HOYA CORPORATION

Q4 Financial Results Briefing for the Fiscal Year Ending March 2022

May 6, 2022

Event Summary

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[Participants]	

[Number of Speakers]	3	
	Eiichiro Ikeda	Representative Executive Officer, President & CEO
	Ryo Hirooka	Representative Executive Officer, CFO
	Tomoko Nakagawa	Executive Officer, Chief Sustainability (ESG) Officer
[Analyst Names]*	Damian Thong	Macquarie Capital Securities (Japan) Limited
	Masahiko Nakanomyo	Jefferies Japan Limited
	Yu Yoshida	CLSA Securities Japan Co., Ltd.

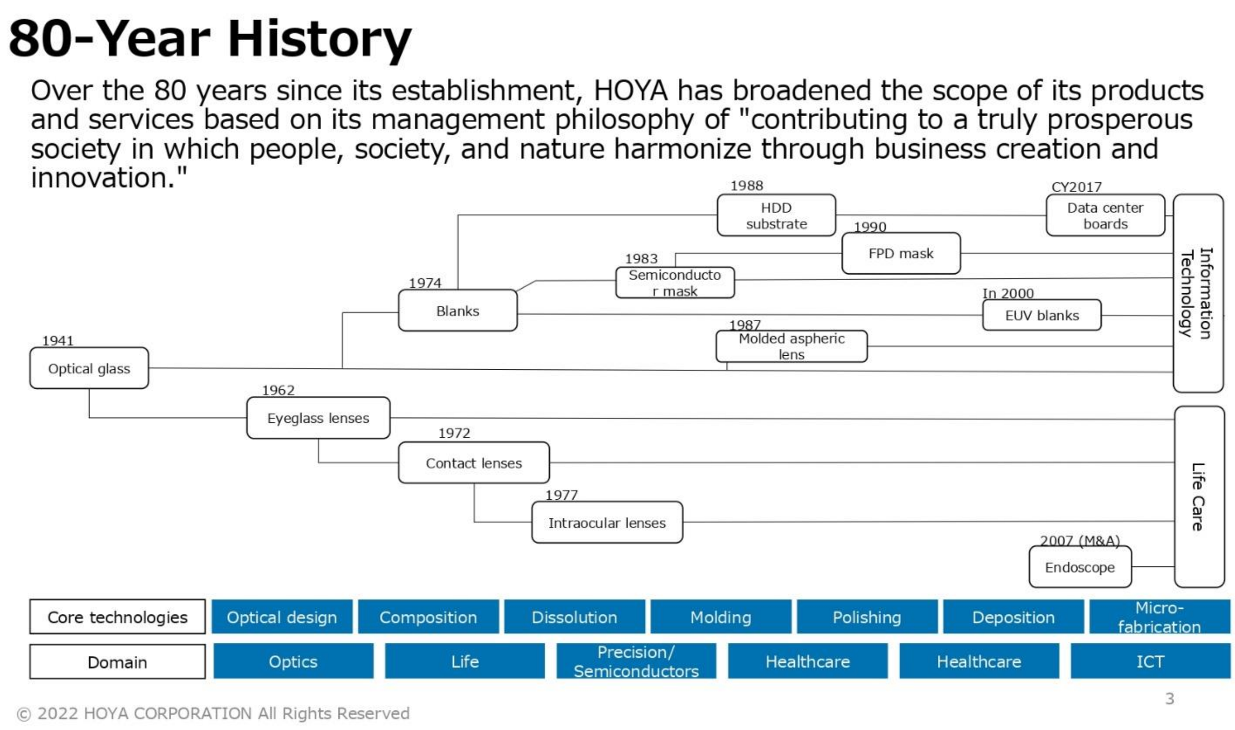
Presentation

Moderator: Simultaneous interpreting is available today. The presentation will be shown in Japanese. If you would like to see the English presentation, please look at our website.

Since it is time, we would like to now start the Fourth Quarter Financial Results for the Fiscal Year Ending March 2022. From our company, we have Eiichiro Ikeda, CEO; Ryo Hirooka, CFO; and Tomoko Nakagawa, CSO; the following three will be presenting.

First of all, Ikeda, CEO, and Nakagawa, CSO, will be talking about the direction of the new management, and they will be followed by Hirooka, CFO; he will be explaining the fourth quarter's results. We will take questions after that, and plan to end at a quarter past five. Those who are participating via PC, please look at the presentation materials here on the screen.

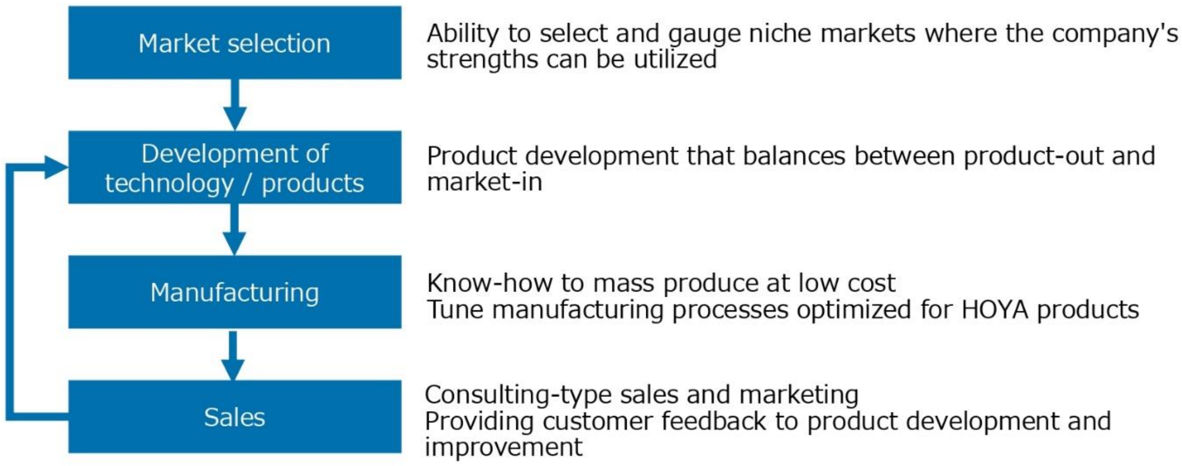
Mr. Ikeda, please.



Ikeda: The first slide contains an 80-year history of our company. First of all, as you can see on the slides, HOYA CORPORATION was established in 1941, starting from an optical glass business. It has been split into different businesses since then. We now have HOYA as it is today and some businesses have been split and replaced. In 2007, the Endoscope business was acquired by M&A on a discontinuous basis.

Driving Force Behind Growth

A mindset of differentiation in our value chain led to products such as EUV blanks. This was the driving force behind business scope and business scale expansion.



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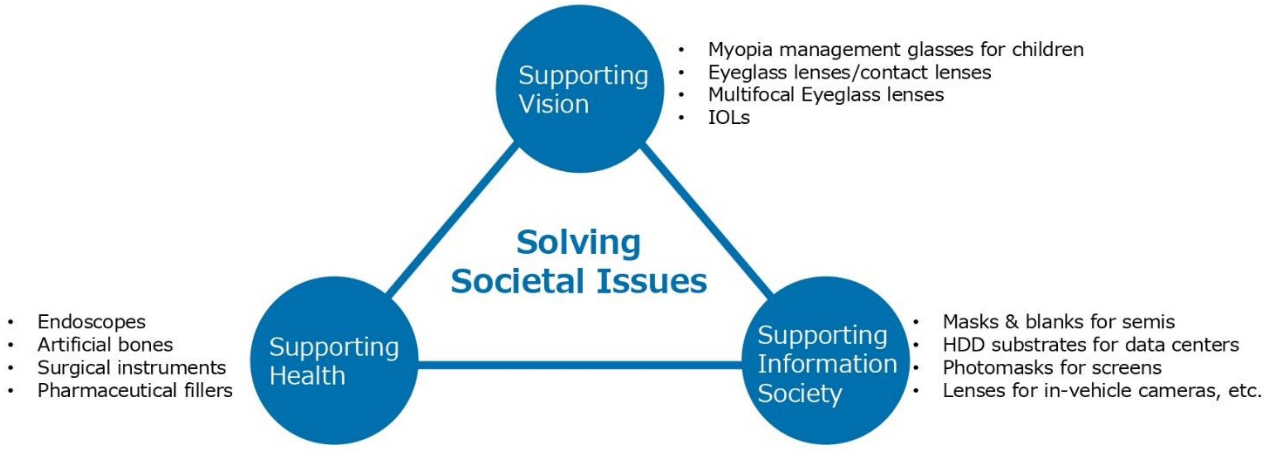
The driving force behind this growth is in market selection, where we would like to select and gauge niche markets where the Company's strength can be utilized; development of technology/products is based on balances between product-out and market-in; manufacturing is based on our knowhow of mass producing at low cost, tune manufacturing processes optimized for entire HOYA products; and sales, consulting-type sales and marketing, and providing customer feedback to product development improvement.

We always have differentiation in mind when we provide value to our customers, and that is the driving force behind our growth.

HOYA’s Mission

Eye and health solutions for each life stage, and information technology essential for modern socio-economic activities by raising Quality of Life of people around the world through the provision of solutions that support our mission.



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For every lifestyle, we have eye and health solutions for each life stage, and the information technology essential for modern socioeconomic activities by raising the quality of life for people around the world through the provision of solutions that support our mission. That is HOYA's mission.

We have three perspectives. One to support vision, for which we have glasses, contact lenses, as well as intraocular lenses. These are the products. As for functions, we have myopia management glasses for children, etcetera.

Next, we have supporting health: from that perspective, for our products, we have endoscopes, artificial bones, surgical instruments, and pharmaceutical fillers. These are the groups of products that we have.

The third is supporting information society. We have masks and blanks for semiconductors; HD substrates for data centers; photomasks for displays; lenses for in-vehicle cameras, etcetera.

Through these products, we would like to solve social issues.

Innovating for a better tomorrow is HOYA's vision. For a better tomorrow, we would like to cause innovation. As I mentioned earlier, we celebrated our 80th anniversary last year, but heading to the 100th anniversary, we would like to, over the next two decades towards the century of its founding, constantly pursue the creation and innovation of markets with enthusiasm in order to improve the quality of life for diverse people around the world, and bring about a better tomorrow.

Key Challenges: Developing Future growth businesses

Building a business portfolio for sustainable growth, particularly the development and acquisition of new businesses that will drive growth over the next 10 to 20 years is a top priority.

Market Selection Criteria

- Fits with HOYA's vision & mission
- Adjacent to our existing areas
- Not a market with too many players
- Not a market overly exposed to price competition
- Potential for the company to eventually become profitable

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As we move towards that direction, we do have some management challenges, which I would like to talk about. There are two points: the first is to develop future growth businesses.

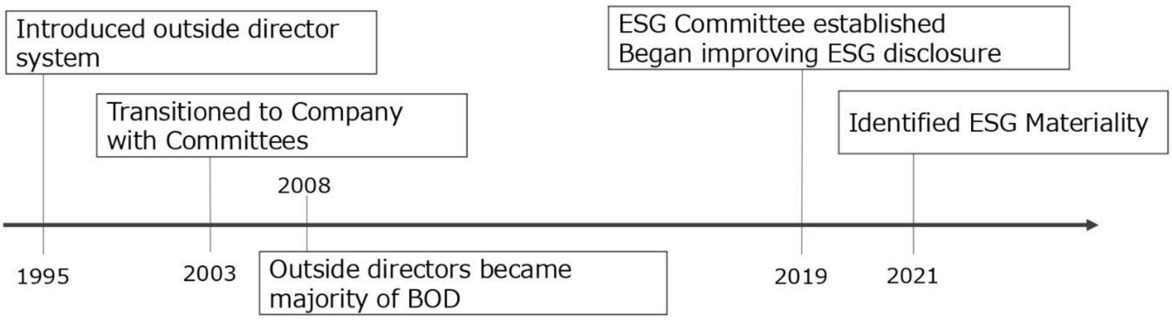
For the Group's sustainable growth, we need to build the business portfolio. As of today, some of the businesses are serving as growth drivers, driving the business of the Group. We need to develop new businesses that would drive growth in the coming 10 to 20 years, which we believe is a management challenge. For the purpose of developing such new businesses, we need to select the market; the market selection criteria would be that it fits HOYA's vision and mission.

I did explain the structure of our business; it shouldn't be something that is completely different from existing areas. We would like to make sure that the markets should be close to our existing areas, so that we can utilize the technology capabilities that we have. We have to choose a market that does not have too many players and is also not overly exposed to price competition. We also need to make sure that we select a market that would become profitable and which actually fits what I just explained. That is something that we would like to continue with.

The second management challenge for us is strengthening of ESG.

Key Challenges: Strengthening ESG

We have been making efforts to strengthen corporate governance by introducing an outside director system ahead of other Japanese companies. On the other hand, we acknowledge that we need to strengthen E (Environment) and S (Social) .



We do have a timeline, a simple timeline, on the slide. In 1995, we introduced the outside director system. In 2003, we transitioned to a company with committees. In 2008, outside directors became a majority of the BOD. We are quite ahead of other Japanese companies. We implemented all these systems, and we have been working to strengthen our corporate governance system.

However, on the other hand, in terms of the E and S aspect, we established the ESG Committee in 2019, trying to improve our ESG disclosure. And last year, in 2021, we identified ESG materiality, so we have already started our activities. But compared to our governance structure, we wouldn't say that we are ahead of other Japanese companies. These two aspects need to be strengthened, which we believe is a major management challenge.

New Leadership Team

Named CBDO and CSO in order to tackle the key challenges of "developing growth businesses" and "strengthening ESG." For ESG, the ESG Promotion Office was newly established.

Eiichiro Ikeda
Representative Executive Officer & CEO

Ryo Hirooka
Representative Executive Officer & CFO

Augustine Yee
Chief Business Development Officer (CBDO) & CLO

Tomoko Nakagawa
Chief Sustainability Officer (CSO) ▶ ESG Promotion Office

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This is our new leadership team from March 1, 2022.

For the two management challenges – developing growth businesses and strengthening ESG – we have added a Chief Business Development Officer and a Chief Sustainability Officer to the new leadership team. As you can see in the photographs on the slide, Augustine Yee has been assigned as the Chief Business Development Officer; we also have a new member in the top leadership, Tomoko Nakagawa, who is to take the office of Chief Sustainability Officer, so they will be working to promote the solving of the challenges that we are facing as of today.

Strengthen Business Development

Product Development From Existing Businesses

- Like HDD substrates developing from 2.5-inch to 3.5-inch, and blanks transitioning from DUV to EUV, finding new growth factors in existing businesses is key
- We will establish an R&D structure that transcends business boundaries in order to create new markets by combining the product development capabilities of existing businesses

M&A

- Over the last decade, M&As were predominantly conducted in Life Care, most of them being bolt-ons.
- We will broader the scope to high-tech areas, including semiconductor-related assets.

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Regarding the first management challenge, which is strengthening our business development, the first approach would be to develop from existing businesses. Just to share with you with a recent experience, HDD substrates developing from 2.5 inches to 3.5 inch for data centers, and for semiconductors and mask blanks, would transition from DUV to EUV. And we have started the development of mask blanks that will be compatible with EUV, as we have started this development earlier than others. Moreover, within HOYA, we would like to combine the different product development capabilities of existing businesses, and we would like to establish an R&D structure that would cross different businesses, which would be something that would emerge internally.

The other approach would be M&A. For the past 10 years, most of the mergers and acquisitions have been predominantly conducted in Life Care, many of them being bolt-ons. We would like to broaden the scope of M&A to cover not only Life Care businesses, but also the areas of high-tech and semiconductor-related businesses. So we would like to cover a wider area. By having a broader scope, we would like to capture growth factors as early as possible.

Strengthening ESG: Sustainability Policy

The Sustainability Policy was resolved at the BOD meeting held on May 6. We will roll out specific initiatives based on this policy.

HOYA Group Sustainability Policy

Based on our management philosophy, we will contribute to the realization of a sustainable society through the implementation of our basic management principles, and aim to increase corporate value over the medium to long term.

- We aim to contribute to solving global social issues through business innovation.
- We will build relationships of trust through dialogue with stakeholders and realize fair and transparent management.
- We will strive to reduce the environmental impact of our business activities in order to pass on a better global environment to the next generation.
- We will respect the human rights of all people involved in our business activities, including those in our supply chain and strive to prevent the infringement of human rights.
- Aiming to create new value, we will strive to create an environment in which a diverse range of human resources can thrive, with an emphasis on the wellbeing of our employees.

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The second challenge is the strengthening of ESG.

Nakagawa, who is also online, would like to explain. Ms. Nakagawa, over to you, please.

Nakagawa: From March 1, I became the Executive Officer in charge of sustainability. I am Chief Sustainability Officer. My name is Nakagawa. It's very nice to meet you. In the past, I was involved in jobs related to governance, such as serving as the Secretary of the BOD. I would like to promote our activities related to E and S as well going forward.

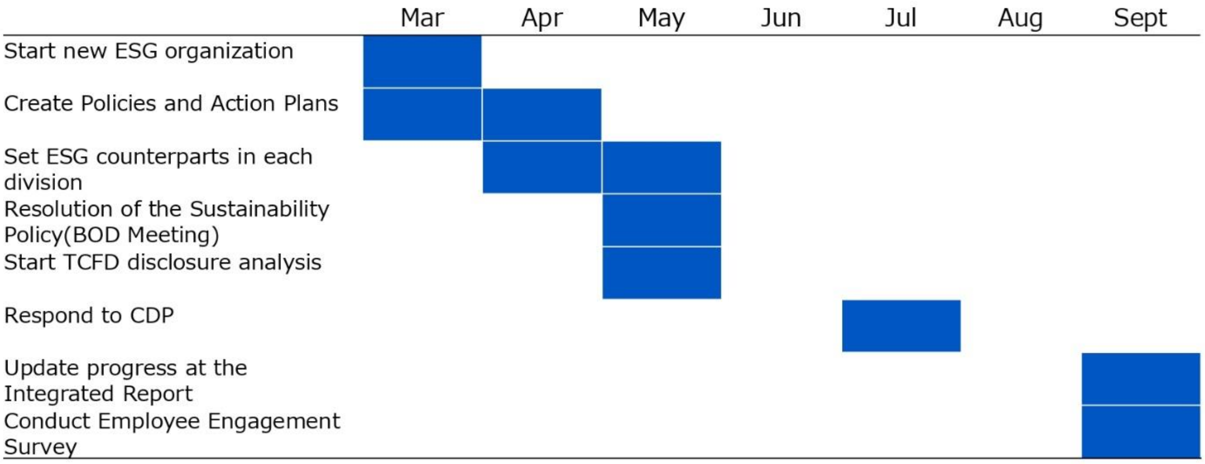
In the Board of Directors meeting held today, our sustainability policy was resolved. This is based on our management philosophy, so we have identified various items we believe are extremely important for the Company to survive in the mid- to long-term.

We will contribute to solving global social issues through business innovations, and would have dialogues with the stakeholders. We will have reduced environmental impact and we will respect human rights. We would also like to strive to create an environment in which a diverse range of human resources can thrive.

Of course, using the different resources out there, such as human resources and natural resources, and also by using the funds from the shareholders, we need to manage our company, run our business, including the environment. We need to be accepted by all stakeholders, so that we can provide products and services that are demanded by the market. We would like to engage ourselves in business activities based on sustainable policies.

Strengthening ESG: Timeline

Based on the new Sustainability Policy, we will establish specific goals and formulate action plans for the materialities: 1) GHG reduction; 2) product quality and safety; 3) employee engagement; and 4) supply chain management.



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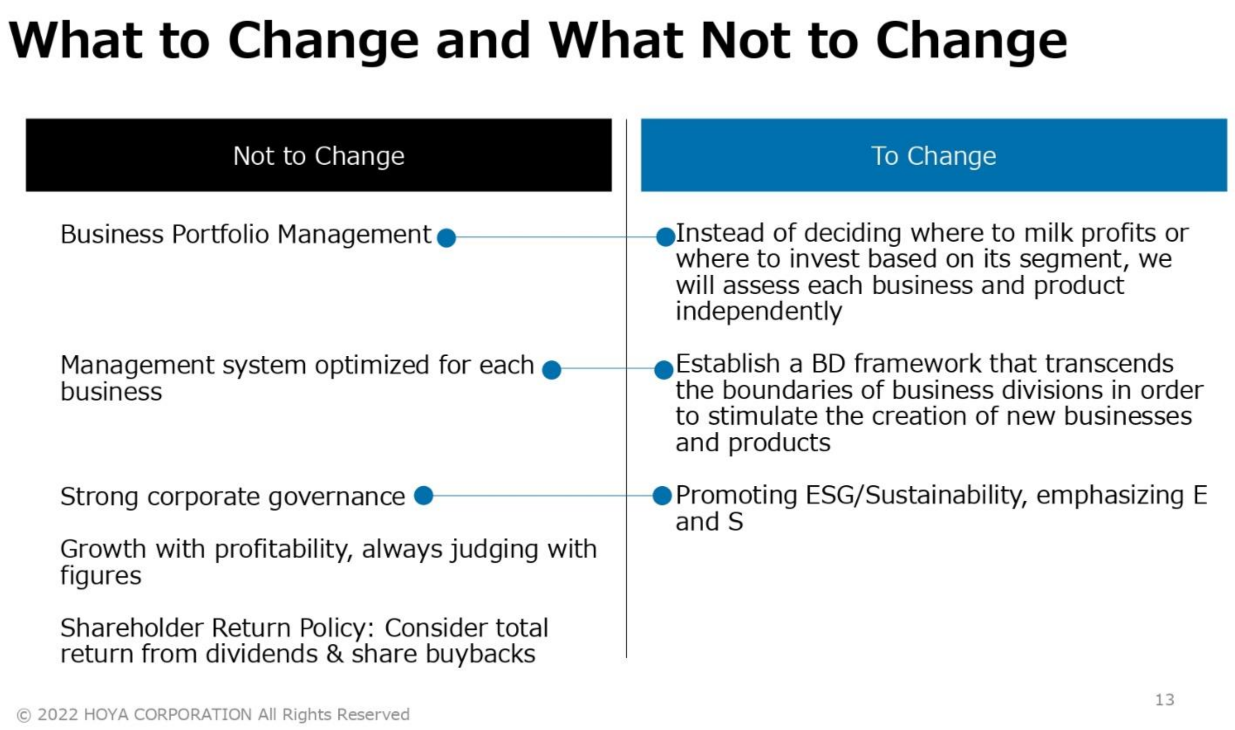
With regards to sustainability, of course, this is something that we need to continue to do. And in this slide, our activity plans for the first half are shown.

We have 10 different types of different businesses, and in each business, there are some slight differences. However, with CO2 reduction, recycling water, and waste recycling, we have been through all of the businesses dealing with the environment. But we have [this] around as well as an ESG-dedicated department so that the department and its members or groups dedicated to ESG will be established within each division.

With those people, the ESG promotion-dedicated department will collaborate together and KPI will be established. HOYA as a whole will also set targets to be achieved.

As you can see, our company is listed on the prime market, so a disclosure of TCFD is something that we are preparing for. Every year, around September, we create an integrated report, so what has been achieved by them will be explained within this integrated report.

That is all from my side.



Ikeda: In the new management organization, there are things that we will change and things that we will not.

Regarding business portfolio management, in the past and going forward, as the CEO of HOYA or as the whole executive management committee, this is something that we will continue to work on. However, if we look into the contents, so far, Life Care was the growth segment and Information Technology was the cash cow. That was how we divided positions by segment in the past.

However, going forward, rather than deciding things on a segment basis, we will assess each business and product independently. This is the part that we will change.

The second point is for every business: there is a management system optimized for its businesses. In order to generate the profitability or bottom line, that is something that we need to have, so we will continue with it. However, as I explained earlier, new products and new businesses need to be created. And in order for that, several technologies or sales forces, or the assets that we have, need to be utilized fully. When creating a new business, we need to create a business development framework that transcends the boundaries of business. That is a change we would like to implement. Also as Ms. Nakagawa explained, we will continue to have a strong corporate governance. And also at the same time, E and S will be emphasized and promoted. That's the change.

What is very important is the fact that we will also have numbers in mind to rule us, and we will secure profits all the time. And when it comes to shareholder return policy, we will consider the total return from dividends and share buybacks. The last two will remain the same as they have in the past.

Focal Points in the Medium-Term

■Self-evaluation of Key Items

Item	FY21 Actual	Self-evaluation
Consolidated Pretax Profit Ratio	31.9%	++
Consolidated ROE	22.1%	++
Market Share of Life Care Businesses	Flat to slight decrease	-
Profitability of Medical Products	Slight increase	-

While focusing on increasing R&D and developing new businesses, which are the sources of competitiveness, the company will work to improve its position in the Life Care markets and the profitability of medical products, which we acknowledge as the key challenges.

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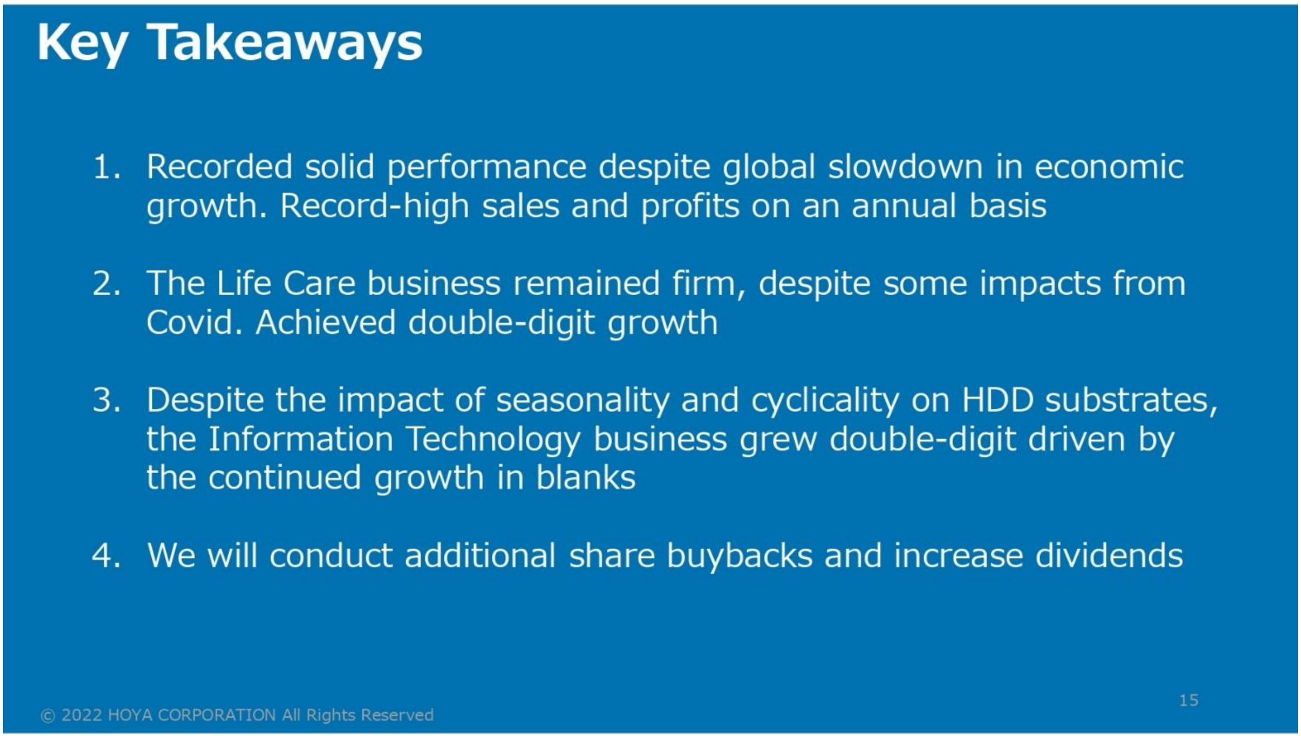
Regarding the focal points in the midterm perspective, this is a self-evaluation to identify the key issues that we face today. Pretax profit or ROE – in FY2021, we did achieve certain good numbers. That is how we evaluate ourselves. However, as for the market share of the Life Care business and the profitability of Medical Products, it's not that we are not doing well, but we have not done well enough; it was not good enough to meet expectations. While focusing on increasing R&D and developing new businesses, the market positioning of Life Care and the profitability of Medical Products are some things that we would like to aim at improving going forward.

That is all from me. Mr. Hirooka, please. The floor is yours.



Hirooka: I would like to show you the highlights of the results.

One, on an annual basis, revenue and profit were at record highs. We were able to hit record-high sales and profits.

Secondly, to be honest, there were various impacts brought by COVID. However, the Life Care business basically did well, and remained firm. There may be some circles, but basically, it remained firm and we were above 2020 on a solid basis.

Thirdly, the Information Technology business. As shown here, HDD is impacted by seasonality. This is something we explained in the previous meeting. There are some inventory adjustments that need to be made. But all in all, blanks continue to be very strong and led the growth of the Information Technology business.

Lastly, number four: today, we announced our share buybacks. Additionally, the plan is to increase dividends.

Financial Overview

(¥bn)	Q4 FY20	Q3 FY21	Q4 FY21	YoY	QoQ
Revenue	151.4	171.3	169.6	+12%	-1%
Pretax Profit	41.3	51.9	53.8	+30%	+4%
Net Profit	30.8	40.9	40.1	+30%	-2%
Cf. Operating Profit	43.3	53.5	48.1	+11%	-10%
Cf. Operating Profit Margin	28.6%	31.3%	28.4%	-0.2ppt	-2.9ppt

- Constant currency basis: Revenue +7%; PTP +25%
- PTP increased sharply, as impairment losses were ¥900 million this quarter whereas a year-ago-quarter impairment losses were ¥5.1 billion

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In the fourth quarter, JPY169.6 billion; that is plus 12% YoY. In pretax profit, JPY53.8 billion; that's plus 30% YoY. Quarterly profit was JPY40.1 billion; that is plus 30% compared to the previous year. And just for your reference, operating profit was JPY48.1 billion, which is plus 11% from last year.

As you can see down below, on a constant-currency basis, revenue would have been plus 7%. Equally, profit before tax was 25% due to a weaker yen, so we have made adjustments.

Pretax profit increased plus 30% compared to last year and plus 11% for operating profit, so pretax profit growth was stornger. The reason is that in the fourth quarter of last year, JPY5.1 billion of impairment losses were posted. This year, it's JPY900 million, so the impairment loss is not that big. The difference between the two figures is the large chunk, however. That was the reason for us having a larger pretax profit.

Also, the bridge chart or increase and decrease from last year is explained in the Quarterly Report you may find on the website.

Life Care

(¥bn)	Q4 FY20	Q3 FY21	Q4 FY21	YoY	QoQ
Revenue	95.3	105.5	106.1	+11%	+1%
Pretax Profit	14.8	21.5	19.5	+32%	-9%
Cf. Operating Profit	19.0	23.2	19.8	+4%	-15%
Cf. Operating Profit Margin	19.9%	22.0%	18.6%	-1.3ppt	-3.4ppt

- Constant currency basis: Revenue +7%; PTP +28%
- OPM declined due to one-off expenditures: allowance for doubtful accounts and proactive reviews of the balance sheet in eyeglass lenses, allocation of product inventory that will no longer be handled in the IOL division

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Shown here is for the Life Care business.

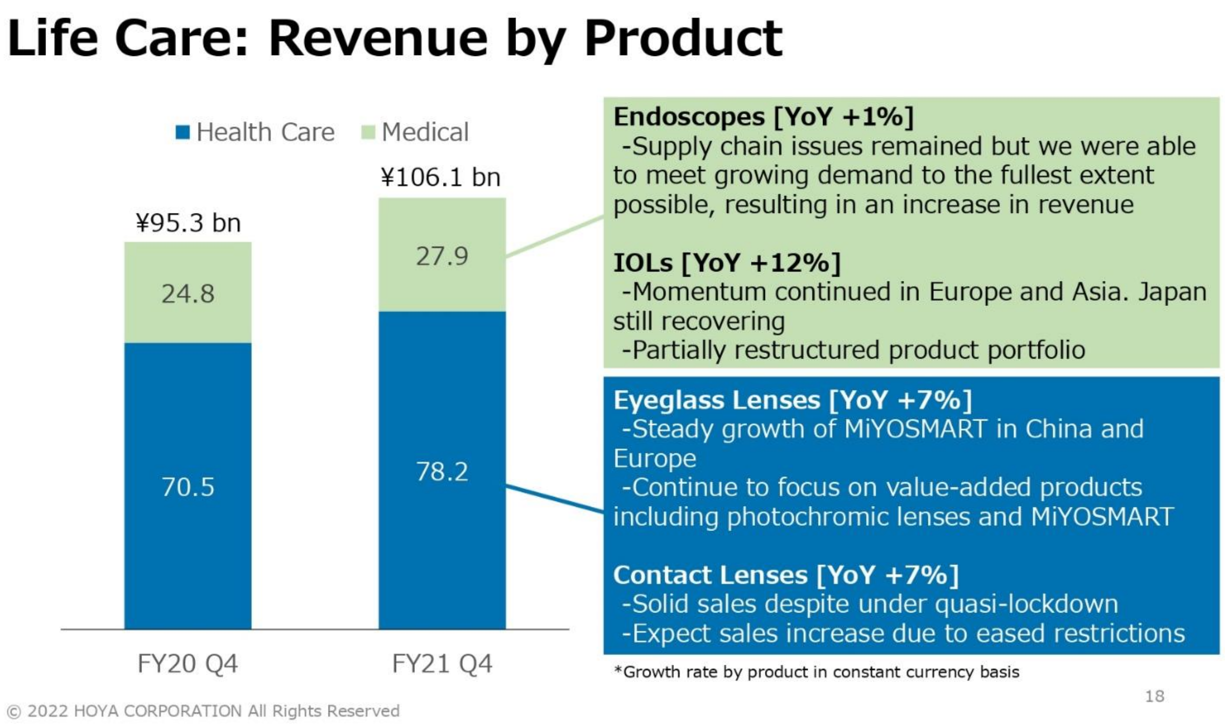
Revenue was JPY106.1 billion, a YoY growth of 11%. We have a pretax profit of JPY19.5 billion, a 32% increase YoY. Operating profit was JPY19.8 billion, a 4% increase against the previous year.

First of all, the impact from Forex. On a constant-currency basis, revenue grew by 7%. Again, because of the yen depreciation, on a yen basis, we have seen a bigger growth in revenue.

Another point I would like to add is that the operating profit margin of 18.6% is not very high. In this business, what we are targeting is around 20% in terms of margin. That, we believe, is a reasonable margin for us. And sometimes we are considering a bit higher than that. However, considering the investment for future growth, we believe that 20% is the kind of target or the kind of reasonable operating profit margin for us. But as written here at the bottom of the slide, there were some one-off expenses, which had a negative impact on the operating profit margin. This is not a structural issue, but it's a one-off expense, so it's not something that we are concerned about.

I did mention a few things here on the slide, but when it came to a relatively big customer, in terms of accounts receivable, we did have some problems, which means that we are not receiving payments from the customer. Accounting-wise, we decided to post the allowance for doubtful accounts. Because these are the year-end numbers, we did conduct some proactive reviews of the balance sheet. We also did some cleaning up of the balance sheet. As a result, it increased one-off expenses.

This is for IOL. Regarding products in the IOL division, we are looking at or reviewing some of the products, and in terms of the products which we believe will not be profitable in the future, we decided to terminate some. For such products, we did post some allowance for the product inventory. Again, we have seen an increase in one-off expenditures, and as a result, we have seen a decline in the operating profit margin.



Here, I would like to explain details by product in terms of our results.

For Medical, our revenue was JPY27.9 billion, an increase of JPY3.1 billion against the previous year on a Japanese yen basis. On the right-hand side, it says YoY growth by 1% for endoscopes. This is for a constant-currency basis in terms of endoscopes, a 1% YoY growth.

Supply chain issues remain; we were not able to procure the semiconductors we wanted, and this situation continued. In terms of demand, demand is strong, and we have been able to receive orders. However, we haven't been able to manufacture and deliver products to our customers as we wanted. Compared to a year ago, we have seen an increase in revenue, but the supply chain issue still remains.

Now, regarding intraocular lenses, IOLs, constant-currency basis, we have a 12% increase YoY. Revenue has been strong in the two regions of Europe and Asia, which drove our revenue growth. We have been impacted by COVID-19, especially in the Japanese market. We have seen some recovery, but the recovery is still slow because of the quasi-lockdown issuance.

I believe that the market is recovering, which is what I believe is going to be an upside going forward, but it's going to be a gradual recovery. We do not expect the number of surgeries to increase quite suddenly.

Now, moving on to Health Care. The revenue was JPY78.2 billion. For eyeglass lenses on a constant-currency basis, it’s a 7% increase YoY. China is growing, Europe is also growing. Again, we have seen a 7% growth YoY. However, the COVID-19 impact still remains. Especially in Europe, things were quite slow up until mid-

February, but after that, there have been gradual recoveries overall. We have seen positive numbers for revenue in Europe. In the first quarter of this fiscal year, there may be some ups and downs as a result of the impact from COVID-19, but we do believe that the market will show a steady growth.

And lastly, for contact lenses, compared to last year, there was a 7% increase. Again, even though we saw growth by 7%, the COVID impact still remains. Quasi-lockdown was applied for the full term, the full quarter. Therefore, contact lens use increased in autumn for a temporary basis. But in the fourth quarter, we saw a decline in contact lens use. However, quasi-lockdown has been lifted, and we saw a recovery in revenue in April.

Coming to the COVID-19 impact, there may be some ups and downs as a result of COVID-19. But compared to last year, we believe there will be less restrictions. I do believe that we will see a steady growth in contact lenses.

Information Technology (IT)

(¥bn)	Q4 FY20	Q3 FY21	Q4 FY21	YoY	QoQ
Revenue	54.7	64.3	62.3	+14%	-3%
Pretax Profit	27.0	31.3	30.5	+13%	-2%
Cf. Operating Profit	25.4	31.1	29.6	+17%	-5%
Cf. Operating Profit Margin	46.4%	48.4%	47.5%	+1.1ppt	-0.9ppt

- Constant currency basis: Revenue +8%; PTP +8%

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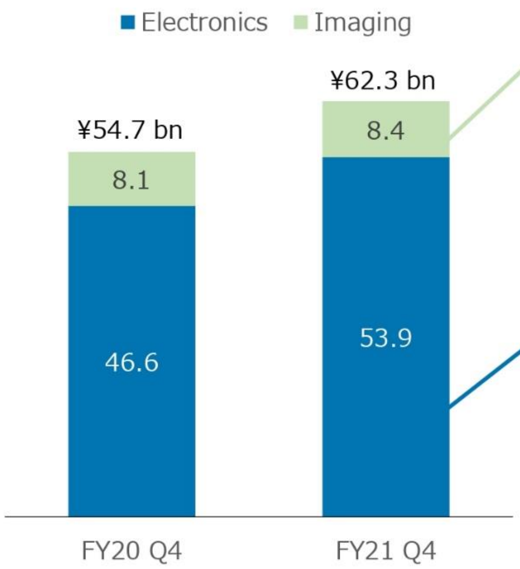
In terms of the Information Technology business, revenue was JPY62.3 billion, a 14% increase YoY. Pretax profit was JPY30.5 billion, a 13% increase YoY. And operating profit was JPY29.6 billion, a 17% increase YoY. On a constant-currency basis, revenue increased by 8%.

IT: Revenue by Product



Imaging [YoY-2%]
-Slight decrease due to a strong bounce back in the previous year
-Will identify markets to focus on which allow us to secure high profitability

Masks & Blanks [YoY +15%]
LSI
-Solid growth in both EUV and DUV
-Plan to gradually add EUV production capacity

FPD
-a-Si LCD & OLED stable in Taiwan & China
-High-precision mask writer got online in Q4

HDD Substrate [YoY +5%]
-3.5" Healthy sales despite cyclical adjustments
-2.5" Temporary sales growth seen in Q4

*Growth rate by product in constant currency basis

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These are details of the revenue by product.

In terms of Imaging, we earned JPY8.4 billion in revenue, a negative growth of 2% YoY, this is on a Japanese yen basis; and 2% down on a constant-currency basis. This may be just for the Imaging business, or this is true for all of the Information Technology businesses, but the Imaging business has some seasonality. Every year, we always see good performances in the second and third quarter, and performance actually declined in the third quarter and fourth quarter. But in the fourth quarter last year, things went quite well. Because of the impact of COVID-19 in the first half, the performance slowed and the rebound came in the second half. In the third quarter, the performance was good, and this strong performance continued into the fourth quarter, which was true for the main products in Imaging. We are comparing against that, so that is the reason why we have seen a decline on a YoY basis.

Our concern is the camera electronic component; the problem is not really us. However, as for the industry, we are seeing shortages in electronic components. Therefore, there have been some inventory adjustments, and we need to watch carefully how things go to make sure that we maintain our profit. That is something that we need to work on in this fiscal year.

As for Electronics-related products, we earned JPY53.9 billion in revenue, and we have seen a significant growth YoY for masks and blanks. On a constant-currency basis, it is a 15% increase against the previous year. EUV is growing very well. There is a strong demand in the market, and we have been able to meet the requirements of our customers. The demand will continue to grow in this fiscal year, so we would like to gradually increase our production capacity, in order to meet demands in the market.

Now, in terms of FPD: from the fourth quarter, we got a new mask writer on line. We would like to capture the demand for high precision, which we hope would result in increases in revenue and profit.

And lastly, for HDD Substrates, YoY on a constant-currency basis, we have a 5% increase. 3.5, as I mentioned earlier, is due to some inventory adjustments. We are seeing some signs of inventory adjustment. The issues are related to Ukraine and China. And because of those issues, it seems as though customers are seeing things conservatively. Therefore, we need to be a little bit cautious to make sure that we maintain or secure a profit. But 3.5 is definitely going to be a growth driver for us.

On the other hand, 2.5 for the past year was rather an unusual year. For long-term trends, 2.5 is going to gradually decline. However, we have seen a YoY increase, which was something that we had not expected. And at this point in FY2022, as we expect, 2.5 is going to decline, which will be covered by 3.5.

Highlights from the Balance Sheet & Cash Flow

Shareholder Return

- Share buyback of ¥60 billion was executed in Feb and cancelled
- Resolved to buyback up to an additional ¥60 bn
- We will also increase dividend by ¥20 per share

CAPEX *

- Actual in FY21: ¥28.9 bn (YoY-¥2.4 bn)
- FY22 is expected to be around ¥30 bn **
- Currently, investment activities are being accelerated, however, cash outflows are not expected to increase until FY23 or later

D&A

- Q4 results were ¥43.0 bn (YoY +¥6.7 bn)
- Annual FY22 is expected to increase around ¥1 bn

* CF base. Acquisition of PPE

** Cash outflow basis. Fluctuations may occur depending on the timing of cash outflows

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Here, I will not explain each line, but as I mentioned earlier, in the BOD that was held today, there was a resolution on the share buyback of JPY60 billion. This is only a plan. However, the year-end dividend will be increased by JPY20 per share.

That's all from me.

Question & Answer

Moderator [M]: We would now like to take questions. First, Mr. Yoshida, please.

Yoshida [Q]: This is Yoshida. I have questions about the blanks and glass substrates, and our IT business. I would like to know about the business environment and about this term's direction and the way of thinking for this year.

Ikeda [A]: With regards to the business environment, as for EUV blanks, in terms of our internal environment, we are conducting capital investments for each process on a use basis. In 2022, vis-à-vis the 2021 production capacity, the Singapore facility's capacity in 2023 will be doubled. In Japan, the capacity will remain the same, while Singapore's capacity will be doubled. That is the size of our CapEx, and this is based on customers' demand. We are having a discussion with customers on what direction we should head towards from 2024 onwards.

As for the external environment, I think you're interested in one of the competitors' situations. Our customers want to make dual procurements, and competitors are shipping products to our customers. I think that is the situation.

Most recently, the 2-nano process development will be in the stage of being certified. I don't think we are being compared for this technology by others. If we obtain qualification, we believe that we will be able to maintain the current status quo or environment. However, our competitor is also a powerful company, and so we would like to closely communicate with customers. We would like to provide the quality and quantity of products that will satisfy our customers, which is related to our internal environment.

Next, regarding HDD, 3.5-inch is adjusting a bit but the data center investment will be active on a mid-term perspective. And as for products, currently, 9-substrate models are used, but we will start to see 10-substrate models recently, so 9-substrate models will become 10 per drive, meaning that we will be able to expect more quantity. And in the 10-substrate model, our customers are not really changing much. But in the 11-substrate model, all drive manufacturers have truly started the advancement of the 11-substrate model. For the 11-substrate model, we are continuing to conduct development activities with our customers, so more multiples or an increase in the number of substrates are the directions. We are working together with our customers for certification.

It is very difficult to define the timing, but we believe that we have more opportunities to be adopted by our customers.

Yoshida [Q]: Thank you very much. My next question is related to the Life Care business. Again, can you explain your thinking on each product for this fiscal year? We have seen a temporary decline in the margin in the fourth quarter, and you said your target is to achieve 20% in operating profit margins. Can you explain your thoughts on your Life Care business, please?

Ikeda [A]: First of all, eyeglass lens is the biggest business in Life Care, so let me touch upon that. As Hirooka mentioned earlier, our profitability target is around 20%, which we believe is a healthy level of margin. We control our OpEx, we'll be able to improve our margin. However, instead of going in that direction, we would like to make investments for our future growth. Based on that, we are targeting around 20%.

In this fiscal year, profitability was low in the vision care business, which pushed down the overall operating profit margins of the Life Care business. But as explained earlier, this was a result of one-off expenses, so it's not something structural. There is nothing to worry about.

The second-largest revenue comes from the contact lens business – the Eyecity business in Japan. For contact lenses, in the past, we opened new stores by about 20 every year. That's how we have grown the business, which was the pre-COVID situation. But with COVID-19, there's been a decline in the use of contact lenses. And we changed our management so as to maintain our profitability. Now that quasi-lockdown has been lifted, there will be an increased use of contact lenses; we will be targeting the revenue of pre-COVID times, and we are going in that direction. But unlike in the past, as we did pre-COVID-19, opening new stores is not going to be the revenue driver for us because there will be a shift to online purchases.

Therefore, for us to grow in this business, the pre-COVID approach will not continue. However, how we're going to expand our online business is going to be a challenge that we need to work on.

The third point is PENTAX, our endoscope business. For endoscopes, compared to last year, we saw a growth of 1%. However, as Mr. Hirooka mentioned, we have a lot of backlog, billions in backlog. If we're able to manufacture more, we'll be able to increase our revenue. And the procurement components are something that we don't have much visibility on, which makes it very difficult for us to predict our future.

In this fiscal year, processor performance or rather, high-end, new products will be launched. It did take us a lot of time. A new type of endoscope sales expansion is expected for this fiscal year. What we would like to do is to sell new products for endoscopes, and that's what I believe is going to be our focus. Thank you very much.

Yoshida [M]: Thank you very much.

Moderator [M]: Next we have Mr. Damian Thong.

Thong [Q]: For eyeglass lenses in Japan and overseas, well, you have just mentioned it to me, but what is the demand environment, both Japan and overseas? Can you explain?

Ikeda [A]: As Mr. Hirooka mentioned earlier, in Japan, while the quasi-lockdown did end, we haven't seen a full recovery yet. It's still a slight decrease or flat. That is the situation here in Japan. As for overseas, European and Asian markets are doing pretty well. However, most recently, the impact of China's impact was rather big. And it's not only Shanghai; the impact may spread to other cities of China. If that is the case, then we will be impacted. It's very difficult to estimate what would be the total situation surrounding us.

However, Asia is robust; I think Europe is okay. But as for China, as I mentioned, the lockdown impact is pretty big. That is the situation.

Thong [Q]: On a monthly basis, what is the level of the decrease? What are the numbers?

Hirooka [A]: We haven't got the numbers. The concrete impact is still unknown, but it's only the Shanghai area so far. It's not that we are not able to post sales in the whole China. That is not the situation. That is not the case. But Shanghai lockdown's impact, well, it's not so big as to, for example, impact our sales. It's not that big.

Thong [Q]: What about Hong Kong? You have no issues in Hong Kong?

Hirooka [A]: In Hong Kong, in the fourth quarter, most of the time it was closed, but we have seen a quite significant amount of revenue decline in Hong Kong – about 20%, I would say. However, if you look at Asia as a whole, the portion in Hong Kong is not very big. If you just look at Hong Kong as a single market, there has been a negative impact, but we have been able to offset the decline in Hong Kong with other countries. Eyeglasses and such products differ from one country to another. Sometimes, we can offset and others we cannot. Overall, we have no concerns.

Thong [Q]: Thank you. This is a follow-up question. You said that the operating profit margin target is around 20%. And in China, even with the negative impact in the fourth quarter, would you be able to achieve the 20% margin?

Hirooka [A]: In this fiscal year, it's not like we are generating a lot of profit in China. I don't think there will be a significant impact to the overall business operating profit margin. Of course, there is an impact. However, regarding the weight of China in the vision care business…well, I would say that Japan would have a bigger impact compared to China.

Thong [Q]: My second point is mask blanks. For the past few years, EUV has grown quite significantly, making contributions to the profit. DUV, however, is also growing, and continues to grow. ASML, for example, the exposure devices at 375 increased to somewhere around 600.

So regarding DUV, I believe there's a potential to grow in the future. Regarding your DUV investment position, have you changed your thoughts on your investment in DUV business?

Ikeda [A]: In EUVs, 7-nano, 5-nano, 3-nano, and 2-nano, there is a transition. Of course, in the masks set, the DUV layer will be included, so not everything will be transitioned as DUV is going to increase as well. Basically, responding to the demand of the customers, we don't just invest in EUVs. We would like to continue to deliver DUV as well. And in our dialogue with the customers, it doesn't mean that we need to make decisions as of today in terms of DUV. DUV may increase in the future, but it's not like we will make major capital investments in that area and that technology. But basically, we will not just focus on EUV. There is a demand for DUV. And if DUV is required by the customers, we would like to fulfill their demands.

Thong [Q]: If you are to make investments in Japan or Singapore, which country or location will you invest in?

Ikeda [A]: It will be in Singapore. I think it will be in Singapore. I don't know whether it will be in Singapore or any other places, but that's our thought for now.

Thong [M]: That is all for my question. Thank you very much.

Moderator [M]: Although it is already past the ending time, I would like to take one more question. Nakanomyo-san please.

Nakanomyo [Q]: Thank you very much. Regarding EUV, if you only look at the fourth quarter, how much did it grow in the fourth quarter alone?

Hirooka [A]: Over 20% YoY.

Nakanomyo [Q]: You said that you will be increasing capacity in 2022. But in 2022, how much capacity are you going to increase?

Ikeda [A]: Not that we will double in a certain part. It will be a gradual increase pace by pace. It's very difficult to give you numbers. But at the end of 2023, it will be double that of 2021. That will be the situation in Singapore. Other than that, please have some estimates.

Nakanomyo [Q]: One more question, which is a very ambiguous question; I'm very sorry. Well, interest rates are being hiked on a global basis and inflation is being accelerated. Looking at your business over the next 12 months, are there any business areas where you'll be highly impacted by inflation or higher interest rates?

Hirooka [A]: Well with, I think, inflation, interest rates are going up in order to reduce inflation, but is there any impact from higher interest rates? I don't think so. If valuation comes down, then it will be an opportunity for M&A. And also regarding exchange rates, how much will depreciation of the yen accelerate? I think it's an excessively weak yen, but on a yen basis, it does look big – bigger than actual. Our concern is rather inflation, whether it be in procurement or logistics, and labor costs as well. In order to deal with them, we need to deal with this situation. Wherever we can transfer cost to price, we will do so and also deal with more high value-added products. We will work with mobility on a quarterly basis and promote this direction.

Nakanomyo [Q]: Do you see that inquiries from distributors are being reduced or any impact from inflation? I think you had a very strong pull or inquiry from distributors, but maybe the distributors are sort of softening their inventory level. Or do you feel that orders are being reduced a little bit?

Hirooka [A]: Well, as I indicated earlier, regarding the 3.5 inch, we do see some inventory adjustments in cameras. Because the product cannot be manufactured, there is no issue with our supply, but in coordination with others, supply chain is being a bit sort of clogged. I think we need to keep an eye on these two areas.

Nakanomyo [M]: Thank you very much.

Moderator [M]: Thank you very much. With this, we would like to conclude today's briefing. Thank you very much for joining us despite your busy schedules.

[END]