

FAQs and Answers after the Announcement of FY22 Q3 Financial Results

Overall

- Q What is the status of your M&A considerations and new business development?
- A As for M&A, we cannot speak about specific projects, but we are targeting Life Care-related and semiconductor manufacturing-related businesses, which are under consideration. As for new business development, we have made organizational changes to promote the development of new products and businesses by combining technologies from different business divisions. We have begun development of optical components for AR/MR and will promote development of products and businesses following AR/MR.

Blanks

- Q What is the reason for the 15% year-over-year revenue decline for the next six months (FY22Q4-FY23Q1)? Is there a difference in the degree of adjustment by customers and EUV/DUV?
- A It is mainly due to customer inventory adjustments. In the past few years, customers increased their inventory levels in preparation for supply chain disruptions caused by COVID-19, but now that COVID-19 has ended, they have reduced their inventory levels, resulting in inventory adjustments. Customer R&D activities remain active and 2-nanometer advanced node sampling work is ongoing with all customers. By EUV/DUV, the adjustment is greater for EUV. Inventory adjustments have occurred at almost all customers, but the degree of adjustment varies.
- Q Is there any change in your sales growth projection after the completion of customer inventory adjustments compared to before? Also, please tell us about your capital expenditure plans.
- A The inventory adjustment is temporary, and we have not changed our view that EUV blanks will grow over the medium to long term. We have not changed our medium to long-term capital expenditure plans, including recent orders for new equipment.
- Q How will a 15% decline in sales affect profits?
- A The operating profit margin for the Information Technology business in Q4 will not reach the level of Q3 (47%), but we expect it to exceed 40%. We were able to maintain the profit margin in Q3 by substantially reducing expenses in the HDD glass substrates division, but it is difficult to substantially reduce expenses in the blanks division due to the high percentage of fixed costs in this division.

- Q US-based semiconductor equipment manufacturer has announced an alternative patterning technology to EUV double patterning. How would this technology affect demand for blanks?
- A From the information available at this time, the impact on blanks demand is not clear, but our first impression is that the technology is more for DRAM, not logic. The blanks market is predominately for logic sales, so we assume that the impact will be limited.

FPD Masks

- Q Please tell us about the objective of the joint venture with BOE. When do you expect the joint venture to be financially accretive?
- A We have established a joint venture company to gain a foothold in the Chinese market, where demand is expected to continue to grow, and to realize closer development and sales activities with customers. We are currently building a factory in Chongqing, China, and plan to start local production in early 2025.

HDD Glass Substrates

- Q Why were Q3 sales better than expected and what is the outlook for Q4 and beyond?
- A Inventory adjustments in the supply chain, including data centers and HDD manufacturers, are progressing faster than expected, and demand for near-line demand has begun to recover since mid-December. In Q4, the negative growth rate for the entire business segment is expected to improve to -25% YoY, and we expect a gradual recovery in subsequent quarters as well.
- Q Multiple HDD manufacturers have mentioned the launch of HAMR (Heat Assisted Memory Recording) HDDs in the market; what will be the impact on this business if sales of HAMR HDDs go into full swing?
- A We believe that glass will increase its share of the HDD disk substrate market. In the manufacturing process for the magnetic film of the disks used in HAMR HDDs, heat at higher temperatures than conventional HDDs are generated, requiring glass substrates with higher heat resistance than aluminum alloys (heat resistance temperature: aluminum alloy is 290°C, glass is 691°C). When HAMR HDDs are realized, the recording capacity will increase by approximately 50% at once compared to existing near-line HDDs, and we believe that other HDD manufacturers will also adopt HAMR HDDs, resulting in accelerated replacement of aluminum disk substrates with glass substrates.
- Q After the inventory adjustment, will the nearline HDD/substrate market grow at the same pace as before?
- A We believe that the current situation is a temporary adjustment and that the market will continue to grow over the long term, driven by factors such as the progress of the information society.

- Q Please explain why the profit margin of the Information Technology business as a whole did not fall significantly despite the large decline in HDD substrate sales in Q3.
- A This was due to the complete shutdown of the HDD substrate plants and the reduction of costs as much as possible, as well as the earlier-than-expected start of the sales recovery.

Imaging

- Q In Q3, sales seem to have declined due to the zero COVID policy in China. How do you expect this to recover in the future?
- A With the lifting of the zero-corona policy, we expect a gradual recovery.

Eyeglass Lenses

- Q Please tell us about the status of the strengthening of the sales structure in the U.S. and the extent to which the sales slowdown that occurred in December in the major Western European countries will continue.
- A U.S.: Sales continue to improve, mainly due to the acquisition of new contracts from independent/chain customers.
Europe: Although eyeglass lenses are less sensitive to economic fluctuations, growth is expected to slow in Europe, partly due to a competitor's acquisition of a retail chain.
Globally, we expect growth in the rest of the world to offset the slowdown in Europe.
- Q What is the sales status of MiYOSMART (lenses to curb myopia progression)? Also, could you tell us about launch schedules in other regions?
- A It already accounts for around 6% of sales of eyeglass lenses and is expected to grow rapidly in the future. Currently, we are launching this product in more than 30 countries, and we will expand our sales area once we receive approvals from regulatory authorities in each country.

Contact lenses

- Q Please tell us the percentage of sales accounted for by private brand (PB) sales in the business division as a whole. Also, what are your medium-term targets for PB ratio?
- A Currently, in the category of daily lenses, PB accounts for nearly 20% of sales, and we expect a ratio of more than 40% in the medium term.

Endoscopes

- Q Please update the situation about the shortage of semiconductors.
- A It is improving little by little but has not reached a complete solution.
- Q What are the strengths of the new PENTAX Medical INSPIRA™ endoscope?
- A It is difficult to compare with competing products, but INSPIRA's features include further improved image enhancement, image processing in 4K, a touch panel that enables intuitive operation and customization, and a bridge function that enables compatibility with existing scopes.

IOLs

Q Please tell us the status of sales expansion of the new tri-focal intraocular lenses.

A We have started to sell tri-focal IOLs in major European countries. We expect that the tri-focal IOLs will drive earnings growth in the business.

End

Forward-Looking Statement

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