

## HOYA CORPORATION

Q4 Financial Results Briefing for the Fiscal Year Ending March 2023

May 8, 2023



**[Number of Speakers]**

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Eiichiro Ikeda

Director, Representative Executive Officer, President & CEO

Ryo Hirooka

Director, Representative Executive Officer & CFO

Tomoko Nakagawa

Executive Officer & Chief Sustainability (ESG) Officer

# Presentation

## Moderator:

Today's presenters are Director, Representative Executive Officer, and CEO, Mr. Ikeda; Director, Representative Executive Officer, and CFO, Mr. Hirooka; and Executive Officer and Chief Sustainability Officer, Ms. Nakagawa.

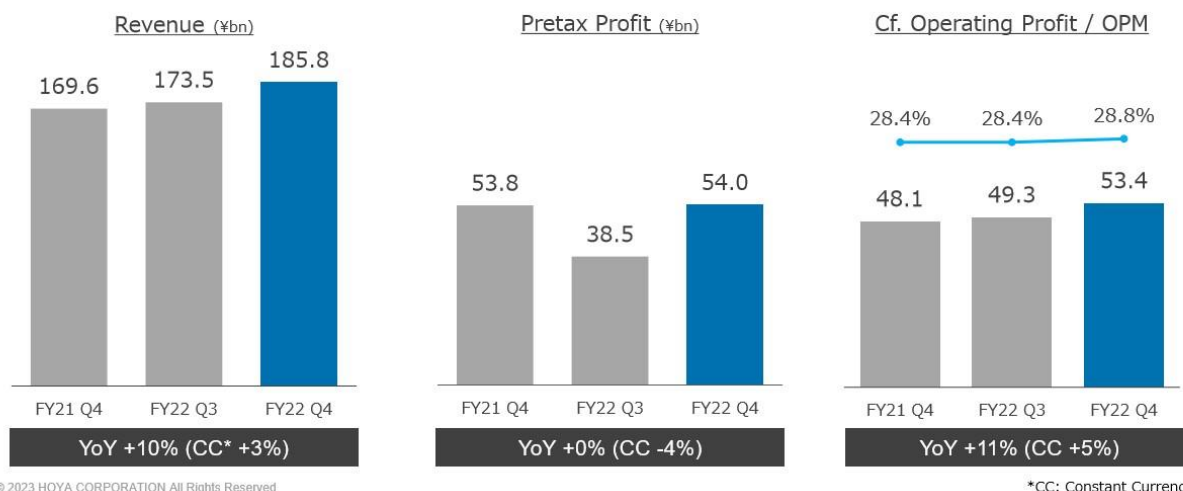
Today, Mr. Hirooka will first give you the Q4 results, main business results, and then Mr. Ikeda and Ms. Nakagawa will talk about our initiatives over the past 12 months. Then we would like to have a Q&A session, and end at 4:00 PM.

Then I would like to hand it over to CFO, Mr. Hirooka.

## Financial Overview



- Despite the impact of inventory adjustments in blanks, revenue and profit increased due to strong performance in the Life Care Business. Revenue reached a record high.
- Operating profit increased due to cost management in the Information Technology Business and improved profitability in the Life Care Business.



**Hirooka:** Without further ado, I would like to talk about the Q4 results. As for the overall figures, JPY185.8 billion was the revenue. Also, there was a 3% increase on a constant currency basis.

Pretax profit was minus 4% on a constant currency basis or JPY54 billion in operating profit was JPY53.4 billion.

Now as for the operating profit, we increased and the net profit actually decreased, and we would like to explain the reasons behind their ups and downs. The largest factor is in Q4 last year where there was a JPY3.1 billion of ForEx gain. In Q4 2022, JPY900 million of ForEx losses, and so the difference is the largest. Therefore, the operating profit constant currency basis positive. However, net profit was a negative. Other than the translational impacts, there are ups and downs depending on the items.

As for the overall business, there are two points that I would like to refer to. FY22 was very robust, increased both revenues and profit. As for information technology, amidst the difficult environment,

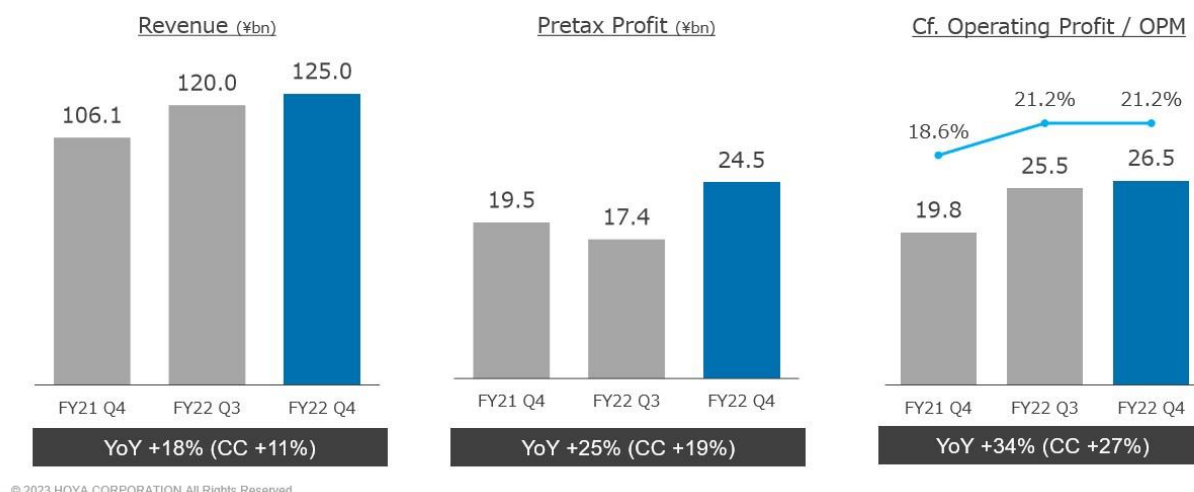
we were able to successfully do cost management and control our profit. Life care achieved both an increase in revenue and profit which led the Group total to an increase in both revenue and profit.

Next, I would like to talk about the results for each business segment.

## Life Care Business Overview



- Achieved double-digit sales growth mainly due to significant growth in eyeglass lenses, our largest business in Life Care.
- Profit margin exceeded target of 20%, driven by region/product mix etc.



First, as for life care business, JPY125 billion or plus 18% and plus 11% on a constant currency basis to JPY24.5 billion of profit before tax and profit margin was 21.2% and operating profit was plus 34%, plus 27% on a constant currency basis. I would like to come back to this by product, but life care overall increased its revenue. It was a double-digit increase, not only Q4, but on an annual basis revenues were plus 8% on a constant currency basis.

Looking at the year as a whole, sales were plus 8% on a currency neutral basis, and we have been able to grow in the high single digits in this environment. In the current fiscal year, we are increasing sales promotion, and R&D expenses including clinical trials, etc., and making investments accordingly, but we were able to absorb these expenses and exceed 20%, which is one of our profit margin targets for the year.

## Life Care Business Overview by Product

Product	YoY	YoY(CC)	Status in Q4 FY22	Future Outlook
Eyeglass Lenses	+22%	+13%	Improvement in US organization Snapback from COVID in China	Bolster product portfolio Strengthen chain store customer acquisition
Contact Lenses	+10%	+10%	Customer traffic exceeded pre-COVID level PB products & subscription drove strong performance	Boost PB sales Strengthen subscription service
Endoscopes	+9%	+0%	Despite firm sales in Europe, weakness in US led to flat sales	Launch new products including the high-end processor
IOLs	+23%	+16%	Significant increase in sales in all regions, including China, where there was a reactionary increase	Focus on value-added products such as tri-focal IOLs Continue to explore new regions
Artificial Bone, etc.	+21%	+15%	Pharmaceutical chromatography media and artificial bones drove growth	Stable growth expected to continue Expand capacity of chromatography media

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Now I would like to talk about the individual products.

First, as for eyeglass lenses on a constant currency basis, plus 13%. We were able to grow by more than double digit. Sales in China and US grew a lot. As for China, lockdown in December and January, there was expansion of infection. However, amidst these concerns, we were able to grow in Q1. Last Q4 was difficult in the US. However, we were able to gain good revenues, and we were able to acquire good sales from chain stores. However, the business is not limited to these two countries as far as eyeglass lenses. It was a very good quarter overall.

Three months ago in Europe, we were concerned that there may be some risks. In December or in January, the sales were not very good. However, as a result, in Europe, we were able to grow our revenues. In Asia and in Japan as well, we were able to grow in the mid-single digits.

Next, as for contact lenses, we were able to grow 10% YoY. Q4 of last year, there was still an impact of COVID, so there was some recovery impact as well, but the human traffic, if human traffic becomes active, then contact lenses consumption goes up. The market has recovered, if you would. We are tracking the total number of contact lenses being used, but the situation has recovered close to a pre-COVID level. The market has recovered, and we are taking measures to capture this opportunity.

Next, endoscopes. On a constant currency basis, it was flat. The situation varied depending on country. In Europe, it remained firm. However, in the US, there were some weaknesses observed, so altogether, plus 0%. The shortage of the semiconductor supply has been mitigated and is in the direction to be resolved. Of course, this will not be resolved overnight, so it will be a gradual recovery.

Next, intraocular lenses. On a constant currency basis, it was a 16% growth. The largest factor is China. Amidst the COVID regulation and amidst expansion of infection, sales used to be very slow. However, from February onwards, sales have recovered. This is not limited to China, but intraocular lenses showed similar trends to eyeglass lenses. In various markets, sales were recovering. In Japan, compared to last year where there was still impact of COVID, we were able to grow by double digit, so IOL business is in a very good shape.

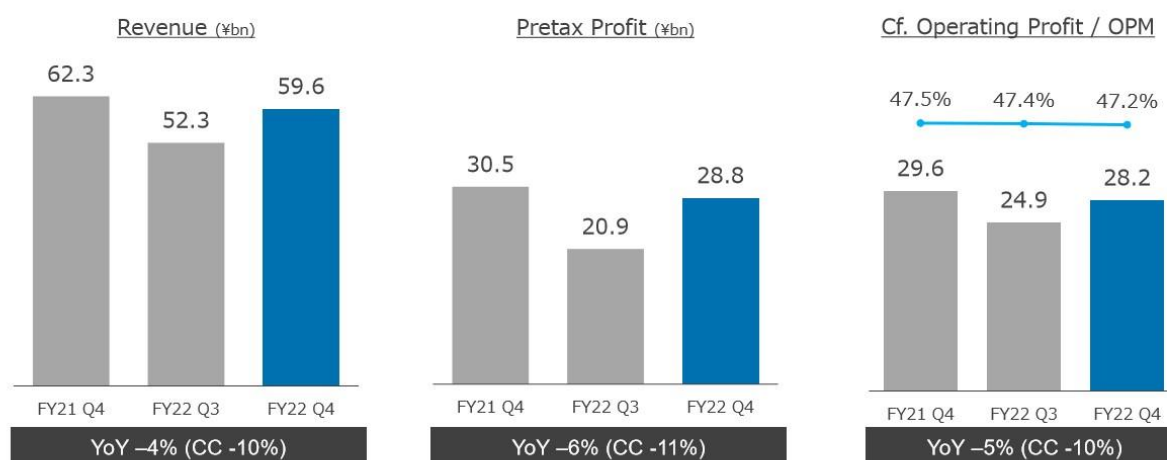
Next, and although the value is not very big as for other medical equipment (including artificial bones), we are able to grow by double digits.

As a result, we were able to grow the overall life care business double digits in Q4. Considering the nature of the business, it's very difficult to grow in double digits sustainably, but in 2023, we would like to make investments in our SG&A as well as R&D. Although the profit margin of 20% will remain the same, we would like to continue to grow sales by at least mid-single digits to the higher single digits.

## IT Business Overview



- Despite lower sales of blanks due to inventory adjustments at customers, overall sales declined only slightly as demand for HDD substrates recovered.
- Agile cost management enabled to minimize the impact on profit margins.



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Next is IT business at JPY59.6 billion in revenue, which is negative by 10% on a constant currency basis and pretax profit, JPY28.8 billion and operating profit, JPY28.2 billion. This was a YoY down of 5% and minus 10% on a constant currency basis. This was a larger negative compared to the revenue.

However, we were able to control the cost well, and the margin was 47.2%. The profit margin has remained at a high level. In spite of the sluggish sales by cost control, we have been able to continue to maintain a high level of margins.

## IT Business Overview by Product

Product	YoY	YoY(CC)	Status in Q4 FY22	Future Outlook
LSI	-3%	-6%	Lower sales due to inventory adjustments at customers Ordered next-gen inspection tool	Expect modest recovery in demand Continue to invest in EUV to support mid-to long-term growth
FPD	+9%	+8%	Captured demand from Chinese customers	Continue to focus on the Chinese market Plant construction in China underway
HDD Substrates	-10%	-20%	Bounce backed from inventory workdowns in Q3	Continue to closely monitor the status of 3.5" for near line servers
Imaging	-3%	-7%	Camera lens sales were firm while surveillance cameras were underperforming	Leverage optical technology to cultivate new business areas

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Next, I would like to look at the product of the IT business.

Starting with LSI, compared to last year, minus 6% on a constant currency basis. Three months ago, we said that this could be down by 15% YoY, but if you look at the results, the decrease was not as much as we had expected three months ago if you look at the revenue. However, the market and forecast are not so different from what we said three months ago.

In Q4, due to the product mix and the customer mix, we have been able to see a better result than expected. But actually, the market environment is as we had foreseen three months ago. Three months ago, we said, over the next six months, the market will be tough, and there will be inventory adjustments. On a YoY basis, this could be minus 15%. Actually, this forecast still stands for the next quarter for Q1, so we do still maintain that forecast for Q1.

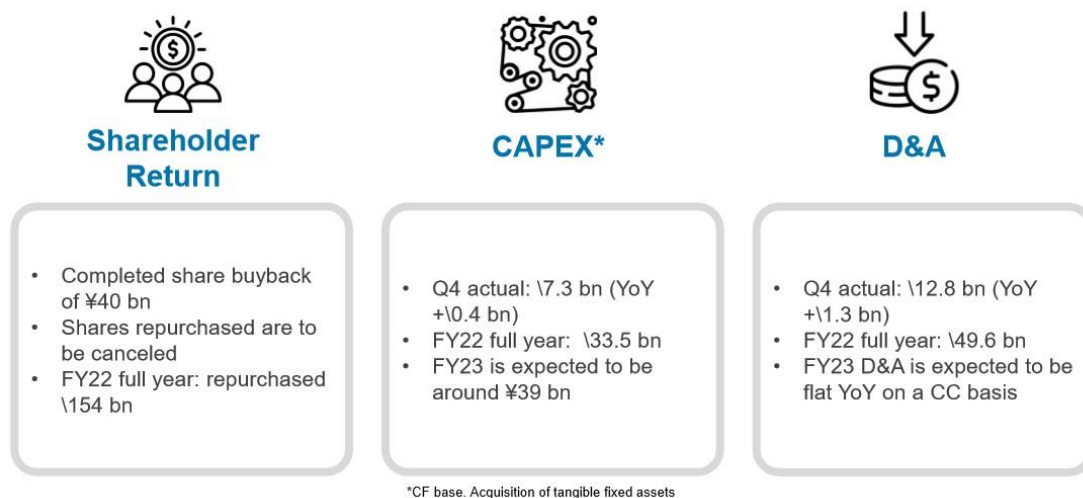
However, after Q1 onward, we expect a gradual recovery, not a sudden recovery but a gradual recovery over Q2 and Q3, and so forth. That is our forecast for now. In that sense, the mid- to long-term forecast has not changed from three months ago. EUV customer demand is now at a standstill, but in the mid- to long-term, we believe that this will grow. Within the IT industry, our positioning has not changed.

Next, FPD. On a constant currency basis, plus 8% YoY. We were able to capture the demand in China, but we have formed a joint venture with a Chinese partner. We are building up the plant, and we are able to secure orders in China. This has been the progress for FPD.

Now for HDD substrates, minus 20% on a constant currency basis. Three months ago, we said minus 25% for Q4, but we landed with minus 20%, which is more or less in line with our Q3 forecast. This has been a recovery compared to Q3. But if you look at the near future, we do not expect significant growth going forward for this business, but rather, there's going to be ups and downs. However, we will closely monitor customer activity to ensure that the adjustment will not be as drastic as in Q3 of FY2022. Going forward, for H1 of 2023, FY2022, H1 was strong, so on a YoY basis, we expect negative YoY, not negative against Q4 but negative against FY2022 H1 if you look at FY2023 H1.

Last, for imaging, minus 7% on a constant currency basis. Given the current environment, imaging business is not seeing a growth in revenue. For camera, it remains firm, but the surveillance cameras are underperforming. We do not see this imaging business as a growth business, so we will make sure to control the cost so that we are prepared for the volatility.

## Balance Sheet / Cash Flow Related Matters



\*CF base. Acquisition of tangible fixed assets

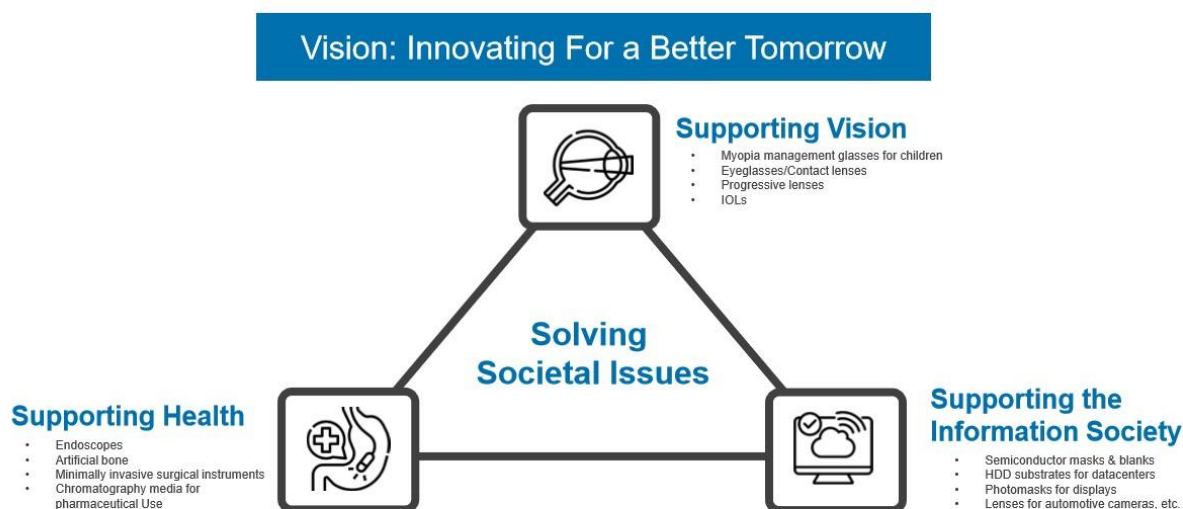
Next, about the balance sheet and cash flow.

Basically, everything is stated on the slide. We have completed the share buyback that we announced last time, and the buyback has been completed in April. In today's Board meeting, I was resolved that the shares will be canceled. That is it for the numbers.



## Three Areas on Focus

In the three areas of "Vision," "Health," and "Information Society," we aim to solve social issues and create a better future through innovation.



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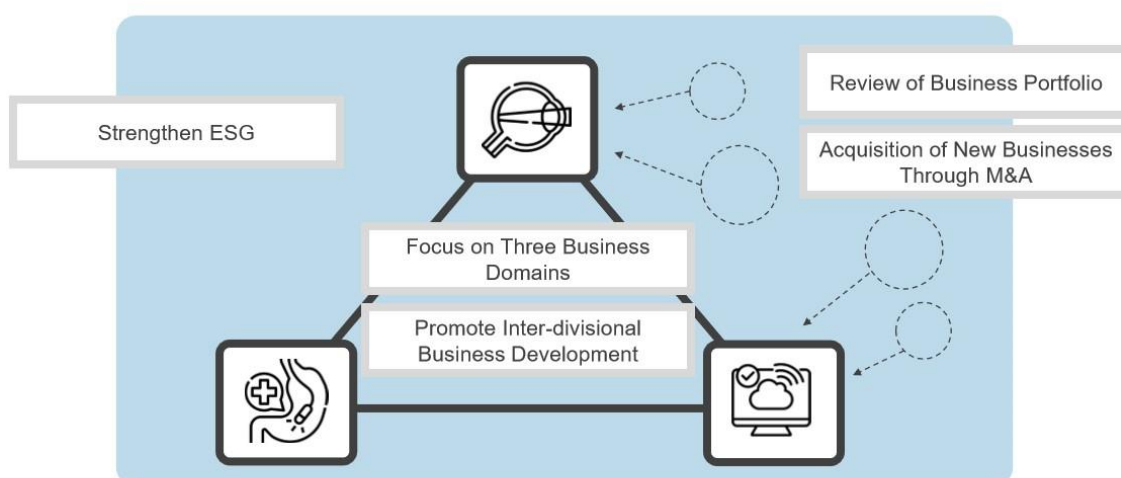
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**Ikeda:** I would like to reflect on FY2022 and look back on the past year.

A year ago, in the earnings presentation, I showed a very similar slide to this one, supporting vision, supporting health, and supporting the information society. We will be innovating in these three areas, resolving societal issues to build a better tomorrow. The vision, innovating for a better tomorrow was announced a year ago.

## What We Have Set as a Management Challenge a Year Ago

A year ago, we have set the following points as important management challenges and executed multiple initiatives.



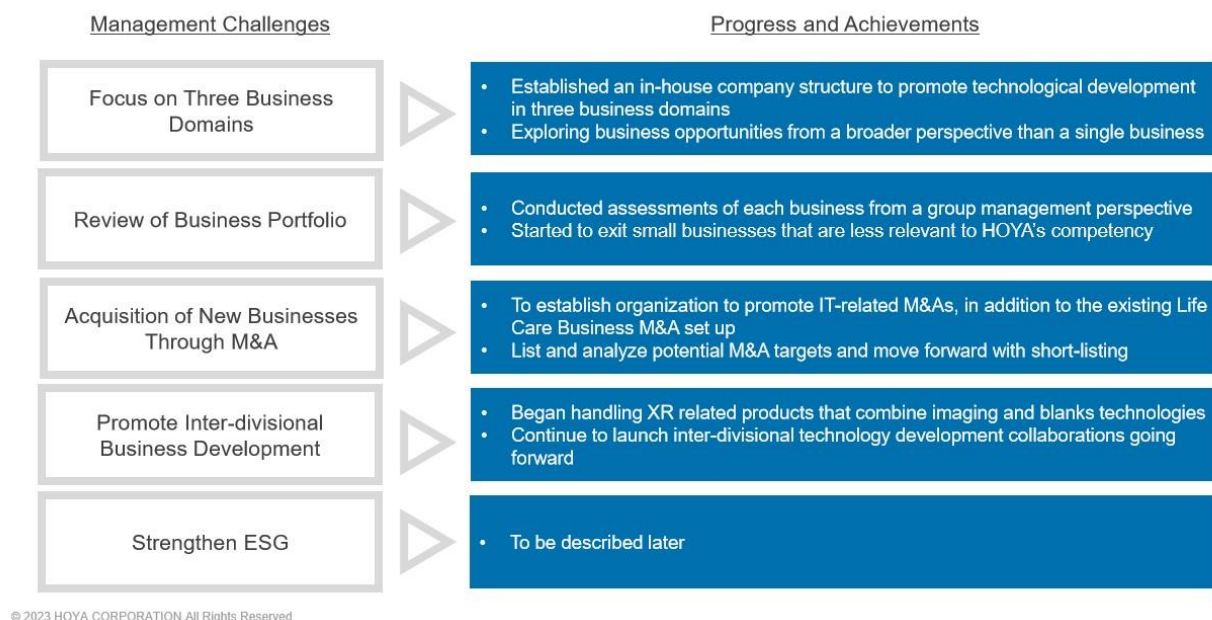
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Again, a year ago, these five were pointed out as the important management challenges. I would like to report to you on the progress for each of these management challenges.



## Progress of Initiatives for Management Challenges



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Starting with the top one, focus on three business domains. As stated, R&D is being accelerated for the three business domains, and we have set up the in-house structure to promote such technological development. In the past, each business had its own technological development, but we have been able to change our organization, so that's a broader perspective than a single business can be taken as the entire HOYA Group.

Next challenge, review of business portfolio, to conduct assessment of each business from the HOYA Group management perspective. Based on this assessment, we identified businesses that will not be growth drivers going forward or that has little relevance to the HOYA's mainstay business or businesses that do not fall under any of the three business domains, and we are going to exit from the smaller businesses that we have identified.

The third one, acquisition of new business through M&A, which has been an important policy from the past. However, up until last year, we were only looking at life care business M&A. However, in order to identify the M&A target for IT, we have built up an organization to enable us to promote IT-related M&As. Also, we have been listing and analyzing and short-listing M&A candidates.

The next one is to promote interdivisional business development, so intercompany business development. For the imaging business and the electronics business, we are combining the strength of both to handle XR-related products. Similarly, we will combine the technical development of different divisions to create synergies.

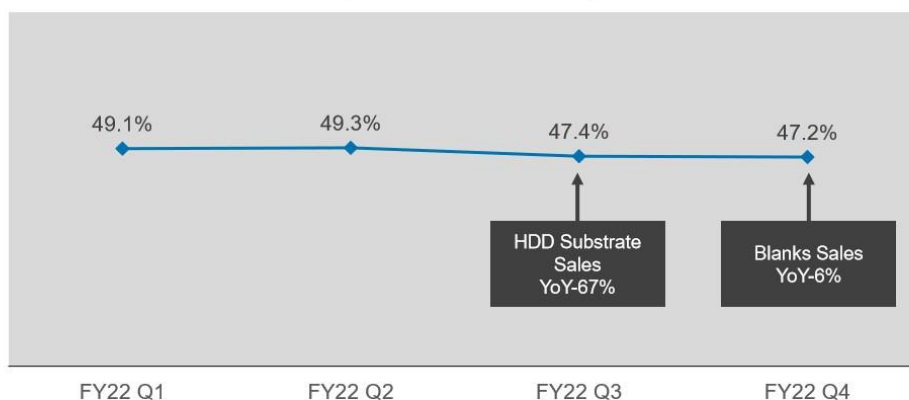
Last, as for the fifth challenge, strengthening of ESG. This will be explained by Ms. Nakagawa later.

## Management of Profitability



- While promoting new initiatives, emphasis on profitability and numerical measure remains the same.
- FY22 was in a cyclical correction period for HDD substrates and blanks, but we were able to minimize the impact on profitability.

OPM of IT Business



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We have caused you some concerns recently in FY2022 H2, especially HDD substrates and blanks for semiconductor manufacture has been in a correction or adjustment period. Even if in that environment, the profitability management, which is the strength of HOYA has been focused on managed, and as shown here, in Q3 of FY2022, HDD was minus 67%, and in Q4 blanks sales were minus 6%. Still, we were able to maintain a high profit margin even so.

In the previous page, I mentioned that we are continuing with these new initiatives. However, we are still focusing on the profitability management of the information technology business.

## Cash Allocation

- Though we prioritize investments for growth, the Company did not execute large-scale investment projects /M&As in the near term. Therefore, we returned excess cash to shareholders.
- Total shareholder return in FY22 exceeded 190 billion yen, a record high.

Changes in Total Shareholder Returns (¥bn)



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In terms of cash allocation, although we are focusing on growth investment, we had no execution of large-scale investment projects in the near term, and so the excess cash has been decided to be returned to shareholders, which is the pace that we have followed in the past. We will maintain this policy going forward. The total shareholder returns in FY2022 exceeded JPY190 billion, which is a record high.

## Review of FY22: Strengthening ESG

Key Challenges	Progress and Achievements
Organization/System to Drive ESG	<ul style="list-style-type: none"> <li>Assigned ESG counterparts at each division</li> <li>Incorporated ESG indicators into the assessment of executive officers and division presidents</li> <li>Held regular ESG reports at BOD meetings</li> </ul>
Strengthen Human Capital/ Employee Engagement	<ul style="list-style-type: none"> <li>Continuously conducting engagement surveys</li> <li>Introduced new global evaluation system</li> <li>Continue to deepen education programs and succession plans</li> </ul>
Initiatives to Reduce Environmental Impact	<ul style="list-style-type: none"> <li>Replaced IT platform for collecting environment-related data</li> <li>Conducted third-party auditing for measurement of CO2 emissions</li> <li>Set targets regarding the introduction of renewable energy</li> </ul>
Expansion of ESG Disclosure	<ul style="list-style-type: none"> <li>Made TCFD disclosure</li> <li>MSCI ESG rating upgraded from A to AAA</li> <li>"Excellent integrated report" selected by GPIF asset managers</li> </ul>
Engagement in International Initiatives	<ul style="list-style-type: none"> <li>Signed the United Nations Global Compact</li> <li>Joined RE100</li> <li>Collaborating with Orbis Int'l and other corporate citizenship activities</li> </ul>

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**Nakagawa:** From last March, I have been in charge of sustainability. My name is Nakagawa. Today, I would like to talk about our ESG initiatives over the past 12 months.

As for our organization to promote ESG, we have a dedicated headquarters division and also appointed ESG dedicated persons in each division as well. We have incorporated ESG indicators into the assessment of executive officers and division presidents. Though the Board of Directors are basically a monitoring board, we held regular ESG reports at the BOD meeting.

Another issue that is as important as the environment is the human capital issue. We are continuously conducting engagement surveys. Last year, for the first time, we introduced a new global valuation system, and we made a measurement ruler for the total group. We will continue with education programs as well as succession plans on this topic.

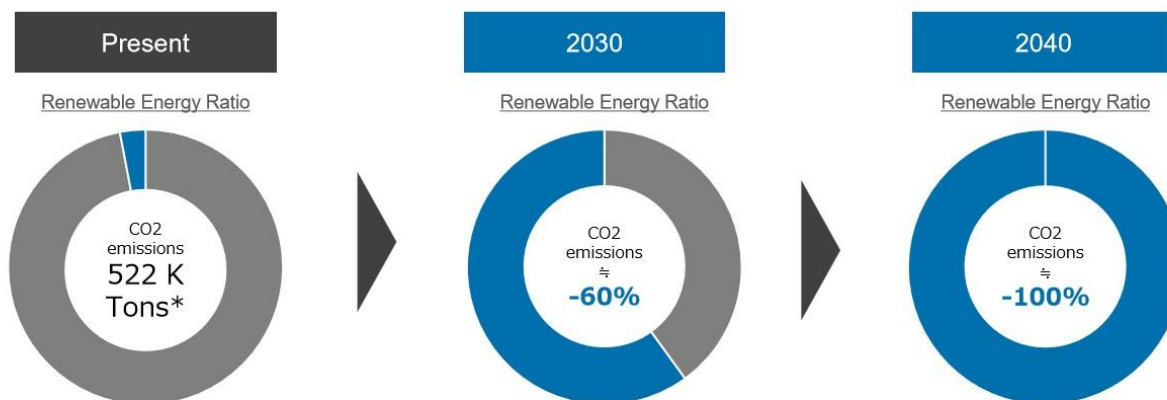
As for initiatives to reduce environmental impact, we, on a global basis, renewed the IT platform for collecting environment-related data. As for CO2 emissions for the first time, we conducted a third-party auditing. As for the target of renewable energy, we have set a new target, which I will come back to later. We were a bit delayed in ESG disclosure. However, for the first time, we have made a TCFD disclosure. The scope of the coverage is still small. However, we would like to continue with this initiative.

As for ratings, MSCI has been upgraded from A to AAA. As for the integrated report, we are enriching the content year after year, which has been evaluated. Also, other than that, we have signed the United Nations Global Compact. We have also joined RE100, and through our participation in RE100, we aim to achieve 100% renewable energy in Scope 1 and Scope 2. As for Orbis International, this is regarding the NGO that is working on social contribution with regard to the health of eyes. We are

collaborating with Orbis International so that people or especially children who have limited access to eye health will be able to access the eye health services.

## Mid-to Long-Term CO2 Reduction Targets

Reduce emissions (Scope 1+2) by nearly 100% by 2040 through shifting from fossil-fueled based electricity (Scope 2), which accounts for more than 90% of our CO2 emissions, to renewable energy.



\*Scope 1+2. Step-by-step measurement and disclosure of Scope 3 will be considered after FY23.

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90% of our CO2 emissions are derived from fossil fuel based purchased electricity. By replacing this with renewable energy, we would like to reduce Scope 1 and Scope 2 CO2 emissions.

Last year, we had approximately 500,000 tons of CO2 emission. By 2030, we would like to reduce this by 60%. In 2040, which would be HOYA's 100th anniversary, we would like to reduce CO2 emissions by 100%. We are making a road map towards this target, and this will be reflected in the assessment of business presidents.

## Key Priorities in FY23



- ☑ Accelerate exploration of new business opportunities in the three business domains
- ☑ Strengthen M&A activities
- ☑ Manage business divisions under cyclical adjustment period
- ☑ Phased introduction of renewable energy
- ☑ Step-by-step Scope 3 measurement and reduction plans



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**Ikeda:** Next, I would like to talk about 2023's key priorities. We will accelerate the exploration of new business opportunities in three areas.

Number two, we will continue to strengthen M&A activities.

Number three, in H1 of 2023, HDD substrates and LSI will still be under the cyclical adjustment period. Even so, we would like to manage our business as well as profitability in these segments.

Number four, as explained by Ms. Nakagawa, we would like to make a phased introduction of renewable energy.

Number five, again, as explained by Ms. Nakagawa, we would like to make a step-by-step Scope 3 measurement and reduction plans. These will be the five key priorities that we would like to work on in FY2023. Thank you very much.

## Question & Answer

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**Moderator [M]:** The first question is from Mr. Shibano.

**Shibano [Q]:** My first question is regarding the glass substrate of HDD in prospect of the business. Mr. Hirooka explained, but I would like to know more about the details. The customers are claiming that their business phases are being prolonged. In H1, on a constant currency basis, it will be down by more than 20%.

That's what you explained, but based on the explanation by the customers, the Q1 adjustment ratio perhaps, should we expect that it's pretty high? In your company, your quarter revenue may be below JPY20 billion. Do you think that is a fair prospect? I would like to know about the prospects of the

HDD substrates. When will the recovery happen? Or would it be difficult to see any recovery in Q2, Q3?

**Hirooka [A]:** Compared to last year's Q1, we are expecting that the decline will be around 30%. Last year's Q1 was still in a growth phase, so compared to Q1 of last year, on a YoY basis, the decline could be pretty significant. To be honest with you, things are very untransparent, and things are still very uncertain. In H1, as far as we see it, things look very bad. Will there be a sudden recovery beyond that? Well, to think so would be a very optimistic scenario, so to be honest with you, this may not be a very good expression, but we do not know. We're not sure.

Compared to last year because H1 of last year was so good, we expect about a 30% decline. However, in H2, 2022 Q3 was very bad, so it's not very meaningful to compare to last year's H2. In Q1, Q2, Q3, Q4, rather than expecting a recovery, we expect that there will be some ups and downs in terms of revenue in the four quarters even if you are very pessimistic.

What we would like to do is to carefully monitor the customers' situation, and when we do feel any signs of recovery, hopefully we will be able to respond to the customers' demand. We'd rather keep ourselves a pessimistic plan.

**Shibano [M]:** Understood, thank you very much. On page 13, I have a question for Mr. Ikeda. With regard to your progress in your business management, you said that you will streamline any business which has a small relevance to the mainstream business of HOYA. This may be a sensitive topic. You don't have to identify which business, but concretely, if you have any particular business in mind or if there are any concrete results that you have identified so far? I would like to know.

**Ikeda [A]:** Well, regarding the nature of this topic, I would like to refrain from identifying any specific business, but as I mentioned earlier, we would like to focus on the three main businesses. I have explained earlier HOYA's business. There are many businesses which are not included in these three main business areas, including small businesses, so perhaps you will be able to make some predictions. As for large-scale business, I would like to refrain from naming any particular specific business.

**Shibano [M]:** Thank you.

**Moderator [M]:** The next question is from Mr. Yoshida.

**Yoshida [Q]:** I'd like to ask about EUV blanks. Last earnings presentation, you said that there are inventory adjustments among some of your customers. Since then, the inventory adjustment has progressed or what is happening for your customers? Is there an increase in customers with the corrections or adjustments? If you could provide some forecast on the next fiscal year or your market share, please?

**Hirooka [A]:** Well, let me first respond to your first question. Is there an increase in customers conducting inventory adjustments? Well, not much has changed since three months ago. Some customers are conducting inventory adjustments, and it is still ongoing. That is the current status.

**Ikeda [A]:** Some customers are conducting inventory adjustments up until Q1. A similar question may arise from the other speakers, so I would like to expand on that.

For the 2-nano process, qualification is ongoing with the customers. For these cutting-edge qualification process, we still do not feel threatened by our competitors. We don't feel the presence of competitors for these 2-nano or yet. However, as I mentioned in the previous presentations, there are customers' needs to have multiple suppliers due to their procurement policies, so that is something that is ongoing for the customer side. But again, this is not for the 2-nano, the cutting edge.

For a 5-nano or 7-nano for the EUV binary qualification, there are activities ongoing on the customer side. However, whether or not qualification is proceeding, that is another thing. Actually, it is not in a situation where it's being qualified and actually replacing our products.

**Yoshida [Q]:** For the HDD substrates, is there an increase or progress in customers with glass substrates?

**Ikeda [A]:** Regarding the customers newly adopting the glass substrates, not much has changed since three months ago. However, our customers continue to announce that HDD with HAMR with a larger capacity and the evaluation and shipments to these customers has progressed. Once the assessment is completed and there is a go-ahead, then mass production will start from next year. These announcements have been made by our existing customer.

With the progress of HAMR, the technology that is being provided by other companies, the 30 tera drive is very difficult to achieve, so HAMR will be adopted more and more and increasing substrates as well. That is likely to be the momentum. We are prepared for that and conducting R&D activities together with our customers.

**Moderator [M]:** Next, Nakamura-san, please.

**Nakamura [Q]:** My first question is regarding cost control. The IT profitability of the IT is 47%, and I think it is a relatively high margin if you think about the trend in main products. I would like to once again know about the background of it. In your measures for 2023, on page 18, I see the word profit management in number three. Can you elaborate on the content of it?

**Hirooka [A]:** On a monthly basis rather than quarterly, we should monitor the outlook or the forecast regardless of our plans and control the capacity of the factories and decide what to stop, what to not stop. We should have to make a clear distinction between these two. If we have decided to stop the line, we will make a bold decision, especially when it comes to HDD. There is no magic.

When the market does recover, we will have to increase the production capacity, so we may stop the line, but cannot close a factory considering the recovery in the time ahead. There are limitations as to what we can do. We will not stick to our annual or quarterly plans, but would like to be flexible in controlling the production capacity, and it's just the repetition of the small efforts that we are making.

**Ikeda [A]:** If I may follow up, toward 2023, yes, this is our target, but to be simple, we would like to make a bold decision to stop production lines whenever necessary. If we think that there's still needs some continuous orders or lingering orders, we will be inclined to make more.

However, once we do make decisions, we would like to have the courage to stop the line. I think that these decisions are very important in order to manage our profitability, and we would like to make all these tenacious efforts on a continuous basis.

**Nakamura [Q]:** Understood. In your Q3 earnings results, you did explain that this is possible for HDD. However, EUV blank's marginal profit should be pretty high. Is that the reason why you are not seeing much results in that?

**Ikeda [A]:** Well, as for hard disk, this is a manufacturing dependent on human resources, and we can adjust the line. However, as for EUV line, this is moved by automation, and there are not much human resources used in the first place, therefore, it is not a type of business that we will be able to flexibly manage the profitability like we can in HDD business.

The development for advanced technology has not stopped the customers' business, so we will be able to use our machines in a short period of time while we are stopping the lines for developing



advanced technology, which may be different from profitability management, but in order to maintain our business for a long period of time, R&D activity would be very important.

Moreover, as shown on the graph that I showed you before, blanks were minus 6% compared to the previous year. If that becomes minus 50% like HDD, then we may not be able to do what we have done in HDD, but as for EUV, we will have to work on R&D activity, the most advanced technology. When production comes down, machine time can't be spent more for R&D.

**Nakamura [Q]:** Thank you very much for your detailed explanation. What are your plans or image for the IT business profitability in Q1 of this year?

**Hirooka [A]:** Well, at this point in time, we are not disclosing any numbers. I think you can make a good guess based on the situation of the LSI and HDD substrates.

**Nakamura [M]:** Understood, thank you very much.

**Moderator [M]:** Next, Mr. Iwai please.

**Iwai [Q]:** Regarding the LSI blanks, please provide color of why you have placed orders for the next-generation inspection tool in spite of the inventory adjustments going on. What is the difference in the specification for this next-generation equipment? Through these orders, how much will the production capacity increase going forward?

**Ikeda [A]:** With regard to this next-generation inspection tool, this is for the EUV mask blanks. In terms of capacity, currently, there are two that are being fully utilized as of now and the third tool is about to be installed.

With the order of this inspection tool, this will double our current capacity. This next-generation inspection tool, the delivery time is about two years, so FY2025 H1 is when we expect the delivery. There is a possibility that the delivery date could be around one quarter ahead or behind, but basically in FY2025.

Now going back to why we placed this order. Now despite the tough environment, first is the long delivery time of two years.

Second, even though the EUV blanks business is in a correction period at this time, it is a growth business in the mid- to long-term. Therefore, we are speaking with the customers with regard to the long-term outlook, and we do expect medium-term growth for this business. That is why we want to bolster our capacity. The inspection tools have the longest delivery time, and that is why we are investing now.

The exposure machine has a new technical development going on, and what is being expected for the banks will change going forward. We should be the first to develop cutting-edge technology, so we have placed an order with an inspection equipment manufacturer to begin joint development.

**Iwai [Q]:** I have a follow-up question to that. You talked about the medium- to long-term mask blank business growing. What percentage will be the growth ratio going forward? Then, for the high NA, what do you think will be the technical changes that we can expect in the future? You talked about the surface material for mask blanks changing in the future and reportedly, it is said that the size of mask banks or the shape of mask blanks could change. With the current R&D, what are the expected changes for mask blanks going forward?

**Ikeda[A]:** With regard to the growth that we expect for this business, in the past, we said about 20% on an annual basis. But now, the numbers are stagnant for now, so it's difficult to give you numbers, but maybe double digits, above 10%. But it depends on where you base your calculation. Double-

digit growth perhaps is something that we can expect, so we have decided a capital investment for that.

Some people think that the mask size will be changed, or the exposure method will be changed in various ways when the high NA is introduced. However, our understanding is that it is necessary to develop a layer that can bring out more optical characteristics within the current process. In order to change the optical characteristics, new materials are being explored. To make the absorbent layer thin, these technological issues still remain. What we believe is it's not that rather than things are going to change all of a sudden because mask size is going to change, rather than that, within the current process, we would like to do a technological development in order to more benefit from the optical characteristics.

**Moderator [M]:** We are running out of time. The next question will be the very last. Mr. Mori, please.

**Mori [Q]:** I have a question about HDD substrates. For the 2.5 inch, currently, the SSD prices are coming down. The 2.5-inch price decline, do you think that this will accelerate going forward? Or do you think that the price reduction will be in line with the expectations that you had in the past?

**Ikeda [A]:** Well, for the 2.5 inch, we believe that this will disappear in the near future, so we're not very mindful of this. We think that this is going to be a vanishing business in the future, so we don't think about this much. On the other hand, for 2021, we did expect that this will decrease or disappear, but it actually grew, and the recent decline was not bad as expected. We don't really know how this is happening, so we are seeing some ups and downs. But basically, the 2.5 inch, we think, will disappear. This is how we see the business from HOYA. I hope that I was able to convey that.

**Mori [Q]:** Well, you said that this business will disappear, but has this changed in any way from your previous outlook? Or because of the SSD prices, do you think that the replacement will accelerate, and do you think that this disappearing will become faster?

**Ikeda [A]:** We don't see the 2.5-inch disappearing at an accelerated pace more than what we had forecasted. Actually, we tend to be quite pessimistic, and we thought that the 2.5 inch would disappear quite rapidly. It is not happening faster than we expected in that sense.

If you look on a YoY basis, the 2020 one was very strong compared to 2021. There was a growth of 2.5 inch from 2020 to 2021, so the numbers for 2022 look much lower. But compared to from about 2018 onward, I think the decline has been around 20-30%, and this has been the continued trend.

**Mori [M]:** Thank you.

**Moderator [M]:** With this, we would like to close today's earnings presentation. Thank you very much for joining us despite your very busy schedule.

[END]

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