



HOYA CORPORATION

Q1 Financial Results Briefing for the Fiscal Year Ending March 2023

August 4, 2022

[Number of Speakers]

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Eiichiro Ikeda

Representative Executive Officer, President
& CEO

Ryo Hirooka

Representative Executive Officer & CFO

Moderator: Now it is now time to start the Q1 Financial Results Briefing for the Fiscal Year Ending March 2023 of HOYA.

The speakers of HOYA will be Director and Representative Executive Officer and CEO, Eiichiro Ikeda; Director and Representative Executive Officer and CFO, Ryo Hirooka.

Today, our CFO, Hirooka, is going to explain the results for Q1 and to share with you the overview of the main businesses. And then I would like to explain the new composition of the Board.

I would like to hand over to our CFO, Hirooka, to explain the results for Q1. Hirooka-san, over to you, please.

Hirooka: Thank you. My name is Hirooka, CFO of the Company. Now let me share with you the results for Q1.

Key Takeaways

1. Record-high quarterly sales and profit
2. Life Care business achieved steady growth despite the impact of lockdowns in China
3. Information Technology business sales increased thanks to the robust sales of semiconductor blanks and FPD masks, despite the disappearance of special demand for 2.5" HDD substrates
4. Decided on additional share buyback program

Here are the key takeaways for Q1 results.

There are four points I would like to talk about. First is that because of the major impacts from the yen depreciation, for the quarterly basis, we were able to achieve record-high quarterly sales and profit.

The second point is for the life care business, as you know, in China, there was a long-lasting lockdown in Shanghai, and I will explain that later on, but we were impacted because the lockdown lasted more than we had expected. But even under that situation, other regions and other businesses were able to grow strongly. Even though there was a negative impact from the lockdown, we were able to grow our business.

The third point I would like to share with you is that for the Information Technology business, overall, our sales increased. As you know, HDD market is not very good, and especially 2.5 inches. Last year, there was a special demand. It was an abnormal situation, but we are experiencing a rebound. Even with that external situation, overall, blanks and FPD masks performed strongly and overall, we were able to increase our sales.

Fourth point is something that was resolved in today's BOD meeting. We decided on additional share buyback program.

Those are the four points that I wanted to share with you for the results of Q1.

Financial Overview

(¥bn)	Q1 FY21	Q4 FY21	Q1 FY22	YoY	QoQ
Revenue	158.0	169.6	180.2	+14%	+6%
Pretax Profit	51.0	53.8	61.5	+21%	+14%
Net Profit	41.3	40.1	48.4	+17%	+21%
Cf. Operating Profit	49.4	48.1	54.2	+10%	+13%
Cf. Operating Profit Margin	31.3%	28.4%	30.1%	-1.2ppt	+1.7ppt

- Due to the depreciation of the yen, revenue increased ¥13.3 bn & PTP increased ¥4.3 bn
FX rates: USD@¥131.25, EUR@¥138.75
- Excluding the FX translation impact, the real growth rate was revenue +6% YoY and PTP +12% YoY
- The difference between PTP and OP is mainly due to FX gains (¥6.8 bn)

I would like to talk about the financials for the whole group. For Q1, revenue was JPY180.2 billion and pretax profit was JPY61.5 billion, 21% increase against YoY. Net profit was JPY48.4 billion, an increase of 17% YoY. Operating profit was JPY54.2 billion, which is a 10% increase against the previous year.

As I mentioned during the key takeaways, there was the yen depreciation, which had pushed up our performance on a Japanese yen basis and because of the depreciation of the Japanese yen, revenue increased by JPY13.3 billion and PTP increased by JPY4.3 billion. Excluding the impact, our growth rate was 6% YoY in revenue and a 12% increase YoY in PTP.

Between operating profit and the pretax profit, there is a major difference in terms of numbers. Those are differences caused by FX gains basically from the yen deposit and dollar deposit. That is the reason why there is a huge difference between pretax profit and operating profit.

Life Care

(¥bn)	Q1 FY21	Q4 FY21	Q1 FY22	YoY	QoQ
Revenue	96.8	106.1	110.8	+14%	+4%
Pretax Profit	21.8	19.5	25.0	+15%	+28%
Cf. Operating Profit	20.6	19.8	21.6	+5%	+9%
Cf. Operating Profit Margin	21.3%	18.6%	19.5%	-1.8ppt	+0.9ppt

- Constant currency basis: Revenue +7%; PTP +8%

Now I would like to explain our performance for each segment. Next page, please.

First of all, for the life care business, the result was JPY110.8 billion for the revenue, which was a 14% increase against the previous year. And as written at the bottom, on constant-currency basis, revenue increased by 7%, so 7% increase without the FX impact.

Pretax profit was JPY25 billion, which was again a 15% increase YoY, but 8% increase on a constant-currency basis.

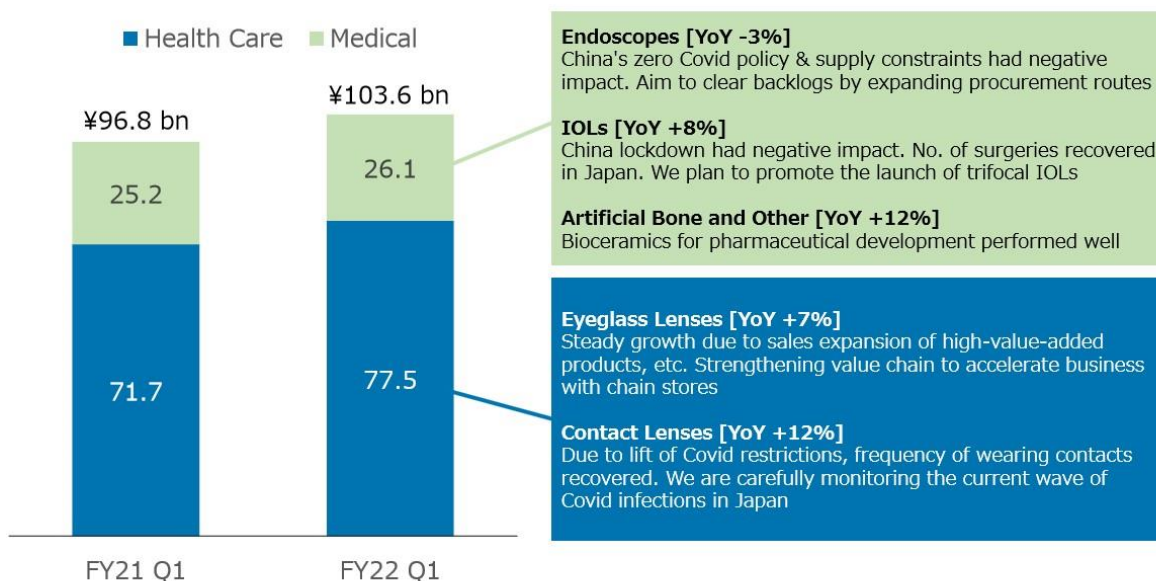
Operating profit was JPY21.6 billion, which was a 5% increase against the previous year. In terms of operating profit margin, I would like to make a comment. This fiscal quarter was 19.5%. It was an improvement from Q4, but compared to Q1 last year, there was a decline in terms of margin. This is something I said during the briefing for the results for Q4. But Q4, there was a one-off cost. For overall segments, around 20% is the target operating profit margin. It is, I believe, within the range, the result for Q1, which means that while we're making investments, we were able to generate an operating profit margin.

We are a little bit close to the bottom of the expected range. Sales in China -where product mix tends to be favorable- were lower than we had expected. We wanted the operating profit margin to be a bit higher than this.

The difference in terms of operating profit margin against the previous year, last year, 21.3% was achieved in Q1, but it was higher than we had expected. There was an expansion of infection in Q1 and FY2021, and we really didn't know where we were to accelerate or decelerate. And because of the characteristics of the Company, we were more like decelerating, so Q4 FY2021 was a bit too high. We didn't make a lot of investments.

Later on, R&D, SG&A, such investments increased later, and that is probably the reason why we're close to 20%, which is our target. We would like to continue with that, but at the same time, we would like to increase the top line. That's something that we believe is important for us.

Life Care: Revenue by Product (Constant Currency Basis)



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I would like to explain each business segment and if I were to supplement, it says constant-currency basis. JPY103.6 billion is based on the constant currency. The previous page is the numbers in Japanese yen and JPY103.6 billion is calculated using the constant currency. Please understand that there are some differences in terms of the figures.

For medical products compared to last year, sales were JPY26.1 billion, a small increase of JPY900 million. Against the previous year in endoscope business, YoY a decline of 3%, so in terms of fundamentals, since Q2 of last year, things have not changed. We have been able to receive orders to a certain extent. However, we are struggling to procure semiconductors. We haven't been able to clear backlogs and we haven't been able to increase the shipment processors, which overall is decelerating our sales and this phenomenon continued.

In Q1, as I said, the impact of China, the biggest impact was experienced or seen in endoscope business and also logistics. It is located in Shanghai and in April and May, our Chinese entity was not able to operate and was not able to record any sales. From June, little by little, we were able to restart our operations, and we were able to record sales in June. Because of that, in Q1, the sales in China were significantly lower compared to last year, which had a negative impact for the whole business.

As I said, currently, we are able to sell products in China and the sales are recovering, so I believe that it was a one-off thing what happened in Q1. However, semiconductor issue, we don't see any visibility in resolving that problem, which I believe is going to continue for this fiscal year. There's going to be a kind of cap in terms of supply of semiconductors, so we would like to produce as much as possible in terms of processors. We do have a huge backlog and I think it will take time, but we would like to do our best to clear backlogs.

Now moving on to intraocular lenses, YoY on a constant-currency basis, an increase of 8%, so we have been able to grow stably. Again, this business was impacted by the Chinese situation compared to last year. Number of surgeries declined in this quarter. Compared to last year, China alone, there was a decline in sales of about 30%. But even with that, we were able to grow in other areas. We were not able to achieve double-digit growth. However, we were able to grow by 8%.

The Q1 for Japan, we were able to recover, to a certain extent, not only in clinics, but also in hospitals where we saw increase in the number of surgeries. Now that we are in July, now the number of infections is

increasing, and we need to monitor carefully. However, I do believe that if you look at the full fiscal year, we will continue to grow.

We have been able to increase ourselves and grow the business. We would like to continue to launch new products in different markets so that we can achieve a stable growth for the business.

And other medical business, the amount is still very small, and it's not sizable to have an impact for the whole business, but other than endoscopes and IOLs, we do have artificial bones and also metal implants, and we're also doing bioceramics business. The market may be small or some of the products we are only selling in Japan. And in this area, we were able to grow quite significantly by double digit. We would like to make sure that the business can make contributions to the performance of the Company.

Moving on to health care, overall health care, JPY77.5 billion, and we were able to grow quite significantly. For eyeglass lenses on constant-currency basis, positive growth of 7%. Again, impact of China, the impact was not as large as those in endoscopes or IOLs because our lab was located in a different location. Other than the areas where there was a lockdown, we were able to receive orders and we were able to supply our products. However, China grew last year quite significantly. There was a momentum. Q1, I believe, was quite unfortunate, but we were able to grow well or strongly in June. And I believe that—and eyeglass lens business, we were able to grow against the previous year and the market is recovering.

Even though there was a slowdown in China, we were able to grow in other areas, especially in Southeast Asia. Last year, Southeast Asia, Hong Kong, Korea, there was an impact of COVID and there was only a very slow recovery. But today, in all of the markets, we are seeing growth. There's also a rebound from last year where our sales were low, and we were able to grow YoY by double digits for those markets.

Now moving on to contact lenses. Contact lenses grew by 12% YoY. It's been a while to achieve double-digit growth for contact lenses. Q1, there were no COVID restrictions. For last year, there were a lot of COVID restrictions. Therefore, compared to last year, we saw a recovery in demand. There were no COVID restrictions and people start to travel around, move around, the frequency of wearing contacts recovered. We were able to see that, which was positive to our contact lens business.

For the past several weeks, there has been increase in COVID infections. Therefore, at the moment we haven't been able to go back to the momentum we had in Q1. We need to monitor carefully how long this situation is going to continue. If there are opportunities, we would like to execute our sales expansion activities to increase our sales.

Information Technology (IT)

(¥bn)	Q1 FY21	Q4 FY21	Q1 FY22	YoY	QoQ
Revenue	59.8	62.3	68.3	+14%	+10%
Pretax Profit	30.0	30.5	35.6	+19%	+17%
Cf. Operating Profit	29.7	29.6	33.5	+13%	+13%
Cf. Operating Profit Margin	49.6%	47.5%	49.1%	-0.5ppt	+1.6ppt

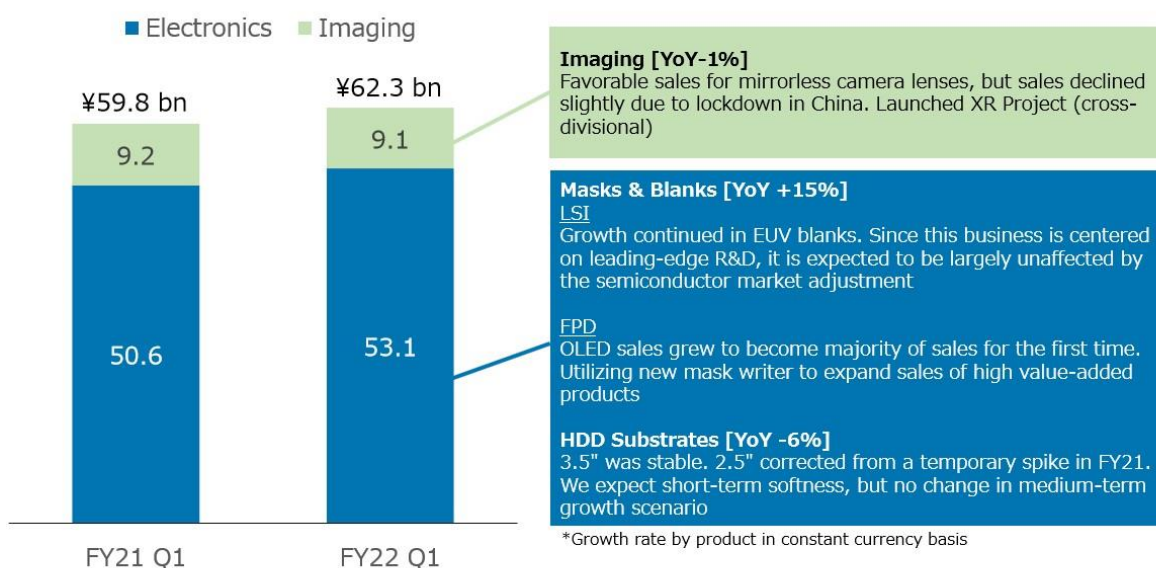
- Constant currency basis: Revenue +4%; PTP +9%

Now moving on to Information Technology segment.

Revenue was JPY68.3 billion, which was a 14% increase YoY and constant-currency basis, revenue increased by 4%. Pretax profit for Q1 was JPY35.6 billion, 19% increase against the previous year, and on a constant-currency basis, 9% growth.

Operating profit was JPY33.5 billion, a 13% increase against the previous year. Operating profit margin was 49.1%, so not much of a growth mainly because of the HDDs. However, we were able to maintain our margin for Q1.

IT: Revenue by Product (Constant Currency Basis)



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This is the breakdown by product. Again, this is on the constant-currency basis.

First, for the imaging, YoY, down by 1%. For the mirrorless camera lens, the sales were pretty steady, I would say. There was no drop YoY. We're not seeing any sudden decrease. However, we do have many customers for this business in China and when there is a lockdown in China, the sales were stopped. As a result, we saw YoY decline for the imaging business.

This is a business that we need to keep a close eye on, including the camera business as well as the economic trends. However, this is not a business where we expect high growth, but rather, we would like to continue to keep this as a cash cow business. Whether the sales goes down or not, we would like to continue to maintain or even boost the operating profit margin. From that perspective, we would like to keep a tight control on the costs to continue to make the imaging business profitable.

Next, for the masks and blanks, semiconductor and the large panels. For the semiconductor business, the EUV blanks continue to perform very well. Semiconductor market overall has some opaqueness. However, our focus is on cutting-edge R&D. In that sense, we were largely unaffected, and demand remains strong. We expect this strong demand to continue throughout the year.

For the EUV, about 20% growth YoY, so we would like to continue to capture the customers' strong demands and make the right investments at the right timing to continue the grow the EUV business.

Next, for the FPD, this also showed steady growth. In the previous quarter, or Q4, we started to introduce the new mask writer. We are winning orders based on the new mask writer from Q1. This has contributed to sales, including OLED.

Lastly, HDD substrates, I think this is one of the key aspects of today's presentation. As I mentioned in the key takeaways, the 2.5 inch is showing a correction and lower demand. On a YoY currency-neutral basis, Q1 was down 6% for the HDD substrates. 2.5 inch really is not doing well. Minus 6% is the actual. And from Q2 onwards, we expect that the drop will be even larger. Especially 2.5 inch is showing very dire trends. It could be 1/2 of what we had last year for the 2.5 inches.

As I mentioned at the onset, FY2021 was a rather extraordinary year from the perspective of 2.5 inch. From about 2018 or so, 2.5-inch drop was something that we forecasted YoY. Around the 20% drop YoY was our forecast. We have been explaining that the 2.5 inch will continue to decrease, and we will cover that by the increase in 3.5 inch. However, because of the COVID, suddenly, there was a surge in the demand for 2.5 inches. Against 2020, it was a positive; 2.5 inch grew. From that perspective, this was a really special situation. But 20% drop YoY, our initial forecast was correct. In that sense, the drop is larger in 2022 because of the special situation in 2021. If you look at the YoY comparison, the drop seems very large. But if you look at it over a period of several years, then it is going exactly as we had forecasted.

Now for 3.5 inch, our expectation was that this will cover the drop in 2.5 inch. However, this year, customers' customer, meaning the data centers, are seeing some opaqueness in terms of the economic outlook, and they seem to be quite cautious in making decisions. This is what we are seeing at the moment. For this fiscal year, 3.5 inch is not going to fully cover the drop from 2.5 inch. And this is how we see the full-year trends for HDD substrates.

I do believe that for this year, we will be struggling in terms of the HDD substrates in terms of the numbers. But actually, there is no change in our medium-term outlook. The 2.5 inch will continue to decrease, and the 3.5 inch will continue to grow. And in the long term, we will be going back to the growth scenario.

There is no change to this, and we will continue to develop new customers. In that sense, our strategy has not changed. This year may be quite tough. But in the long term, our growth scenario has not changed.

Highlights from the Balance Sheet & Cash Flow

Shareholder Return

- Completed 60 bn yen share buyback on July 15. Plan to cancel all shares
- Cash and cash equivalents were at the same level QoQ as a result of a more than ¥30 bn increase in cash due to FX fluctuations, despite a cash outlay of over ¥30 bn for share buybacks & dividends
- At today's Board of Directors meeting (August 4), the Company resolved to repurchase up to ¥60 bn of its own shares

CAPEX *

- Result in Q1: 7.4 bn yen (YoY ¥-2.5 bn)
- Annual FY22 is expected to be around ¥30 bn **

D&A

- Q1 results: ¥12.0 bn (YoY ¥+1.7 bn)

* CF base. Acquisition of PPE

** Cash outflow basis. No change from the previous outlook

We have completed a JPY60 billion share buyback, and we decided to cancel all shares as of today's Board meeting. We also announced a new round of share buybacks.

A large amount of our cash deposits are in dollars. On a yen basis, our deposits continue to grow. And this is rather a difficult balance to strike, but we would like to return to the shareholders whenever there are opportunities, so we have decided to go ahead with the share repurchase.

For the CapEx and the depreciation and amortization, basically no change from what was announced previously.

Q2/H1 Guidance

For Q2, although revenue is expected to increase, profit is expected to be flat-ish YoY due to change in product mix and conservative estimates of FX gains and losses, etc.

FY2022 Q2 Guidance

(¥bn)	Q2 FY21	Q2 FY22	YoY	QoQ
Revenue	162.6	179.8	+11%	-0%
Pretax Profit	54.0	53.5	-1%	-13%
Net Profit	43.0	42.1	-2%	-13%

FY2022 H1 Guidance

(¥bn)	H1 FY21	H1 FY22	YoY
Revenue	320.6	360.0	+12%
Pretax Profit	105.0	115.0	+10%
Net Profit	84.3	90.5	+7%

FX Rate Assumption USD@¥125 EUR@¥135
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Lastly, I'd like to talk about the guidance.

We expect around JPY180 billion in revenue for Q2; and pretax profit, JPY53.5 billion. FX rate assumption is JPY125 to the dollar, which is a stronger yen compared to the current level. It is very difficult to predict the future currency rate, so we decided to use the rate for internal budgeting.

As mentioned, we expect that HDD will be weaker in Q2 compared to Q1, so that has, of course, been incorporated. Another concern is the Japanese market. The increase in COVID cases is currently happening. And whether or not the government restrict people's movements, the people may restrain from going out. That could have a fundamental impact on the business.

On the other hand, we don't plan to have any other lockdowns in China, so the drop in HDD as well as other negative factors could be covered by the other areas. That is also a key point in the guidance.

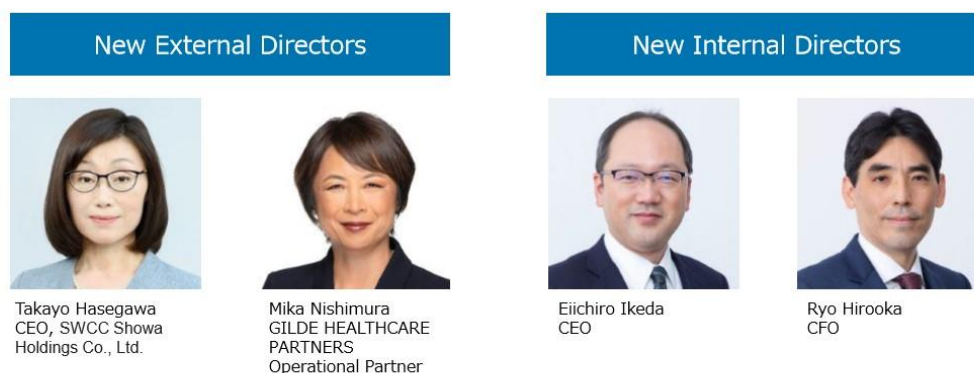
And in terms of the profit, it's very difficult to assume the FX impact, so this is a currency-neutral basis. It is very likely that there could be FX fluctuations, but we didn't incorporate that in the profit expectations.

Pretax profit is down YoY. But last year, we had JPY3 billion in the FX gain as well as disposal of some of the assets which pushed up the non-operating profit. That is reflected in the higher pretax profit compared to this year.

This concludes my presentation. Thank you very much.

Four New Directors Appointed

- Mr. Suzuki, who has led HOYA's growth for many years, and Ms. Uchinaga, an external director, retired from the board.
- Ms. Hasegawa and Ms. Nishimura were newly appointed as outside directors, and CEO Mr. Ikeda and CFO Mr. Hirooka were appointed as inside directors, bringing the total number of directors to 8.



Moderator: Next, allow me to talk about the new Board structure starting from this year.

In the June AGM, we put the resolution for the election of directors as well as the partial revision of the articles of incorporation to the shareholders, and those were approved with overwhelming majority, over 96%.

After the AGM, Mr. Suzuki, who has led the growth of HOYA as CEO for more than 20 years, as well as Ms. Uchinaga, who has provided multifaceted advice as independent director over nine years, has retired.

Now as new independent directors, we have Ms. Takayo Hasegawa, who is the Representative Director and Group CEO of SWCC Showa Holdings, as well as the Operational Partner of Gilde Healthcare Partners, Mika Nishimura. As new Internal Director, Ikeda-san who is the CEO; as well as Mr. Hirooka, who is the CFO, have been appointed. And we have eight members of the Board.

Independent Directors' Skills Matrix

- Ms. Hasegawa is expected to contribute her expertise in technology development, and Ms. Nishimura is expected to demonstrate her knowledge of the overseas medical industry.
- The representation of female directors and executive officers has increased from 11.1% to 30% from the same period last year.

	Skill Set of External Independent Directors						
	Corporate Management	Global Business	Finance/ Accounting	IT/ Technology	M&A	Human Resource Development/ Diversity	Medical
Mitsudo Urano	●	●				●	
Shuzo Kaihori	●	●		●			
Hiroaki Yoshihara	●	●	●	●	●		
Yasuyuki Abe	●	●		●	●		
Takayo Hasegawa	●	●		●		●	
Mika Nishimura		●			●	●	●

Next slide, please.

This shows the skill matrix of the six independent directors based on the categories. This may be a bit difficult to see, but we have a nominating committee comprised solely by independent directors and the nominating committee is responsible for selecting the candidates for the independent directors. I will be speaking based on the perspective of the nominating committee.

Takayo Hasegawa, who has been newly appointed as an independent director, she has a strength in energy infrastructure, communication, and industrial device through her experience as a researcher in SWCC Showa Holdings. In 2018, she became the very first female president from the R&D. Ms. Hasegawa has a wealth of experience as a researcher in R&D and we would like to leverage her experience in management as well through her work as Independent Director.

Ms. Nishimura has over 30 years of experience in the medical field. She has been very active in the health care commercialization strategy in many markets, including North America and Europe. She also has abundant experience as a partner or in the life science venture fund, and she has wide-ranging expertise in the latest technology and company trends. Therefore, we hope that he will contribute to enhancing the supervision function of our life care business as independent director.

Now, with this change in the Board, the ratio of female directors, including the executive officers, has been boosted from previous year, 11.1% to 30%.

This was a very brief explanation about the new Board of Directors of HOYA. And going forward, we would like to share with you the latest topics from our business products as well as updates around ESG at the financial earnings presentations.

Question & Answer

Moderator [M]: Now we would like to move on to Q&A.

Because we have the simultaneous interpretation, those of you who chose Japanese, please speak in Japanese; those of you who chose English, please speak in English.

Shibano-san, please.

Shibano [Q]: Citigroup Securities, my name is Shibano. I'm a little embarrassed as I was raising my hand even before the start of the Q&A session. My first question is related to page eight. You talked about the EUV blanks and my question is related to that.

Adjustment of semiconductors, you're not impacted, you will not be impacted by the adjustment of semiconductor market. Interpretation of that text is Q1 sales, I will not say the absolute amount, but I can make estimates, compared to last year, basically, the sales is going to increase. And for Q1, as Hirooka-san mentioned, there was about a 20% increase. Can we expect a similar level of growth from July? That's my first question.

Hirooka [A]: I talked about growth that was limited to EUVs, so if we include others, we did not experience such a big growth. EUV, basically, we believe that the EUV is going to continue to grow, but optical, we believe that the growth will be flat or a little bit of a positive growth. That's the major trend and that would remain unchanged.

EUV YoY growth of 20%, is it achievable? On a quarterly basis, there will be ups and downs in terms of demand, so 20% is not impossible. However, I cannot say for sure that we'll be able to grow by 20% on a quarterly basis. I cannot say that for sure.

Our capacity is going to grow in Q4. Up until then, we may hit the ceiling. We are growing by 20%, but basically increasing the throughput and there is also an issue of product mix. With the current production capacity, Q2, Q3, that's going to be an obstacle. We will increase our capacity when we hit the ceiling, the maximum. That's the basic idea.

Shibano [Q]: Thank you very much. My second question is related to page six. You talked about eyeglass lenses, and it says that you're going to strengthen the organization to accelerate the growth. And since Ikeda-san became the CEO of the Company, you mentioned that eyeglass business is going to be a focused business for you. Can you explain more in details about this business?

Ikeda [A]: Ikeda is going to answer that question. There's challenges related to growth in the US. From March, our eyeglass lens organization has been changed in the US. Especially sales force organization has been changed and we have a new structure in place, not only to chain stores, but we have somewhat revised the sales structure.

For major chain stores, we are having some positive impact. The organizational structure has changed, and we are seeing some results. We would like to carefully monitor how that business is going to develop.

Shibano [M]: Thank you very much.

Moderator [M]: Thank you for the question. Next, Katsura-san, please.

Katsura [Q]: I'm Katsura from SMBC Nikko. I have a question for both Hirooka-san and then to Ikeda-san. For Hirooka-san, on page four of the slide, you talked about the operating profit, so positive by JPY4.8 billion. What is the currency impact here? And what is the negative from the China lockdown? If you have a further breakdown analysis of the operating profits, I would be very eager to hear that.

The currency impact is quite large. And pretax profit alone makes it a bit difficult to see the impact of the currency. I'd like to look at it on the operating profit level.

And my second question is to Mr. Ikeda. This may be a continuation from the previous discussion. Looking at the EUV, there are various concerns in the market. We are seeing the market adjustment for other companies. After three months have passed and looking toward the future, I'd like to ask more about the demand side rather than the supply side. If there are any updates with regards to the demand side, please let me know.

Hirooka [A]: Thank you. Looking at the operating profit, the currency impact is JPY3.7 billion. In the supplementary material, it is on page eight, so please refer to that material. It is broken down further into segments, but you will be able to see the currency impact on operating profit.

And the impact from China, there were impacts, but if you look at the life care as a whole, the impact was not huge. It wasn't a surprisingly huge impact. In terms of OP margin, I think it didn't reach 20% of OPM we aim due to China lock down impact, I would say for the life care side. That's the rough number that I can introduce.

Ikeda [A]: And let me address your second question regarding the EUV demand. We have said that our EUV is not impacted by the semiconductor market adjustments because our EUV is not used for kind of the normal applications in the market. Our products are not impacted significantly by what is happening in the market.

What is our EUV impacted by? It's based on the number of designs or the R&D activities. That does have some bearing on our EUV blanks. We speak to different customers. It's a handful of customers for EUV. And of course, we have discussions in the next three-year or four-year demand. This is because the capacity in the Japan and Singapore is not going to be sufficient and we have to make a capital investment. We are conducting interviews with the customers on a daily basis to capture their future demand.

For HDD, every time we speak to the customers, it's more of a downward revision. I'm talking only about 2.5%. But on the other hand, for the EUV, every time we speak to the customer, we don't see any lowering of the demand. Based on our discussions, we don't see cases where they are revising downward, but rather, there are customers who are revising upwards. That is how we are planning the CapEx.

In that sense, we have to look at the volume that will be required in the next two years or three years. And based on our discussion with the customers, we don't envision any drop in the demand.

Katsura [M]: Thank you very much.

Moderator [M]: Thank you very much. Nakamura-san, over to you, please.

Nakamura [Q]: My name is Nakamura from Goldman Sachs. First question is the plan for the full-year sales increasing 10%. From Q2, I do believe that you're expecting a growth of a little less than 10%. Excluding the currency, how much of growth are you expecting?

Currently, there are a lot of macro risks and also there is expansion in infection in Japan and also there is a lowering of consumer sentiment, so there are a lot of risks. Are those risks already incorporated in your current plan?

Hirooka [A]: To be honest, we do not disclose our yearly plan. We are focusing on the business performance of each quarter and make plans for the quarter and achieve results. That is the reason why we did not disclose the yearly plan.

The reason why we are excluding the year plan is because of insider trading related. And because of the currency impact, we do believe that the amount or the numbers are going to increase. We can expect that there will be a major impact of FX. And that is the reason why we decided to disclose our yearly plan. I have no intention of making any additional comments on the plan. But HDD is going to decline, which is already incorporated in the plan. And life care business, we would like to grow that business. However, we do know that we are facing a very challenging environment. I know I'm not answering your question.

The yearly forecast, it's not a yearly forecast that we have disclosed. We just decided to disclose the plan because we're going to be above 10%.

Nakamura [Q]: A follow-up question. The 3.5 inches, up until when inventory adjustment is going to last? And do you know about when there is going to be a reversal of the trend?

Ikeda [A]: 3.5 inches, mid to long-term data is going to increase and the investment cycle or cyclical, if you look at the cycle, we are seeing deceleration. Within this fiscal year, I believe that the current trend, current environment is going to continue. And when do we expect the growth to come? Unlikely to happen before the end of this fiscal year. The current status will continue.

Moderator [M]: Damian-san, please.

Thong [Q]: Thank you. For the hard disk, so 2.5-inch utilization is dropping. For that capacity, how do you plan to utilize it? Do you plan to shift that to 3.5 inch? For the 3.5 inch, you need to expand the capacity going forward. Is it possible to utilize the 2.5-inch capacity and convert that to 3.5 inch? That's my first question.

Ikeda [A]: With regards to the capacity for 2.5 inch, as you mentioned, yes, the plan is to convert that to 3.5 inch. We don't see any other growth in 2.5 inch, so we are proactively going to convert that to 3.5 inch. However, in some cases, there may be some timing delays and so on and we would like to continue to keep an eye on the operating profit margin. If we have to stop the factory for some time, we will do so, but we will definitely be converting them to 2.5 inch.

Thong [M]: Understood. Thank you.

Moderator [M]: Damian-san, did you have another question?

Thong [Q]: Yes. My second question is about the roadmap going forward for the 20 terabytes and so on. Any concerns you have?

Ikeda [A]: No, for the 3.5-inch development roadmap, no changes. The 11 model is going to be a part of the developed model for all customers. And so we will be testing this going forward for the customers outside of HOYA as well, so no changes in the roadmap going forward.

Thong [M]: Understood. Thank you very much.

Moderator [M]: Nakanomyo-san, please.

Nakanomyo [Q]: My name is Nakanomyo from Jefferies. 3.5 inch is strong and it says here on the slide that it was strong. Did you see positive growth in Q1?

Hirooka [A]: Yes.

Nakanomyo [Q]: And it will turn negative from Q2?

Hirooka [A]: According to our forecast, yes.

Nakanomyo [Q]: Which means that there will be a major adjustment in Q2, I mean we are comparing ourselves against the previous year?

Hirooka [A]: Yes.

Nakanomyo [Q]: So, in Q2, there is going to be a major adjustment; in Q3 and Q4, you're not expecting a recovery?

Hirooka [A]: I would say that in Q2, we believe that Q2 will be the bottom. For 3.5 inch, there will be a gradual increase, but the speed would not be too fast. That's how we see the situation currently. And the level of the decline we saw in the previous year is quite different.

Nakanomyo [Q]: The JPY60 billion of share buyback for three fiscal years in a row, you're going to implement a share buyback program. I believe that you made this decision based on the current cash level. Are you trying to send a message to the capital market? Can you make a comment on that?

Hirooka [A]: In terms of share prices, I don't make any comments. We are thinking of different things as we made that decision. But one thing is that we look at the cash level and also, we are looking at the investment plans as well.

As I said, a lot of our cash is held in foreign currency and we look at it in Japanese yen basis, and we do pay to our shareholders in Japanese yen as well. Since there is yen depreciation, the reason why we decided is that we should be paying to our shareholders when we can.

Moderator [M]: Since all of the questions have been answered, I would like to conclude today's briefing. Thank you very much for joining us despite your busy schedules. Thank you very much.

[END]

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