

HOYA Corporation

Transcript of FY24 Q2 Earnings Call

October 31, 2024



[Speakers]

2 speakers

Director, Representative Executive Officer and CEO

Eiichiro Ikeda

Director, Representative Executive Officer and CFO

Ryo Hirooka

Moderator: We will now begin the earnings call for the Q2 of FY24.

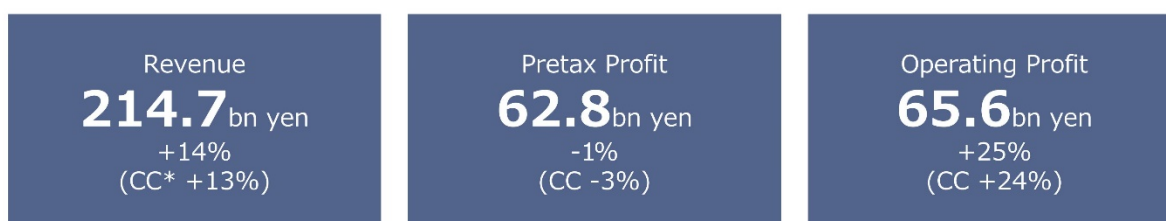
Attending from the Company's side today are Eiichiro Ikeda, Director and Representative Executive Officer, CEO, and Ryo Hirooka, Director and Representative Executive Officer, CFO.

First of all, Mr. Hirooka will explain the Q2 business results for each business segment.

FY24 Q2 Overview



- The Life Care business made progress in recovering from the cyber incident while the IT business continued to see high levels of demand. Revenue was an all-time high as a result.
- Operating profit increased significantly and reached a record high due to the recovery of the IT business, which had been affected by inventory adjustments in the previous year.
- Pretax profit was flat YoY, mainly due to a FX loss of 3.8 billion yen.



*Constant Currency

USD	¥146.66	-0.7%
EUR	¥161.59	-2.4%

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Hirooka : This is Hirooka. I will now explain the results.

Revenue came in at 214.7 billion yen, up 14% YoY, and up 13% on a constant currency basis. Pretax profit was 62.8 billion yen, slightly lower than last year. Operating profit was 65.6 billion yen, up 25% YoY and up 24% on a constant currency basis.

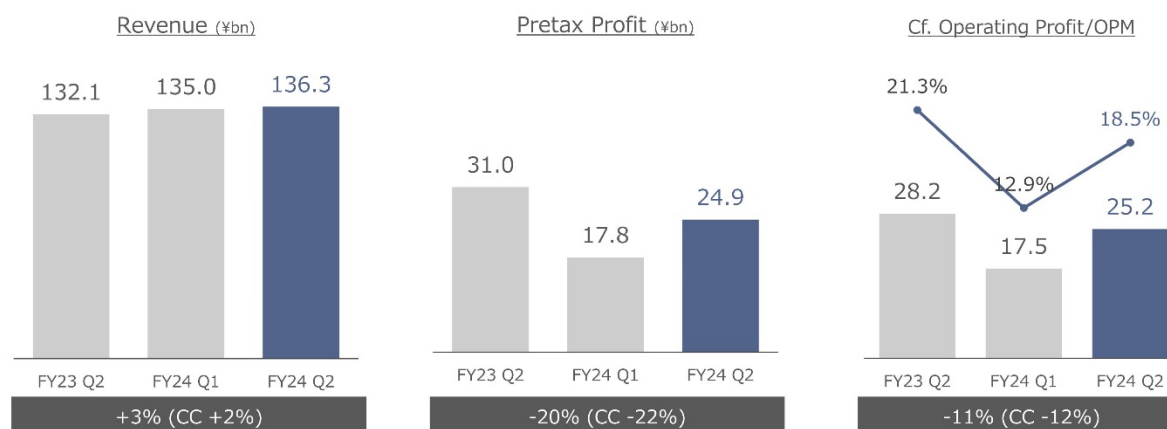
Life Care business is recovering steadily from the cyber incident, and in addition to this, the Information Technology business continues to be in very high demand, and sales were at a record high on a quarterly basis.

Operating profit also showed a very strong and significant growth, with a remarkable recovery in the Information Technology business compared to last year. On the other hand, pretax profit is slightly negative, but the major factor is a FX loss of 3.8 billion yen. Since there was a 3.4 billion yen FX gain in last year's Q2, this was a net 7.2 billion yen negative factor compared to last year. Please refer to the supplemental material of the financial results for details.

Life Care Business



- Made progress on recovering from the cyber incident. Secured growth YoY on a constant currency basis.
- Operating profit was down due to expenses spent on sales promotion activities to recover sales. However, it showed substantial improvement QoQ.
- Pretax profit decreased due to FX losses; there were FX gains in the year-ago quarter.



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We will now explain each segment.

First, the Life Care business reported revenue of 136.3 billion yen, up 3% YoY, and up 2% on a constant currency basis. The company has recovered from the cyber incident and is now growing sales by investing in sales promotion activities, especially for eyeglass lenses.

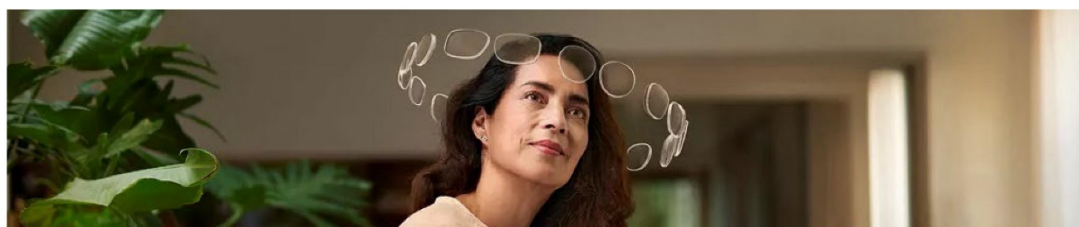
As for pretax profit, it was 24.9 billion yen, down 20% YoY. Operating profit was 25.2 billion yen, down 11% YoY, with a profit margin of 18.5%.

With the main objective of firmly recovering sales and putting the company on a growth trajectory, we continued to invest in expenses, especially in sales promotion activities and selling expenses, and we are seeing steady results. In Q1, the profit margin was 12.9% due to the considerable amount of sales promotion expenses, but in Q2, the profit margin returned to 18.5% by controlling the use of expenses. The drop in pretax profit is larger, but as with the group as a whole, it is due to the difference in FX gains/losses.

Eyeglass Lenses

Sales growth
+6%
(CC +5%)

- ✓ In the Americas, sales in North America through independent channels were strong, while Brazil, where HOYA has been strengthening its foundation, achieved very strong growth.
- ✓ In Japan, recovery from the cyber incident progressed through collaborative campaigns with customers.
- ✓ Returned to the original growth trajectory, with Q2 growth outpacing the competitors.



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Now I would like to provide an update product-by-product.

First, in eyeglass lenses, we were able to bring the growth rate to a solid mid-single digit growth rate of 6% in sales and 5% in constant currency basis.

In the eyeglass lenses business, which was most severely affected by the cyber incident, we conducted sales promotion activities such as joint campaigns with customers in Japan and other countries. We have achieved solid growth in North America, South America, and Japan, and we believe that we are on track to achieve overall growth.

Looking ahead to the second half of the year, we will continue to spend on joint campaigns and other expenses to fully restore relationships with customers, and gradually return to normal as we see sales return to a more stable level.

Contact Lenses

Sales growth
+5%
(CC +5%)

- ✓ Made progress in targeting elementary & junior high school students who are making their debut in contact lenses. In addition, online sales and PB products contributed to an improvement in the retention rate.
- ✓ Continued to expand PB product portfolio; Launched hoyaONE Premium for Astigmatism in August.
- ✓ As of the end of September, the number of stores was 375, an increase of 10 stores QoQ. Target seven store roll outs in H2.



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Next is contact lenses retailing, where sales growth has been steady at 5%.

In addition to targeting new contact users, we have been steadily working to deliver products to customers online and I believe these efforts have been successful. We plan to continue expanding our product portfolio.

We have been refraining from opening new stores for the past several years, but we are now in the process of identifying more carefully where to open new stores, opening new stores where we can, in order to acquire new customers.

Endoscopes

Sales Growth
-5%
(CC -6%)

- ✓ Performance in the U.S. was favorable. Continue to strengthen business foundation, aiming for higher win rates in tenders and stable sales.
- ✓ Impact of the anti-corruption campaign continued in China, leading to an overall decline in revenue.
- ✓ The structural reform of the China business, which we started in H1, will proceed to the implementation phase from H2.



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Next is endoscopes.

It continued to struggle with negative growth of 5%.

On a positive note, we had a very difficult time in the U.S. in the past, but we are getting out of that and are turning positive. The challenge is how to maintain this momentum.


In this context, one major factor that has been negative for our overall business is China. One major factor is that the overall market is not good. At the same time, we are changing our business model, including our organization and commercial distribution. The combination of these external and internal factors has caused us to struggle in China, resulting in negative growth for the business as a whole.

How to continue the momentum in the U.S. and improve the structure of the China business are key to future sales trends.

IOLs

Sales Growth
+7%
(CC +5%)

- ✓ NVBP was rolled out in almost all provinces in China. Sales declined in China due to the impact on unit prices, etc.
- ✓ Advanced Technology IOLs (ATIOLs, such as multifocal products) sales were sound; Secured revenue growth globally.
- ✓ Established production site in China, where the IOL market is expected to grow most rapidly. Work in progress aimed at local production.



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Next is the IOLs.

Sales growth was 7% and 5% on a constant currency basis. Similarly to the eyeglass lenses, Q1 was a difficult quarter due to the cyber incident, but Q2 was a solid quarter for sales growth.

To explain from a negative point of view, we struggled in China as we did with eyeglass lenses and endoscopes. We have been affected by the change in purchasing behavior in the market since the full roll out of the NVBP. Our product lineup in the Chinese market is limited and it is difficult to respond in the short term, resulting in negative growth in China.

On the other hand, we are achieving solid growth outside of China. In the past two years, we have been launching advanced technology IOLs, such as multifocal lenses, and we have been able to increase sales on a global basis.

Although business in China is difficult in the short term, we hope to recover by expanding our product lineup and manufacturing at our Chinese site, although it will be several years before we can actually start sales.

Artificial Bones and Other

Sales Growth
-6%
(CC -7%)

- ✓ Although sales of endoscope washer-disinfectors were favorable, sales declined due to continued inventory adjustment of chromatography media*, for which inventory levels had been rising during the pandemic.
- ✓ Inventory adjustment of chromatography media is expected to continue for the time being. The company aims to stabilize overall sales with artificial bones, metal implants, and endoscope washer-disinfectors.

*Products used to remove or separate impurities in the biopharmaceutical purification process



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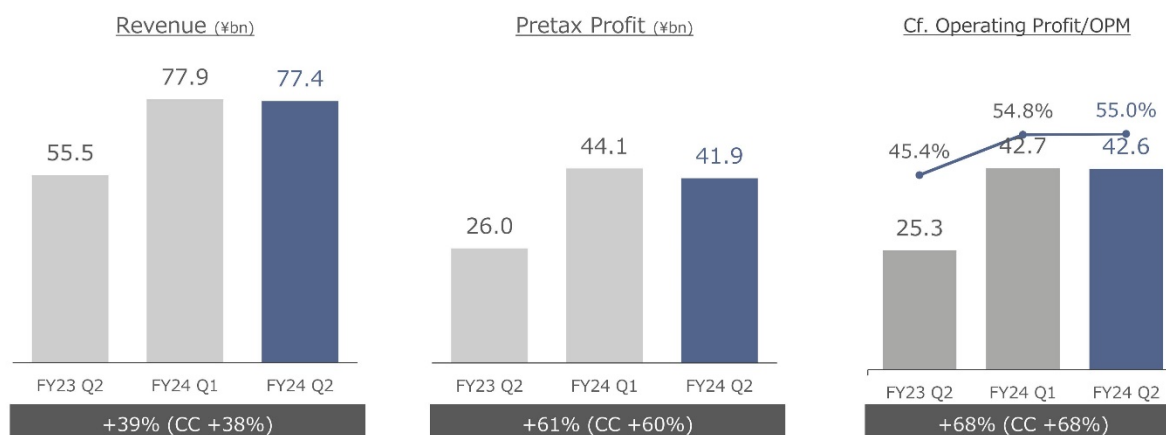
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Next is artificial bones and other products. Although not a large percentage of the group's total sales, the sales of artificial bones and other products declined by 6%. Chromatography media, which are used in the purification process of biopharmaceuticals, were being stockpiled by end customers, and our distributors, who are our customers, are adjusting their inventories. This situation has been drastic, especially from Q2, and is a major reason for the negative impact.

IT Business Overview

HOYA

- Demand for main products remained at a high level, resulting in a significant double-digit increase in sales.
- Profitability continued to be higher than usual in Q1 due to high utilization rates at production sites etc.
- From Q3 onward, the profit margin is expected to gradually normalize due to increased depreciation related to EUV blanks and FPD masks.



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Next is the Information Technology business.

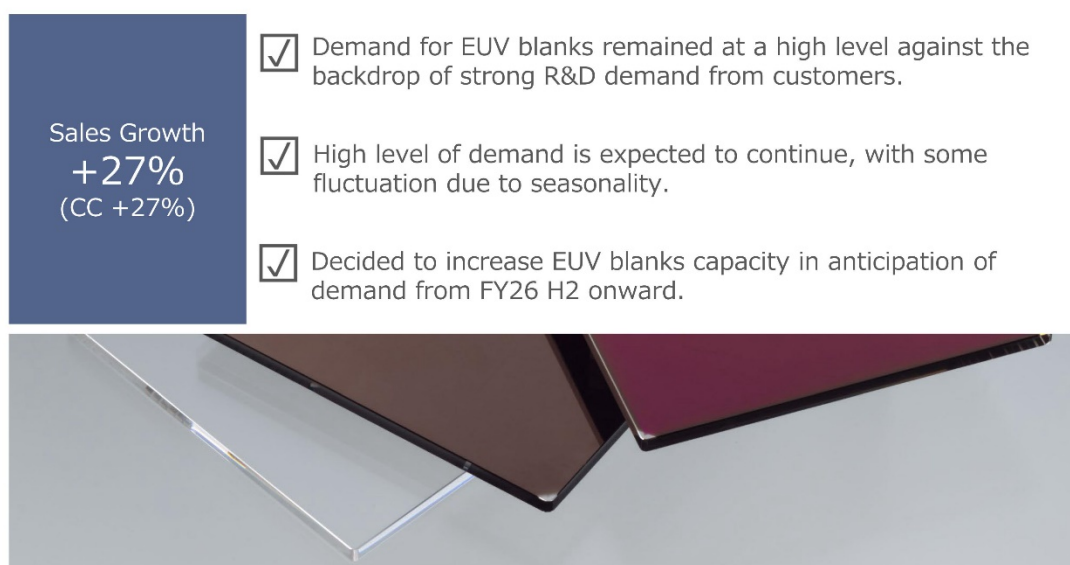
Revenue came in at 77.4 billion yen, up 39% YoY and 38% on a constant currency basis. Pretax profit was 41.9 billion yen, up over 60% YoY. Operating profit was 42.6 billion yen, up 68%, with a 55% profit margin. It was a very high growth rate for both sales and profits.

In the previous year's Q2, the Information Technology business faced very adverse conditions, and both LSI and HDD substrates were in a very difficult situation as customers were adjusting their inventories, so the current situation is a large growth rate.

As I said in Q1, I hope you understand that this is not a normal profit margin.

Although we are operating at a very high capacity utilization rate now, it is difficult to keep up with the increasing demand for both LSI and HDD substrates. In order to build a system that can supply our customers with a sufficient amount of products, we will increase the number of EUV blanks production lines in the second half of the fiscal year, and for HDD substrates, we will restart the factory in Laos. In addition, the photomask factory in China for FPDs will start up, and we expect that the profit margin for Information Technology in the second half of the year will gradually return to normal levels due to the increase in D&A expenses for these plants.

LSI



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First, from LSI.

Our sales growth rate was 27%. Last year's Q2 was a very difficult Q2 due to inventory adjustments by our customers, but we have seen significant growth from that comparison.

As for EUV, it has been coming back sharply since Q1, growing by more than 40% YoY. In QoQ, it was about the same level, slightly negative.

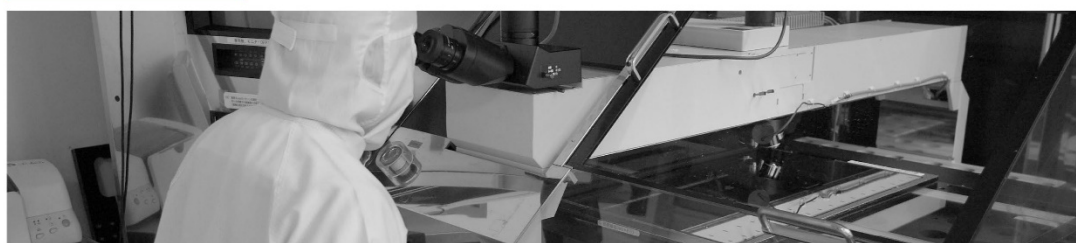
As for our outlook for the second half of the year, we expect similar demand to continue. There may be some ups and downs, but Q1, Q2, and Q3 will remain high, and demand itself will remain the same as the market environment, but Q4 is expected to be slightly lower due to seasonality.

We have also decided to increase the capacity of EUV blanks in anticipation of demand in the second half of FY26 and beyond. We will start up new lines as needed in the second half of this fiscal year, and we expect to be able to handle the increase in volume for the next two years or so.

FPD

Sales Growth
-17%
(CC -17%)

- ☑ Demand for FPD masks decreased due to customers prioritizing mass production as panel prices stabilized at high levels and the timing of relatively few flagship R&D projects.
- ☑ Sales of FPD blanks also decreased due to unstable production.
- ☑ Test production started at the factory in Chongqing, China. Capacity will be gradually ramped up.



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FPD growth was -17%.

There are several factors, but the first is that the overall market was weak. Also, since the second half of last year, the capacity of FPD masks has been slightly reduced due to the replacement of equipment and other reasons. In the Q2 of last year, the market as a whole was reasonably good and there were no capacity restrictions, so the situation is significantly negative compared to that time.

The second is the external sales business of FPD blanks. Although the scale of this business is much smaller than that of FPD masks, there were some problems in manufacturing, and external sales have decreased. The combination of these three factors resulted in a negative 17% sales growth.

As for the new plant in China, we plan to gradually start production lines from Q3. This will bring us back capacity, and I believe we will be able to achieve steady sales growth by strengthening relationships with customers through the joint venture. The depreciation burden is large, and since we use the declining balance method for this business, the depreciation burden will be large for the first 1 to 1.5 years, which will have a negative impact on profit margin, but we expect sales and cash flow to increase.

HDD Substrates

Sales Growth
+107%
(CC +106%)

- ✓ Near-line demand exceeded the previous peak level (FY21). Sales doubled, as the year-ago quarter was the bottom due to inventory adjustment.
- ✓ Hiring of employees has started in preparation for the restart of the Laos plant in January 2025. Approximately 25% of the Laos plant is scheduled to be operational in Q4.
- ✓ Supply chain inventories are estimated to be at an appropriate level. Demand for nearline applications is expected to sustain.



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HDD substrates have doubled with a growth rate of 107% in sales.

3.5" for near-line applications was very strong and exceeded the peak in FY2021. The growth rate is very large, partly because last year's Q2 was very poor.

Since the Laos factory is not yet operational, we have managed to ship at a high utilization rate at the Vietnam factory. We are preparing to start operation of the Laos factory in Q4, and we are hiring people and beginning to test the operation of the machines. Since these activities will increase from Q3 onward, we expect costs to increase slightly from the current level.

Demand for 3.5" was slightly stronger in Q2 than in Q1, and we expect the same level in the second half. However, sales are expected to decrease in Q4 due to seasonality, as the number of operating days at our factories will be reduced.

Imaging

Sales Growth
+18%
(CC +16%)

- ☑ Sales of interchangeable lenses for mirrorless cameras remained strong, backed by the launch of new models in the Olympic/Paralympic year and needs for high image quality for social media.
- ☑ Demand for applications other than digital cameras, such as in-vehicle lenses for autonomous driving, also remained strong.
- ☑ Demand is expected to largely to be stable in H2, reflecting some quarterly seasonality.



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Finally, imaging.

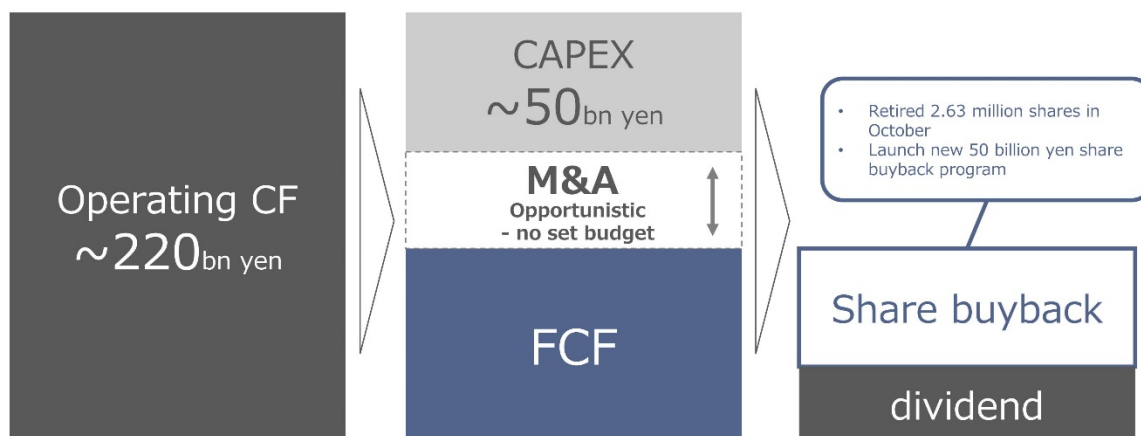
Sales growth rate was 18% and 16% on a constant currency basis, very strong as in Q1.

As this was the Olympic and Paralympic year, demand for cameras and interchangeable lenses was very strong, and sales of both materials and lenses were strong.

As we have said in the past, we are not expecting large revenue growth in this business, but are focusing on creating a profitable revenue structure that will generate solid profits. We have already established a cost structure that will allow us to maintain profitability even if revenues rise or fall, so this business can make a solid contribution to profitability when there is an upside.

Capital Allocation Framework

- While placing the highest priority on internal investment for growth, we will seek M&A opportunities. However, we will not rush into M&A opportunities that are unreasonable in terms of valuation.
- FCF or excess cash will be returned to shareholders (Returned 72.8 billion yen in FY24 H1).



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Although the basic concept of capital allocation has not changed at all from the past, we would like to reiterate it. Although specific figures are included, please note that this is not meant to be a performance forecast or commitment, but only a concept and framework.

Basically, our priority is to make investments that will lead to future growth, with CAPEX of around 50 billion for the current fiscal year, and M&A if the opportunity arises. Of course, our objective is not to carry out M&A, and we intend to return profits to our shareholders if there are no such opportunities.

In the first half of the fiscal year, we have already repurchased 50 billion yen of our own shares, and at today's Board of Directors meeting, we resolved to repurchase an additional 50 billion yen of our own shares. The Board of Directors also approved an interim dividend of 45 yen per share, which remains unchanged.

Moderator: Next, Mr. Ikeda will explain the business environment and future prospects.

Eye Health Area

Product	Business Environment	Our Business Outlook and Focus
Eyeglass Lenses	<ul style="list-style-type: none"> Stable demand growth due to the aging population and digital lifestyles Myopia management in the spotlight as insurance reimbursement gains momentum in Europe Smaller lens makers, which account for about 30% of the market share, gradually consolidate with the major players 	<ul style="list-style-type: none"> Through product innovation, build a portfolio that covers all life stages from pediatric to presbyopia Increased sales of myopia management lenses for children by capturing market growth and entering new markets Expand customer coverage through a combination of direct sales market expansion and bolt-on M&A
Contact Lenses	<ul style="list-style-type: none"> Despite the impact of the declining birthrate and aging population, the market is growing moderately due to the penetration of daily disposables and younger age of myopia progression Gradual increase in online sales share High value-added products including silicon hydrogel materials gaining traction 	<ul style="list-style-type: none"> New store openings + bolt-on M&A to expand customer reach Increase retention with PB products and online sales Looking to expand overseas as a manufacturer in the future (synergy with eyeglass lenses is also expected)
IOLs	<ul style="list-style-type: none"> Stable market growth against a backdrop of global expansion of the aged population ATIOLs such as multifocal and extended depth-of-focus driving growth of the industry 	<ul style="list-style-type: none"> Maintaining the competitive advantage of preloaded IOLs, which contribute to safety and surgical stability Introduce new products, including ATIOL, every year Focus on the high-growth Chinese market. In addition, gradually expand regional coverage by entering new markets

Ikeda: This is Ikeda speaking.

First, I will explain the business environment and outlook for our businesses related to the ophthalmology field, specifically eyeglass lenses, contact lenses, and IOLs. As a common background for all our businesses, demand related to myopia and eye diseases is expected to grow steadily due to the aging of society, digital lifestyles, and other factors.

Against this backdrop, we would like to build a product portfolio that offers solutions for all life stages, from children to presbyopia, for eyeglass lenses. With regard to myopia management, there is a growing momentum in Europe for insurance reimbursement, depending on the country. Against this backdrop, we intend to expand sales by entering new markets for the myopia management lens MiYOSMART. In addition, we intend to grow sales of eyeglass lenses by expanding our customer coverage through a combination of direct sales market expansion and bolt-on M&A.

In contact lenses, we will seek to expand our market share through new store roll outs and bolt-on M&A. In the area of private brand products, we will expand our product lineup to include products manufactured in-house, further from single focal daily-use products. In addition, we will strengthen online sales to improve customer retention.

In IOLs, we will continue to add value to the lenses themselves while maintaining the competitive advantage of our preloaded injectors over the competition.

Medtech Area

Product	Business Environment	Our Business Outlook and Focus
Endoscopes	<ul style="list-style-type: none"> Stable market growth on the back of increasing number of chronic diseases and expanding demand for minimally invasive treatment Although demand is declining due to various policies in the short term, the Chinese market shall drive long-term growth 	<ul style="list-style-type: none"> Prioritize structural reforms in the U.S. and China businesses in the short term Develop unique and differentiating products and bring them to market Reexamine areas of focus
Artificial bones & other	<ul style="list-style-type: none"> Increase in treatment of bone fractures and diseases due to aging society Increased demand for chromatography media due to increased development of biopharmaceuticals Growing demand for hygiene solutions to improve patient safety and reduce the burden on healthcare professionals 	<ul style="list-style-type: none"> Implementation of new proposals that combine the features of both ceramic bones and metal implants Accelerate development of chromatography media to meet the diversified needs of biopharmaceuticals Develop and launch safer and more efficient endoscope washer-disinfectors

Continuing on, we have two businesses in the medtech area.

We believe that endoscopes will grow stably on the back of the increase in the number of chronic diseases and growing demand for minimally invasive treatments. In the short term, however, internal factors have led to negative growth, so we will place priority on resolving internal issues through structural reforms. After that, we intend to turn things around by introducing unique and competitive scope products to the market.

Artificial bones and other products; demand for this is also increasing due to the rise in the number of elderly people and the resulting increase in the number of bone fractures. In addition, demand for chromatography media used in purification and separation is increasing due to the rise in the development of biopharmaceuticals. In such an environment, we intend to promote the implementation of proposals that combine the features of both ceramic artificial bones and metal implants. We will also promote the development of chromatography media that meet the diversifying needs of biopharmaceuticals.

IT Area

Product	Business Environment	Our Business Outlook and Focus
LSI	<ul style="list-style-type: none"> Semiconductor market continues to recover, centered on AI-related logic chips and memory There is news flow of some makers' sluggishness and softening of scanner shipments, etc. Mask blanks market will grow over the long term due to progress in miniaturization 	<ul style="list-style-type: none"> No meaningful impact on the outlook for R&D demand from major customers caused by the most recent news flow regarding semiconductor and exposure tool manufacturers Expect competition to increase in the medium term, but aim to maintain 100% market share in advanced nodes by accelerating development of next-gen products for High NA and other applications.
FPD	<ul style="list-style-type: none"> Continued design development activities for smartphones, including slimmer bezels and foldable types Market shift to China and OLED shift will continue 	<ul style="list-style-type: none"> Respond to market shift to China, centered on JV Focus on high value-added products for OLED and high-definition panels Expand scale of FPD blanks business
HDD Substrates	<ul style="list-style-type: none"> Expect long-term growth in near-line HDDs on the back of expanding data traffic 2.5" substrates for consumer products are expected to continue to decline as SSDs continue to replace HDDs 	<ul style="list-style-type: none"> HDDs are expected to remain the mainstay of nearline storage over the long term, with technologies such as HAMR allowing HDD's advantage in price per TB. Flexibly expand capacity to meet increasing demand Aim to expand TAM by acquiring new customers
Imaging	<ul style="list-style-type: none"> Demand for products for cameras is steady in the short term, but smartphone cameras are expected to continue to erode from a long-term perspective In-vehicle products are on a growth trajectory, centered on autonomous driving 	<ul style="list-style-type: none"> Camera products are expected to decline moderately Aim to expand sales in new applications such as autonomous driving and AR, based on an earnings structure that is not affected by market trends

Next is the Information Technology business.

First, with regard to LSIs, the semiconductor market is expected to continue to recover, especially in AI and memory. Since there are cycles, there will be times when things will get worse, but the overall impression is that the market will continue to grow. On the other hand, although there is news of some manufacturers' soft performance and downward revisions of shipments by lithography equipment manufacturers, we believe that the mask blanks market will grow over the long term as miniaturization progresses. In such an environment, we expect to face competition in the medium term, but we aim to secure a 100% share of the EUV advanced node market by properly developing next-generation products such as High NA. We would like to be the first in the advanced node to be certified by our customers and continue to offer new processes to the world.

As for FPDs, design development activities for smartphone panels such as slimmer bezels and foldables are continuing. Under such circumstances, we intend to firmly develop and provide masks that will be used for high value-added panels. We also intend to respond to the shift of the market to China based on our joint venture in China and to expand the scale of our blanks business for FPDs.

Then, for HDD substrates, we expect long-term growth in near-line HDDs, backed by the continuous expansion of data distribution volume. On the other hand, 2.5-inch HDDs have already shrunk considerably in size, but we believe that they will continue to decline continuously as they are replaced by SSDs. In such an environment, we believe that HDDs will retain their terabyte unit price advantage over other storage devices such as SSDs, based on technologies such as HAMR, and remain the mainstay of the near-line over the long term. In addition, since we are still doing business with only one hard disk drive manufacturer, we believe our biggest challenge is to secure business with new customers and expand TAM.

Finally, with regard to imaging, demand for products for the camera market is strong in the short term, but from a long-term perspective, we are assuming that it will not grow much. Since we have established a

structure that allows us to generate earnings from products for the camera market, we intend to develop products for markets other than the camera market in order to expand sales.

Question and Answer Session

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

Yoshida [Q]: CLSA Securities, Yoshida here. At the time of your last earnings announcement, you mentioned that you are currently reviewing the CAGR outlook for EUV blanks and hard disk glass substrates over the next few years and that you would like to make a new comment at the next earnings announcement. Since you have decided to increase capacity this time, could you comment again on the CAGR growth you expect over the next few years?

Ikeda [A]: First of all, for EUV blanks, we are looking at a CAGR of 10% plus α , although the figure may vary depending on when the calculation is made. Based on this assumption, we are currently making plans for CAPEX and other expenditures.

As for HDD substrates, in addition to how the HDD market as a whole will grow, the numbers will vary considerably depending on whether we can win new customers or not, while we are only in one of the three drive manufacturers at the moment. I apologize for not answering your question directly, as it will be on a case-by-case basis as described, but generally speaking, within two years, we can see one of our remaining HDD manufacturers being a customer. After that, it will depend on what happens with one more company, but at this point, I would like to ask you to make a guess based on the increased visibility that we can get new customers within two years.

Yoshida [Q]: Regarding EUV blanks, do you envision 10% plus α as a starting point for this fiscal year?

Ikeda [A]: In this fiscal year, we can say that the growth rate is far stronger than usual, as the previous year was low as a comparison. Rather than where is the specific starting point, I would like you to take it as a moving average over a certain period of time.

Yoshida [Q]: I understand. You explained that profits in the Information Technology business are too high right now, and that D&A and labor costs will increase going forward. Could you tell us how much D&A and labor costs will increase in the second half of the year and into the next fiscal year, and what is the steady-state profit level for the Information Technology business?

Hirooka [A] : This is a difficult question to answer as to how much expenses will increase, but as an image, I think a 50% profit margin is a very high hurdle. Last year's Q2 was 45%. It varies considerably depending on the product mix, but I imagine it to be in the mid 40% range or in the high 40% range depending on the product mix.

Yoshida [M]: I understand. That is all.

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

Nakamura [Q]: This is Nakamura. You mentioned that you will continue to spend some promotional expenses in the second half of the year so that sales of eyeglass lenses will normalize. Could you reiterate your thinking on whether it is safe to assume that the profit margin for Life Care will recover to the normal state of 20% in Q3 and beyond?

Hirooka [A] : We would like to raise it toward that point, but we are not aiming for that yet. Sales are coming back, but it has only been one quarter, and we are still working on joint campaigns with customers, so I think it is important to get this back to normal, including customer trust.

In fact, there are naturally some customers whose joint campaigns are not limited to this quarter, so we would like to gradually return to the 20% level of normalcy by taking those factors into account. Looking at the current situation, I personally think that a return to 20% may be possible in FY2025.

Nakamura [Q]: Okay, the second point is about the current demand environment for EUV blanks: as you wrote on page 20, I don't see much change, but on the other hand, compared to three months ago, one of your customers is probably holding back on EUV-related investments, and exposure tool manufacturers have significantly reduced their forecasts for exposure tool shipments in the next fiscal year and beyond. I think you will probably be OK during this fiscal year, but could you tell us again if there have been any changes in the outlook for demand in the next fiscal year and beyond?

Ikeda [A]: During this Q2, we made a decision on whether or not to make CAPEX for the volume in the second half of FY2026 and beyond. Although there has been a lot of discussion about the impact on the number of lithography equipment shipments, there has been no change in the figures provided by our main customers for blanks, so we have decided to make the CAPEX investment to increase capacity as planned. In light of the information we have received from our customers and other sources, we are naturally confident for the current and next fiscal years, and beyond that, we are not in a situation where major downward revisions are being made.

Nakamura [M]: Thank you very much for the details. I understood very well.

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

Katsura [M]: This is Katsura from SMBC Nikko Securities. In Q1, Mr. Hirooka mentioned that the core operating profit of Information Technology was an outlier and not sustainable, but could you tell us about the internal and external factors that caused it to remain at the same level in Q2? I seem to recall that you also explained the recovery of core operating income in Life Care as a more gradual image in QoQ, and I have the impression that it was an upward swing in that sense, but please tell us how you summed it up.

Hirooka [A] : For Life Care, there were some products that did not perform as expected, such as negative sales growth, but one of the reasons was that we were able to control expenses more than we had initially thought. Profit margins were also affected by the product mix, and some of the profit margins were influenced by products that were growing well. I believe that these factors have helped to push Life Care's profit margin up a bit.

As for Information Technology, I believe the product mix is also a major influence. In LSI and HDD, the cyber incident occurred right after the customers' inventory adjustments had finished and demand was returning, and customers were working to secure inventories in Q1. In terms of imaging, we were able to produce higher value-added products than we had expected, and our profitability was higher than we had expected.

To be honest, I am not sure about the sustainability of this trend, since it is not common for high-value-added lenses for cameras, for example, to grow by 18%. I believe that the profit margin will decline in the second half of the year, including the increase in D&A expenses, etc. I see Q2 as an upswing due to the positive turnaround in various areas.

Katsura [Q]: I understand very well, and secondly, although this is not directly about your company, what do you think of the impact of Essilor's investment in Nikon? While eyeglass lenses have already been developed by both companies since 2000 and I don't think it will have much impact, I think there will be some overlap in the blanks for LCDs and lenses for digital cameras, so please tell us how you see it.

On the other hand, we have not been able to do much in the way of M&A because of the high hurdle rate, and I believe that part of the cash is being put toward shareholder returns. I would like to know again how you intend to use cash in order to sustain high growth.

Ikeda [A]: We are not in a position to comment on other companies' investment projects, but in terms of the implications for us, as you mentioned, I don't think there will be any particular impact on eyeglass lenses, since the environment has been the same for some time.

Aside from eyeglass lenses, we basically do not expect any major impact on our business.

We are continuously looking at M&A opportunities in a wide variety of targets. We have not changed our approach, but we have not been able to find a company that meets our criteria, so we have not been able to carry out M&A activities. This does not mean that we will stop searching, but we do not want to make M&A itself an objective. We will continue to look for targets while maintaining our perspective on investment efficiency.

Katsura [M]: Thank you.

Moderator [M]: Mr. Yoshioka, please.

Yoshioka [M]: My name is Yoshioka from Nomura Securities, and I would like to confirm the relationship between technological changes and demand for EUV mask blanks. For example, please tell us how the introduction of High NA EUV lithography, node miniaturization and the number of EUV layers will affect the demand for blanks in the medium term.

Ikeda [A]: We are now moving from 2 nanometers to 1.4 nanometers (14 Angstroms) in advanced development, and miniaturization is basically the growth driver. There are several technologies to achieve that miniaturization, and High NA is one of them.

As for the number of layers, the number of layers basically increases as miniaturization progresses, as has been the trend in the past. However, when some new technology is introduced, the number of layers may temporarily decrease. However, the photolithography process repeats this process of increasing the number of layers when the next process is scaled down, so in the long run, the number of layers will continue to increase, albeit with some ups and downs. From this perspective, I believe that the growth trend of blanks will continue as long as miniaturization continues.

Yoshioka [Q]: Basically, can we assume that the unit price of EUV blanks will also go up?

Ikeda [A]: When we launch a new high-value-added product, the unit price will naturally increase. However, at the same time, demand for discounts on existing products will increase, and we will basically respond to this demand. We will manage the total ASP.

Yoshioka [M]: Yes, I understand.

Moderator [M]: The time has come to end, so I will now conclude today's earnings call. Thank you very much for taking time out of your busy schedule to join us today.

[End]
