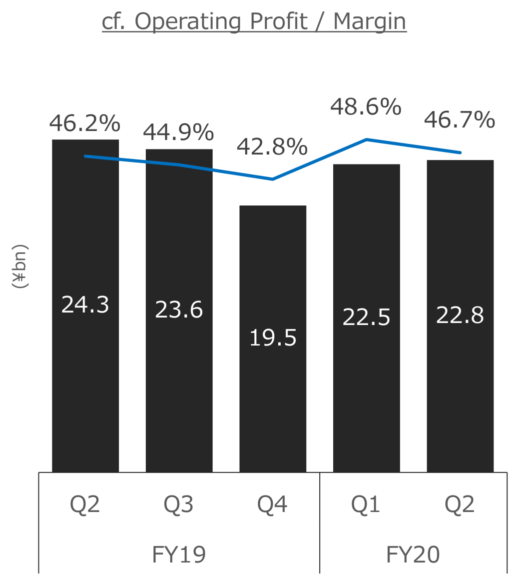




*External revenue

IT QoQ Earnings





*External revenue

Notes

- ✓ Accounting standard: IFRS
- ✓ The fiscal year ending March 2021 is referred to as "FY20" throughout this document.
- ✓ Figures less than 100 million yen 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

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.