HOYA Corporation

Q4 FY2023 Earnings Call Transcript

May 15, 2024

[**Speakers**] 2 speakers

Representative Executive Officer and Chief Executive Officer

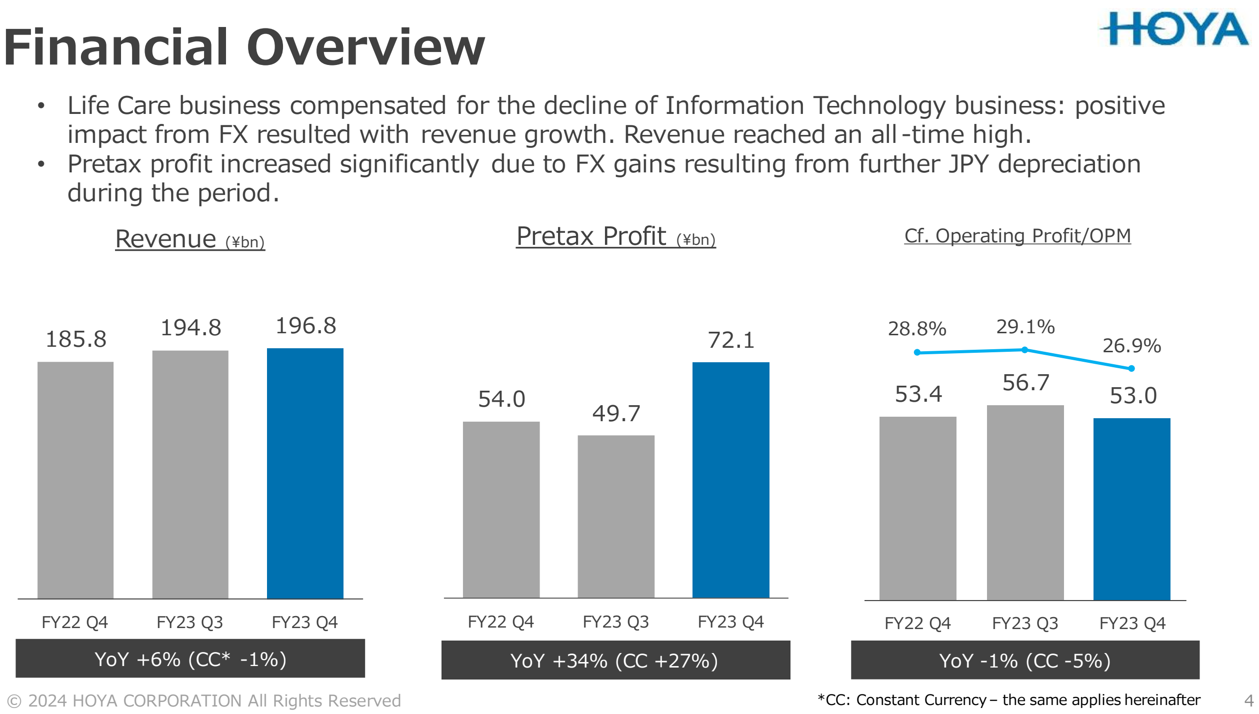
Eiichiro Ikeda

Representative Executive Officer and Chief Financial Officer

Ryo Hirooka

Moderator: We would like to start the HOYA CORPORATION fourth quarter financial results briefing for the fiscal year ending March 31, 2024. The two attendees from HOYA Corporation today are Eiichiro Ikeda, Director and Representative Executive Officer, CEO, and Ryo Hirooka, Director and Representative Executive Officer, CFO.

First, Mr. Hirooka will explain our business performance and the status of each business segment.



Hirooka：Consolidated revenue was 196.8 billion yen, up 6% from last year and minus 1% on a constant currency basis.

The main reason of the slight decline is the negative impact of the information technology, especially the HDD substrates business. HDD substrates were very volatile last year, and although they were doing very well until the first half of FY22, there was a major inventory adjustment from Q3 of FY22, resulting in a significant decline in sales. The rebound came in Q4 of FY22, and sales increased more than actual demand at that time. Since this is a comparison with the previous year, if we look at the YoY results, the entire information technology business was in the negative. The growth in Lifecare was able to offset this, but it was not enough to fully offset the decline in overall group sales and earnings. Including the impact of foreign exchange rates, sales were at a record high, due to the impact of yen depreciation.

Pretax profit was 72.1 billion yen, a significant increase over last year. Basically, this is due to the large foreign exchange gains generated from the revaluation of foreign currency assets due to the yen's depreciation. Since foreign exchange gains were almost nonexistent last year, the increase in profit was much larger.

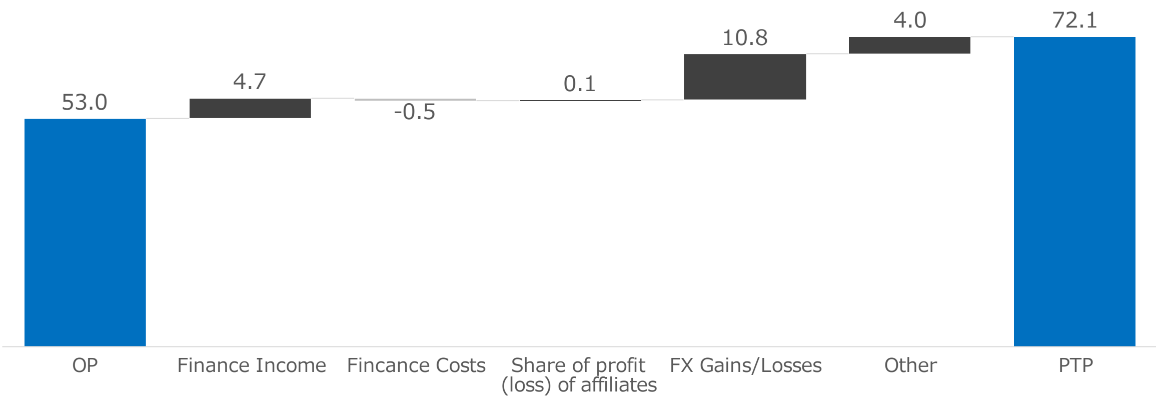
Operating profit was 53 billion yen, -1% YoY, -5% on a constant currency basis, and 26.9% as a profit margin.

Although we explained that Life Care covered the negative impact of Information Technology in terms of revenue, the difference in profit margins between the two businesses resulted in greater decline on operating income than on the revenue.

Profit Variance Bridge

- The ¥19.1 bn difference between operating profit and pretax profit is mainly due to foreign exchange gains of ¥10.8 bn yen.
- In FY23 Q3, FX losses (¥-11.4 bn) were recorded, so pretax profit increased significantly QoQ as well.

FY23 Q4 OP - PTP Variance Bridge (¥bn)



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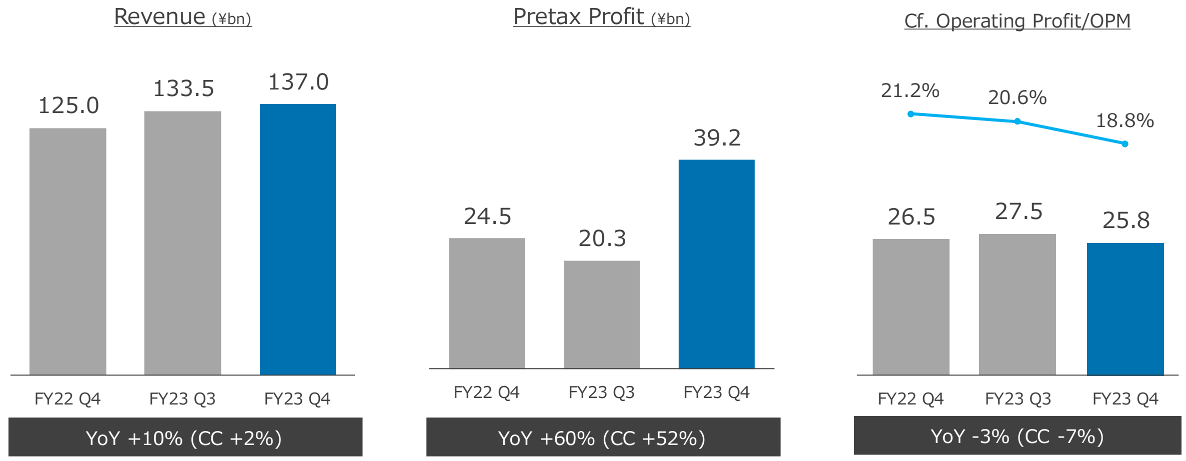
As for the variance between operating income and pretax profit, foreign exchange gains amounted to 10.8 billion yen. There are other "other income" items, but the main one is foreign exchange gains.

In Q3, there was a foreign exchange loss of 11.4 billion yen, which was a major factor in the change in pretax profit QoQ.

Life Care Business Overview

HOYA

- Despite rapid deterioration in the macro environment of the Chinese market, we achieved double-digit growth due in part to the impact of currency translation.
- OPM declined slightly due to one-time expenses and other factors, but was generally within the benchmark range.



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We will continue with a segment-by-segment explanation.

In the Life Care business, revenue was 137.0 billion yen, up 10% from last year. Excluding the effect of foreign exchange rates, sales were up 2% in a constant currency basis.

We had reported such concerns at the time of our last earnings announcement, and it turned out to be true. In the Q4 of last year, there was a large increase in sales in China due to the end of the Covid restrictions, so the situation, including comparisons with that period, has turned out to be negative.

Pretax profit was 39.2 billion yen, a big plus YoY, with foreign exchange gains and other income concentrating in this segment.

Operating profit was 25.8 billion yen, or 18.8% as a profit margin, which is -3% YoY and -7% on a constant currency basis.

The profit margin for this business fluctuates depending on the quarter, but while Q3 and Q4 of the previous year were up quarters, this quarter is on the downside. The quarter was also affected by a slight slowdown in sales growth. We also decided that it would be a mistake to increase our profit margin by reducing promotional, sales, and clinical expenses that would lead to future growth only in this quarter because of the slight slowdown in sales growth. On the other hand, we have exceeded 20% for the year, and one of our criteria is to exceed 20% for the year, rather than necessarily pursuing 20% strictly on a quarterly basis.

Life Care Overview by Product: Eyeglass Lenses

	Reported Basis	Constant Currency Basis
Growth Rate	+13%	+3%

Current Quarter

- Sales increased globally due to the launch of new products such as progressive lenses
- Sales in China decreased due to the economic slowdown and other factors

Challenges / Prospects

- IT systems for production and order takings were disrupted. We expect negative impact mainly in Q1 (to be described later)
- Continue to expand value-added products and strengthen product portfolio

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Let’s talk about the situation by product.

Eyeglass lenses had sales growth of 13% and 3% on a constant currency basis, after growing in the low single digits through Q3. This was due to the economic downturn in China, in addition to a rebound from the large increase in China last year in Q4 after the end of the restrictions from Covid.

In particular, the RX lenses (custom-ordered lenses), the mainstay of our business, experienced a temporary halt in production and the ordering system etc. due to the IT system incident and we expect to face a difficult situation in the first quarter of the year. I will explain this point in more detail later.

Life Care Overview by Product: Contact Lenses

	Reported Basis	Constant Currency Basis
Growth Rate	+6%	+6%

Current Quarter

- Sales of private brand products, including hoyaONE LUMINOUS launched in February were solid
- Online sales continued show momentum

Challenges / Prospects

- We will secure stable growth through new customer acquisition (new stores/marketing), retention improvement (PB products/online sales) and unit price growth (high value-added products)

The contact lens retail business continued to grow at a stable rate of 6%.

In February, we launched LUMINOUS, a PB product, which has been well received by customers and sales are growing steadily. We are also focusing on online sales to drive growth.

We will continue to increase the number of value-added products and improve our services, and by doing so, we hope to achieve stable growth in the future.

Life Care Overview by Product: Endoscopes

	Reported Basis	Constant Currency Basis
Growth Rate	+3%	-9%

Current Quarter

- Sales in China declined substantially due to delays in transactions caused by the anti-corruption campaign as well as increased price competition

Challenges / Prospects

- Continue to monitor the situation in China, where there are concerns around new policies and campaigns
- We plan to fundamentally reform our business in China

For endoscopes, the sales growth rate was 3%, and minus 9% excluding the impact of foreign exchange rates. Since overseas sales are very large, the business is growing on a yen basis due to the weak yen, but excluding the effect of exchange rates, the business is struggling with a negative 9% growth rate.

The largest impact was in China, where the macroeconomic situation is not good, and the anti-corruption campaign has affected the situation with low trading activities.

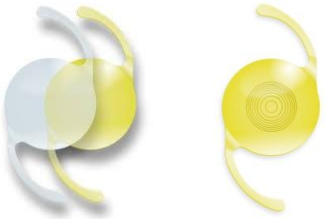
We are also considering a review of our organization and the form of transactions in our business in China, and we believe that Q1 will also be a struggle due to internal as well as external factors.

Life Care Overview by Product: Intraocular Lenses

	Reported Basis	Constant Currency Basis
Growth Rate	+10%	+3%

Current Quarter

- Unit prices fell in China due to the VBP system
- Despite temporary supply system disruptions in Europe, we secured positive growth



Challenges / Prospects

- Double down on the launches of Gemetric (trifocal) and Impress (new single-focus product)
- Continue to monitor how VBP plays out in China

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Intraocular lens sales growth was 10%, or 3% excluding the impact of foreign exchange. While we have been experiencing double-digit growth here as well, there has not been an overall decline in growth, but rather a drop in sales in China compared to the previous year. This is a transition period with the introduction of the volume based procurement (VBP) system, so customers are becoming more cautious, and some unit prices are declining.

In addition, last year, sales had rebounded after the Covid regulation, so the negative impact of China was significant compared to that situation.

In addition to intraocular lenses, we also sell medical devices related to the eye, although this product does not account for a large percentage of the intraocular lens segment.

Intraocular lenses were somewhat slower this past quarter, but with the continued launch of new and value-added products and the expansion of the sales market, we expect stable growth in the future.

Life Care Overview by Product: Artificial Bones, etc.

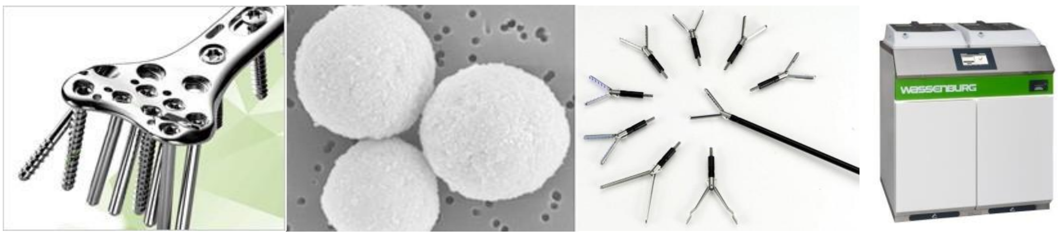
	Reported Basis	Constant Currency Basis
Growth Rate	+8%	+1%

Current Quarter

- Sales of artificial bones decreased due to inventory adjustments
- Endoscope cleaning equipment and surgical instruments showed stable performance

Challenges / Prospects

- Continuously launch new products in each product category



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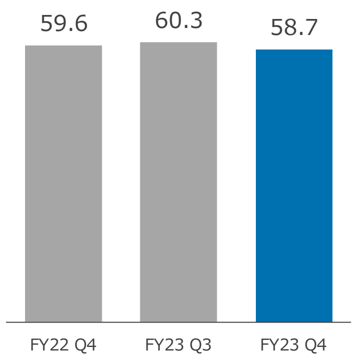
Sales in the segment that sells artificial bones and endoscope cleaning equipment were plus 1% in a constant currency basis. The start of inventory adjustments in some products within the artificial bone business was a drag on overall sales growth. However, as the percentage of the sales of this product is very small, the impact was limited.

Information Technology Business Overview

HOYA

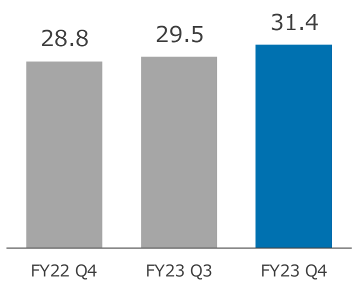
- Sales declined YoY due to difficult comps (there was a significant rebound in HDD substrate sales a year-ago quarter).
- Q4 is generally a low sales quarter for the Information Technology business, but demand for HDD substrates and blanks was stronger than expected.
- Profitability increased YoY mainly due to improved margins of imaging products.

Revenue (¥bn)



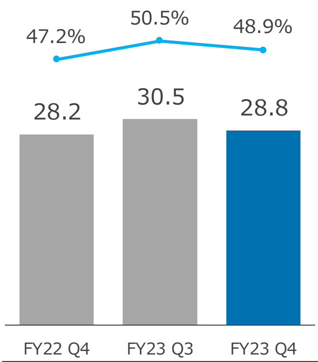
YoY -2% (CC -7%)

Pretax Profit (¥bn)



YoY +9% (CC +4%)

Cf. Operating Profit/OPM



YoY +2% (CC -2%)

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In the Information Technology business, revenue was 58.7 billion yen, down 2% from last year, and down 7% in a constant currency basis, excluding the effect of exchange rates.

Again, in the HDD substrates business, sales declined significantly in Q3 of the previous fiscal year, and the rebound increase was seen in Q4, resulting in a significant decrease in sales compared to the previous year. Although sales were down, they were higher than we had initially anticipated, and we feel that the decline was rather limited to -7%.

Pretax profit was 31.4 billion yen, slightly positive YoY. Operating profit was 28.8 billion yen, a profit margin of 48.9%, and while HDD substrates were down, by controlling expenses we were able to keep them almost flat in yen terms and -2% in a constant currency basis YoY.

The main reason for the decline in sales and profit compared to the previous quarter is the seasonality of the HDD substrate. In FY2023, the seasonality was the same as usual.

As for profit margins, profitability has been improved in imaging-related products, which is a factor in the overall increase in profit margins.

Information Technology Overview by Product:LSI

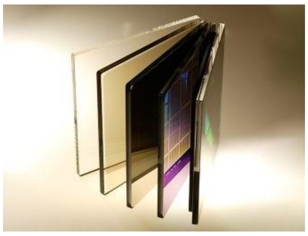
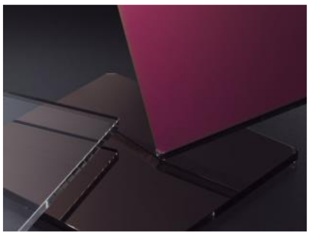
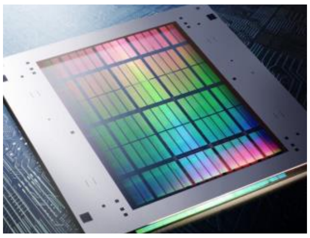
	Reported Basis	Constant Currency Basis
Growth Rate	**+6%**	**+4%**

Current Quarter

- Despite weak seasonality, EUV blanks sales increased due to firm demand
- No significant changes in the competitive environment have been observed

Challenges / Prospects

- Inventory adjustment of EUV blanks was largely completed at the end of March. We expect meaningful increase of demand
- Continue R&D with customers and equipment manufacturers to maintain our technology leadership position

This is the status of each product in the Information Technology business.

LSI sales growth was 6%, or 4% in a constant currency basis. Inventory adjustment started in Q4 last year, and Q1, Q2, and Q3 of FY2023 were basically negative growth situations compared to the previous year, but this quarter was positive due to the low bar in Q4 of the previous year.

We are currently reviewing the annual plan for the LSI segment as a whole, but we expect that on an annual basis, the LSI segment will exceed 10% of the previous year's level, and we are getting the feeling that actual demand is also growing steadily.

The demand may potentially go ups and downs during the year, but we believe it is important to build a solid supply system that can meet demand when it arises.

As for the competitive environment, there has been no major change as far as customer activity is concerned, and we feel that we are firmly supplying our customers with products, especially high-end products.

Information Technology Overview by Product: FPD

	Reported Basis	Constant Currency Basis
Growth Rate	-4%	-5%

Current Quarter

- Continued from Q3, sales decreased due to capacity constraints caused by the impact of equipment replacement, etc.

Challenges / Prospects

- Mask writers and measuring equipment impacted by Taiwan earthquake occurred on April 3. Expect negative impact on Q1 sales
- New plant in Chongqing, China scheduled to go online in H2: FY24 is positioned as a preparation year for business transition

FPD sales were down 4%, or 5% in a constant currency basis. As in the previous quarter, the negative figure was due to internal factors. Due to the launch of a new plant in China, the entire division is replacing equipment, etc., which has resulted in a decrease in capacity.

However, the start-up of the factory in China is progressing smoothly, and we assume that capacity will recover sequentially as we get the new production lines on line in the second half of the year.

On the other hand, this business has a relatively large capital investment burden, and speaking of accounting technicalities, depreciation is based on the declining balance method, so the cost burden is high during the first year. Since we will start moving machines sequentially from the second half of the fiscal year, we expect that the depreciation burden will be heavy in the second half of fiscal year 2024 and fiscal year 2025, and that the profit margin for the FPD business will decline. Since it is depreciation, there will be no impact on cash flow.

Information Technology Overview by Product:HDD Substrates

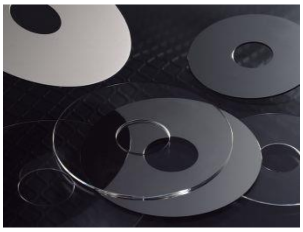
	Reported Basis	Constant Currency Basis
Growth Rate	**-16%**	**-26%**

Current Quarter

- 3.5" substrate sales declined YoY due to high comps
- However, demand was higher than expected backed by the completion of near-line HDD inventory adjustment at the end of 2023

Challenges / Prospects

- Expect increase of data traffic driven by generative AI, etc.
- Consider timing to turn on the Laos plant, due to potential of high future demand



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Sales growth for HDD substrates dropped sharply, down 26% in a constant currency basis, but despite the seasonal factor of a weak Q4, the results were better than we expected, slightly negative compared to Q3.

Although it is necessary to carefully assess whether this is actual demand or not, demand is currently quite strong, and we have received views from customers that the 3.5 inch demand is expected to be around FY2021 levels. In response to this situation, we are now seriously considering restarting the operation of the Laos Plant, which we had temporarily halted.

We make our annual plan for the next fiscal year from February to March, but demand has increased more than expected, so we are in the process of reviewing the plan now, communicating with customers to determine how demand will come in and what kind of supply system we will need to meet that demand.

Information Technology Overview by Product: Imaging

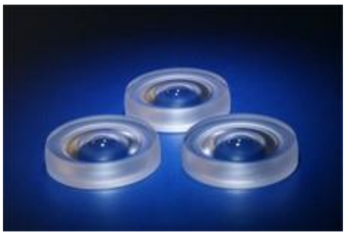
	Reported Basis	Constant Currency Basis
Growth Rate	+20%	+15%

Current Quarter

- Continued revenue growth on the back of strong sales of interchangeable lenses for mirrorless cameras in the Americas and China
- Products related to autonomous driving also performed well

Challenges / Prospects

- Maintain a structure that ensures profitability
- Continuously search for opportunities to expand business domain by leveraging optical technology



For imaging-related products, sales were up 20% year on year, or 15% in a constant currency basis.

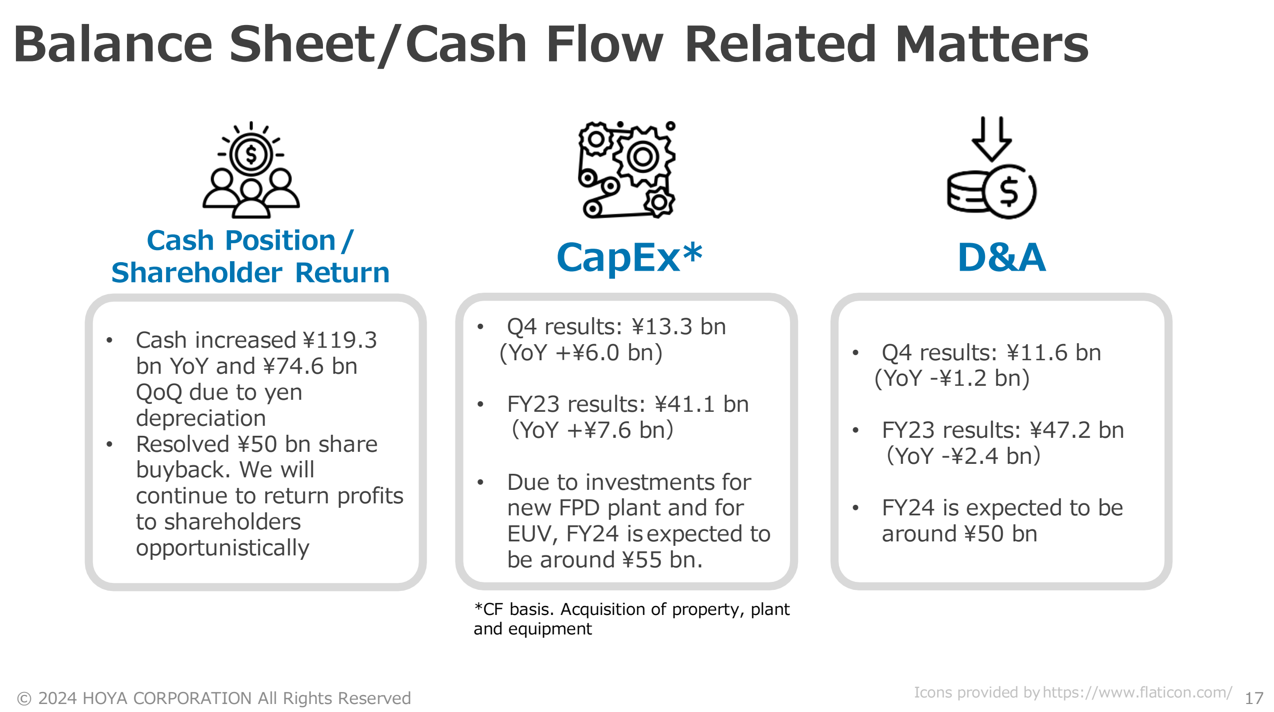
It is not a large business, and from a macro perspective, it is not a business in which sales growth is expected. While there are slight ups and downs in each quarter, we recognize that this quarter has swung in the positive direction.

Although the demand for cameras has been continuously declining over the past decade or so, we feel that the demand from people who enjoy photography and cameras and regularly replace them is solid, and we believe that our ability to supply this demand is reflected in our figures. I believe that the figures show that we are providing a solid supply of these products.

In addition, we have established a system that can generate solid profits, so that as sales increase, profits will follow.

Next, we will continue with balance sheet and cash flow related issues.

Cash position have increased significantly over last year, but since most of our cash is basically held in foreign currencies, especially in dollars, the amount appears very large in yen terms when the yen depreciates. Although there may be various ways of thinking about this, we



recognize that the actual amount has not increased that much. As we consider various investment projects, some of which target overseas assets, there is a certain amount of advantage in holding foreign currency as funds for these investments, and we are considering maintaining a certain level of cash.

At the same time, we would like to return profits to our shareholders, which is why the Board of Directors today approved a resolution to repurchase 50 billion yen of our own shares.

We expect capital investment to be around 55 billion yen in FY2024, as investment will increase in conjunction with the sequential start-up of our FPD plant in China, and we will also make solid investments related to EUV blanks. Although the investment may expand a little more due to the impact of foreign exchange rates, we are currently looking at 55 billion yen as our investment target.

We believe that depreciation and amortization will be around 50 billion yen.

Moderator: Now Mr. Ikeda will provide an overall summary, followed by an explanation of the IT system incident that occurred at the end of March.

Ikeda: Inventory adjustments began in the supply chain, mainly in LSIs and HDDs, in the second half of FY2022, and negative growth in the Information Technology business has continued for the past year.

On the other hand, with the reopening form Covid, Lifecare showed a decent growth rate, compensating for the negative growth in Information Technology, and the group as a whole was able to grow, which continued from the second half of 2022 through FY2023.

We recognize that this situation has reached a turning point in this quarter, and in Q4, the growth rate of Life Care in China slowed down and the negative growth rate of Information Technology could not be compensated by Life Care in a constant currency basis, resulting in a slight revenue decline. However, since April, both HDD substrates and LSI mask blanks have been in fairly strong demand as inventory adjustments have been completed.

With the fourth quarter of this fiscal year as a turning point, the Information Technology business is expected to once again become the growth driver for the entire group in FY2024. This does not mean that Lifecare will be in negative growth during this period; it is expected to grow year-on-year as well, but we believe that Information Technology will drive the overall group growth even more strongly than Lifecare.

Moderator: Now can you walk us through the impact of the IT system incident?

Ikeda: First of all, I would like to take this opportunity to apologize for the inconvenience caused to our customers and the concern caused to our stakeholders as a result of this IT system incident.

Hirooka：Next, I would like to explain the impact of this IT system incident on the FY2024 business performance.

The event that occurred was an IT system incident at the end of the fiscal year, which resulted in the shutdown of systems related to domestic and international production and ordering in some businesses. Since then, recovery activities have been well underway and business activities have generally returned to normal.

The product that has the greatest impact on business performance is eyeglass lenses. Although some of the other Lifecare businesses also experience sales declines in April due to delays in

Impact of the IT System Incident

Background

On March 30, 2024, a system disruption occurred due to a cyber attack. The system was restored in late April 2024, and our business activities generally returned to normal.

Financial Impact

The main impact is expected to be a lower growth rate in eyeglass lenses in FY24, resulting in flat annual sales YoY (most of the impact is expected to occur in FY24 Q1). We will consider investments to secure future sales growth while monitoring demand recovery, etc.

We plan to absorb the negative impact through the recovery of HDD substrates and blanks, and secure growth on a consolidated basis.

order placement and production systems, these businesses are not of a scale that would affect the entire group.

In particular, with regard to RX lenses (custom-ordered lenses), we were unable to perform the series of activities of receiving prescriptions from retail customers, producing and delivering orders, for a certain period of time in early April. The inconvenience caused is something that actually affected us numerically.

Although we are still in the process of examining the situation, we currently expect sales of eyeglass lenses to be flat on an annual basis. Normally, this business is expected to grow in the mid-single digits, but we expect it to be flat on a constant currency basis.

Since our company sets budgets (targets) on a quarterly basis, we are in the process of reworking our plan to see how we can recover from this. One option is to invest in order to recover sales and put the business back on a growth trajectory.

Lifecare has set one goal of a 20% annual profit margin, but we are considering as one option to invest even if margins may go down slightly lower than the 20% benchmark in order to recover sales well in FY2024, or to bring eyeglass lenses to a positive rather than a flat level.

We have a situation in Information Technology where demand is coming in stronger than in the annual plan we prepared several months ago, and we believe that even if we have to deal with the impact of IT system incidents and even if we have to increase investments, we will be able to absorb them firmly and bring the entire group in the direction of increased revenue and profit on a constant currency basis.

Since the situation is as described above, we will reexamine our plans for eyeglass lenses, mask blanks, and HDD substrates, and we will be able to link them to the growth of the entire group. We expect to be able to provide a clear outlook around that time.

Q&A Session

Moderator [M]: We will now move on to the question and answer session. Now, Mr. Yoshida, please.

Yoshida [Q]: CLSA Securities, Yoshida here, and while demand for EUV blanks is returning, you also commented that there has been no change in the competitive environment. However, your competitor AGC has commented on the possibility of achieving sales of 40 billion yen or more in 2024 ahead of schedule. In response to this, please comment on your company's growth forecast for EUV blanks in FY2024, actual value or growth rate, and market share.

Ikeda [A]: Regarding EUV mask blanks, I am not in a position to comment on other companies' sales plans, so I will refrain from doing so. As the inventory adjustment at our customers has been completed and the volume is coming back, the demand forecast has been revised upward in a short period of time, such as monthly or weekly, at all of our customers. We have not seen any indication that any of our customers or products are reducing their order quantities by shifting their orders from us to other companies. Against this background, we have commented that there has been no significant change in the competitive dynamic.

Also, as I have mentioned before, the development of the leading edge has moved from 2 nano to 1.4 nano now, and there is no comparison with other companies in the certification process in such areas at this time, and I believe that our presence at the leading edge remains the same.

However, as I have said before, from the customer's purchasing point of view, it is inevitably necessary to qualify a second supplier and duo source from the perspective of hedging risk, and I am aware that customers are engaged in such activities.

Yoshida [Q]: Regarding hard disks, you are considering restarting the Laos plant.

Also, regarding the forecast for this fiscal year, you mentioned earlier that the 3.5-inch sales will be on par with FY 2021, but what about the 2.5-inch substrates? Also, after you restart the Laos plant, should we expect an increase in costs due to the start-up of the plant, or should we expect an increase in profit margin due to higher capacity utilization and volume, since the impairment has already been recognized?

Ikeda [A]: Customers are demanding much stronger figures for 3.5-inch demand day by day, and the current situation seems to be returning to the figures when demand was at its highest in 2021 and to the first half of 2022.

We will make a decision after careful examination within this month or next month, but based on the projections we are currently receiving from our clients, we need to consider the possibility of starting Laos operations as early as the end of this fiscal year, somewhere in Q4. We will conduct a close examination over the next month or two, and we will be able to give you a clearer picture at the next Q1 earnings announcement.

Hirooka [A]: Regarding 2.5 inch, demand for 2.5 inch increased in FY2021 due to sales of notebook PCs because of Covid, so we expect a 50-60% decrease compared to that year. On the other hand, the compared to FY2023 is expected to show a decrease of less than 10%.

Regarding costs, it depends on when and how many lines will be moved at the Laos plant, but aside from the buildings, we have already written off the machinery, so basically depreciation is almost gone. On the other hand, in Vietnam, although the depreciation is not zero, the burden of depreciation is pretty much over and thus the depreciation burden is not large, so I do not think there will be much difference in terms of an increase or decrease in the profit margin. In addition, if we move production lines halfway, profitability will decline, so it will be important to determine the timing and number of lines to restart operations while keeping an eye on demand.

Yoshida [M]: Thank you very much.

Moderator [M]: Next, Mr. Nakamura, please.

Nakamura [Q]： This is Nakamura from Goldan Sachs. Firstly, regarding the IT incident, I know that it has probably occurred several years ago, but what is the reason why it has occurred again this time, and is there any need to increase IT-related investment to cope with such cyber security in the future?

Ikeda [A]: As you pointed out, a similar incident has occurred in the past, although not for the entire group but for some overseas subsidiaries. Although we have taken measures to prevent recurrence, we have suffered this kind of damage again, partly because cyber attackers have changed their methods in various ways. In light of this incident, we will continue to strengthen the security of the entire Group by introducing new security tools and technologies, as well as consulting with outside experts, and we will make appropriate investments in this area.

Nakamura [Q]: Currently, the annual capital investment is about 50 or 55 billion yen, but how much do you expect it to increase as IT-related investments increase?

Hirooka [A]: The 55 billion yen basically refers to the amount invested in machinery and equipment. I believe that security measures will be more of an expense than the purchase of machinery. And while we will increase expenses to strengthen IT security, it is not something that will significantly affect the profit margin for the group as a whole. This does not mean that we will not make investments, but rather that we will reallocate resources in such a way that profit margins will not change significantly.

Nakamura [Q]: I understand very well. Earlier you mentioned that you are looking at FY2024 for eyeglass lenses, which are expected to remain flat. What about the Life Care business as a whole? You mentioned that the situation in China is slowing down a bit, but do you have an image of the sales growth rate for FY2024?

Hirooka [A]: A large part of Lifecare is eyeglass lenses, so we are pulled down by this. Normally, we aim for mid single-digit sales for Lifecare as a whole, but if eyeglass lenses, which account for a large percentage of sales, remain flat, it will be difficult to achieve mid single-digit sales. Therefore, we have no choice but to improve the situation of eyeglass lenses, is the answer to your question.

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

Moderator [M]: Next, Mr. Katsura, please.

Katsura [Q]: I am Katsura from SMBC Nikko Securities. What is your analysis of the factors and background behind the daily rise in orders for blanks and hard disks? In terms of blanks, for example, do you feel that memory is increasing in addition to logic, or that existing customers have finished adjusting their inventories and are now building up their inventories one more time beyond actual demand? Or, in your major customers, was there any impact of the earthquake?

Regarding hard disks, there has been some talk that HAMR may be lagging a bit on the customer side, but please discuss the strength of current demand and your view of the annual growth rate, including what the customer situation may be.

Ikeda [A]: Regarding EUV, one of the first things is that customers have finished adjusting their inventories, and the volume of orders is returning to the previous pace. Also, the actual amount of blanks used by customers is also increasing. As you mentioned, I believe that the actual usage is increasing due to the expansion of applications and other factors.

In addition to that, although the impact on the Information Technology business was not significant, the IT system incident also stopped the LSI factory for a few days, which caused some concern to our customers. This situation has motivated our customers to hold on to more inventory than before.

However, we recognize that the degree of impact is still dominated by the increase in actual demand and the end of inventory adjustment.

As for HDDs, our customers are increasing their production of PMR-based drives, so we do not see any significant impact from the accelerated/delayed production of HAMR.

Katsura [Q]: I understand very well…in the EUV part, do we not have to consider too much about the logic to memory?

Ikeda [A]: In fact, EUV is starting to be used in memory, and I think its use is increasing overall.

Katsura [Q]: I understand. Based on your explanation of the impact of the IT system incident, would it be correct to think of the reduction in profit due to the IT system incident as probably sales of about 14 to 15 billion yen, profit multiplied by the marginal profit margin, plus the increase in security costs? Or, should we consider it as a one-time cost, or how do you think the IT system incident will affect profits?

Hirooka [A]：There are of course one-time costs, such as forensic investigations and restoration costs for systems that have stopped working. We have incurred such one-time costs, which we believe that it will be covered by insurance. However, there may be a timing discrepancy, as incurred expenses are recorded firstly, while payment of insurance usually comes later. We also assume that there is a difference between the impact on profits from normal operating activities and the scope of pre-tax profits.

Katsura [Q]: What about the increase in security costs?

Hirooka [A]: We will be investing well in strengthening security measures in the future, for example, by changing licenses to ones with stronger security.

Katsura [M]: I understand very well.

Moderator [M]: Lastly, Mr. Yoshikawa, please.

Yoshikawa [Q]: My name is Yoshikawa from Morgan Stanley. You mentioned that sales of eyeglass lenses for this fiscal year are expected to be almost on the same level as the previous year. This may be a temporary loss of market share, but can we expect a high growth rate next fiscal year, including the portion that was dropped, through subsequent measures? Or will it take time to regain the share once it has dropped? Please tell us about your thinking on the market share of eyeglass lenses.

Ikeda [A]: Naturally, during the period when our production was halted, orders were transferred to other companies, causing a temporary decline in our market share. This is exactly what we were talking about earlier when we said "investment for future sales growth," and we are planning to invest in sales promotions, etc., while watching how our market share returns. In order to return to the original growth rate in the next fiscal year and beyond, we will make decisions on whether or not to invest in sales promotions in each quarter's budget, while monitoring the return of market share in the current fiscal year.

Yoshikawa [M]: Thank you very much.

Moderator [M]: Thank you very much. Now that our time has come, we will conclude today's briefing. Thank you for taking time out of your busy schedule to participate today.

[End]