

FAQs and Answers after the Announcement of FY22 Q4 Financial Results

Overall

- Q What is the impact of generative AI on the Company's business performance?
- A We think the following two businesses will be affected by the development of generative AI. Blanks: Demand for GPUs will increase, and blanks, including those for EUV, will be required for their production. Currently, only a few are used for manufacturing GPUs for AI, but we expect this to grow in the future. HDD substrates: The development of generative AI will also increase the amount of data stored in data centers, which may increase demand for HDD and disk substrates. Currently, most generative AI is text-based and the amount of reference data does not appear to be large, but the amount of data may increase in the future as reference data expands and applications expand to include images/video, etc.
- Q You mentioned that you are going to reorganize your business portfolio. What businesses do you expect to target?
- A We are starting with smaller-scale businesses to reorganize businesses that have little relevance to our strengths, businesses that will not be future growth drivers, and businesses that do not belong to our three focus areas of "support for the vision, health, and information society."

Blanks

- Q What is the background behind the higher-than-expected Blanks sales in Q4 FY22? (Forecast -15% YoY, Actual -6% YoY) Will this trend continue in FY23 Q1?
- A Sales were higher than expected due to several factors, including a better-than-expected product/customer mix, but we have not changed our outlook for FY23 Q1 because it was temporary.
- Q What is the background behind your forecast of 15% sales decline YoY in the next quarter (FY23 Q1)? Is there any difference in the degree of adjustment by customers and EUV/DUV?
- A The adjustment is mainly due to inventory adjustments in the supply chain. Over the past few years, inventory levels have been rising throughout the supply chain in preparation for supply disruptions caused by COVID-19. But the end of COVID-19 has caused inventory levels, which was piled up for Business Continuity Plan, to decline. Customers' R&D activities remained active, and sample work for 2-nanometer, the advanced node, is being conducted with all customers. By EUV/DUV, the degree of adjustment in EUV has been larger than that in DUV. Inventory adjustments are occurring at almost all customers, but the degree of adjustment varies.

- Q What is the background behind the lowering of the CAGR forecast for EUV blanks sales from 20% to 10%? Does it have any impact on your future capital expenditure plans?
- A We think that demand for EUV blanks has been growing over the past few years due to inventory holdings, so it is necessary to discount this in our CAGR forecast for the future. However, demand for EUV blanks will continue to grow over the long term, and we have not changed our medium- to long-term capex plan, including placing an order for new equipment in FY22 Q4.
- Q What will be the impact on profit when sales decline 15% in FY23Q1?
- A We expect the operating profit margin of the Information Technology segment in Q1 to be slightly lower than in Q4, because in Q4 there was a reactionary increase from inventory adjustments in the HDD substrate and a one-time factor in sales in the blanks, and these factors will be eliminated in Q1.

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 2024.

HDD Substrates

- Q FY22 Q4 sales improved significantly from Q3, but what is the background for another adjustment in FY23 Q1?
- A FY23 H1 is expected to be -20%+ YoY, FY23Q1 -30% due to strong demand in Q1 of the previous year. In FY22 Q4, inventory adjustment of glass substrates was largely over, but we expect another adjustment because data centers, our end customers, are curbing capital investment due to economic stagnation.
- There is no change in the outlook for growth in the HDD market due to the continuing progress of the information society.
- 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.

Imaging

Q Please tell us about your financial results and future prospects by application.

A Sales for interchangeable lenses were strong, but sales for surveillance cameras were negative due to the impact of the zero-Covid policy in China. Although demand for surveillance cameras is expected to remain stagnant for the time being, we expect the business as a whole to perform well, compensated by demand for interchangeable lenses and automotive cameras.

Eyeglass Lenses

Q The 4Q growth was double-digit; do you expect it to continue?

A Since 4Q saw double-digit growth thanks to temporary factors such as the rebound from the pandemic, we expect growth to slow down somewhat in FY23. However, we expect growth to exceed the market growth rate driven by the acquisition of new contracts with independent/chain customers in the U.S. and sales expansion of MiYOSMART in China.

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 7% 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. Moreover, we will expand our product lineup to include sunglass-type products.

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 What is the background behind the weak sales in the U.S.?

A Although sales in the U.S. are on a recovery trend, they have been negative in YoY. Since the market is firm, we consider this to be an internal factor. We aim to return to a growth path by strengthening our sales organization and reviewing our sales policies.

- Q Compared to HOYA's other businesses, the sales growth rate and profit margin are low. What are your thoughts on the future?
- A Sales growth and profitability have been stagnant due to a temporary increase in costs associated with compliance with laws and regulations in various countries and a shortage of parts due to the impact of COVID-19. Going forward, we intend to return to a growth path by expanding sales of new products and strengthening our US business.

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

HOYA may make comments and disclose information which include forward-looking statements with respect to HOYA's plans and future performance.

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