HOYA Corporation

FY24 Q3 Earnings Call Transcript

February 3, 2025

[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 third quarter of FY24, HOYA Corporation. Today's participants from HOYA Corporation are Mr. Eiichiro Ikeda, Director and Representative Executive Officer, CEO, and Mr. Ryo Hirooka, Director and Representative Executive Officer, CFO. CFO Mr. Hirooka will present the Q3 business results and an overview of the company's main businesses, followed by Q4 and full-year forecasts. For those attending from a PC, please refer to the materials shared on the screen.

Mr. Hirooka will begin the presentation.

FY24 Q3 Overview

- [Revenue] Increased by double digits due to factors such as the sustained high level of demand in the Information Technology business.
- [Operating profit] Despite a decrease in profit in the Life Care business, profit increased significantly thanks to the strong sales growth in the Information Technology business,.
- [Pretax profit] Despite the recording of an impairment loss of intangible assets of ¥4.8 bn, there was a significant increase in profit due to increased operating profit and a FX gain of ¥0.6 bn (compared to a FX loss of ¥11.4 bn in FY23 Q3).
- Revenue and operating profit reached record highs.

Revenue	Operating Profit	Pretax Profit
¥220.8bn	¥66.1bn	¥65.2bn
+13%	+17%	+31%
(CC* +11%)	(CC +13%)	(CC 28%)

*Constant Currency

USD	¥154.19	-5.5%
EUR	¥163.62	-2.8%

Hirooka： Let's start with the overall figures: Revenue came in at 220.8 billion yen, operating profit at 66.1 billion yen, and pretax profit at 65.2 billion yen.

On a constant currency basis, profit margins were plus 11% for revenue, 13% for operating profit, and 28% for pretax profit.

The results were basically similar to Q2, with double-digit revenue growth due to continued high levels of demand in Information Technology.

Operating profit margin was down slightly in the Life Care business, but the substantial increase in profits in the Information Technology business resulted in double-digit growth of overall operating profit.

Pretax profit grew nearly 30% over the previous year, well above the growth of the operating profit. There are two key points to be made here.

The first is foreign exchange gains and losses. Last year, there was a large FX loss of 11.4 billion yen in Q3, but this year there was almost no FX impact, which had the effect of boosting pretax profit.

On the other hand, in Q3, the company recorded an impairment loss of 4.8 billion yen on intangible assets of an endoscope-related company it acquired about eight years ago.

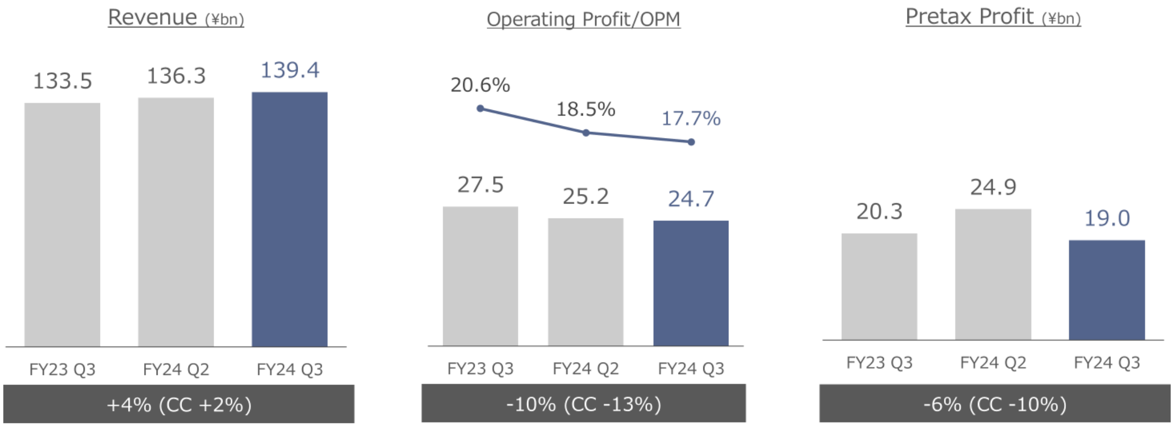
This was a R&D-phase company that originally had almost no sales when we acquired it, and we planned to contribute to sales by building things over a long time span of 10 or 15 years. However, we have decided to record an impairment loss due to the fact that our approval process and product development has been slower than the time frame we originally envisioned. We had also been considering China as a future market, but due to delays in the clinical and licensing processes there, and the fact that the state of medical device-related products in China as a whole is not very good, we decided to book an impairment loss of 4.8 billion yen this time with the intention of taking the impairment when we have the opportunity, before such discussions occur in the future.

Despite the above, Revenue and operating profit reached a record high for the quarter.

Life Care Business

HOYA

- [Revenue] Secured growth thanks to steady sales of eyeglass lenses and contact lenses.
- [Operating profit] Decreased due to the continued aggressive investment of sales promotion expenses.
- [Pretax profit] Decreased due to a write-down of intangible asset on an endoscope-related businesses acquired in the past.



Next is the Life Care business. Revenue was 139.4 billion yen, operating profit was 24.7 billion yen, profit margin was 17.7%, and pretax profit was 19.0 billion yen.

On a constant currency basis, Revenue was up 2% from the previous year, operating profit was down13%, and pretax profit was down 10%.

Because of the impact of the IT incident in Q1, we continued our activities in Q2 to return sales to a solid level, especially in eyeglass lenses, at a cost, and secured sales growth.

On the other hand, we would have liked to see a little more sales growth. Overall, we see the situation in China as a slight headwind for overall growth in Life Care.

Our profit margin was 17.7%, and while we normally have our sights set on 20% plus or minus, we are prioritizing a solid return of sales, and for this fiscal year we are concentrating on a solid return of customer trust, even if it costs us money and drops a few percent from our normal targets.

In addition, there is a one-time cost, albeit in the hundreds of millions of yen, and excluding this cost, the profit margin would be in excess of 18%.

The difference between operating profit and pretax profit is mainly due to the 4.8 billion yen impairment loss related to endoscopes, as mentioned above.

Eyeglass Lenses

Sales growth
+8%
(CC +6%)

- ☑ Although sales in China were slow due to macroeconomic factors, sales in Japan, where we focused on sales promotion measures, and Brazil, where we have been working to strengthen our foundation, continued to be strong.
- ☑ In December, we completed a bolt-on M&A in Germany. We will continue to strengthen our global customer foundation through M&A.
- ☑ We aim to gradually optimize our sales promotion expenses, which has been running higher than usual.

Let me continue by explaining our Life Care business by product.

First, for eyeglass lenses, we continued to recover well from the IT incident, at 6% on a constant currency basis, and were able to bring it to growth. As mentioned earlier, we are using expenses to maintain sales growth.

Although conditions in the Chinese market were not very good, we were able to achieve mid-single-digit growth for the business as a whole because we were able to expand where we could in other countries.

We also executed a bolt-on M&A in December, although not large in scale. We do small ones from time to time, but we want to make sure that we can incorporate these types of things into the company on a regular basis.

We intend to continue our sales promotion activities in Q4 with the intention of putting sales on a steady growth path this fiscal year, but we are now discussing plans for the next fiscal year within the company so that we can increase profit margins in the next fiscal year and beyond.

Contact Lenses

Sales growth +5% (CC +5%)	
	☑ Achieved stable growth in the mid-single digits by acquiring new customers, including contact debut users, and improving retention through online services.
	☑ Sales of PB products continued to be strong. We aim to expand our product lineup continuously.
	☑ We plan to strengthen our sales promotion activities to acquire new customers in Q4.

Next, contact lenses.

This one is growing at 5%, which is not much news, good or bad, but solid mid-single-digit growth.

I think we are doing well in our activities, including online services and private brand products, and the number of customers is growing, so I believe we can translate this into stable growth.

Endoscopes

Sales Growth -1% (CC -4%)	
	☑ Despite the continued impact of the anti-corruption campaign in China, we were able to maintain overall sales by steadily capturing demand in Europe.
	☑ Although the impact of the anti-corruption campaign is still ongoing, sales in China, where structural reforms are being promoted, are on a recovery trend QoQ.
	☑ Amid a harsh external and competitive environment, we will seek to transform our earnings structure on a global basis.

Next, we continue with the endoscopes.

This also continues the trend of Q1 and Q2. It was slightly more negative than last year.

China continues to struggle both in terms of external environment and internal organization. Europe and other regions continue to grow solidly, but the impact in the Chinese market has resulted in only negative results for the business as a whole.

However, since our business in China bottomed out in Q2 and sales are gradually recovering, we intend to build a structure that will enable us to firmly overcome the severe external environment in the entire business.

IOLs

Sales Growth
+2%
(CC -0%)

- ☑ Since the introduction of the NVBP in China, not only have unit prices fallen, but there have also been changes in the market, such as a shift in demand towards multifocal lenses; as a result, we have found ourselves in a difficult situation, as we do not have multi-focal lenses available on the market.
- ☑ In markets outside of China, sales of ATIOL (Advanced Technology IOL) products such as trifocal lenses progressed steadily.
- ☑ We will continue to focus on the sale of ATIOLs: we will develop and launch new products over the medium to long term.

Hoya Medical (Suzhou) Company Limited

The next step is IOLs.

Sales here were almost flat compared to the previous year. The impact continues to be seen in China.

The unit price has been falling due to the introduction of the NVBP in China this year. In addition, the overall market mix is shifting from single focal length to multi-focal length. Since we do not handle multifocal lenses in China, sales in China have continued to grow negatively due to this market change.

We have been able to cover a good amount of ground in countries and regions outside of China, so we have not had a sales decline on our business as a whole.

On the other hand, ATIOLs has been launched and sold well outside of China, so we intend to cover the negative aspects of China well in the future.

Artificial Bones and Other

Sales Growth
-9%
(CC -11%)

☑ Despite steady sales of artificial bones and medical equipment, sales decreased due to continued inventory adjustments of chromatography media used in pharmaceuticals.

☑ Inventory adjustments for chromatography media are expected to continue for the time being. We will work to stabilize overall sales of products such as artificial bones, surgical equipment, and endoscope washer-disinfectors.

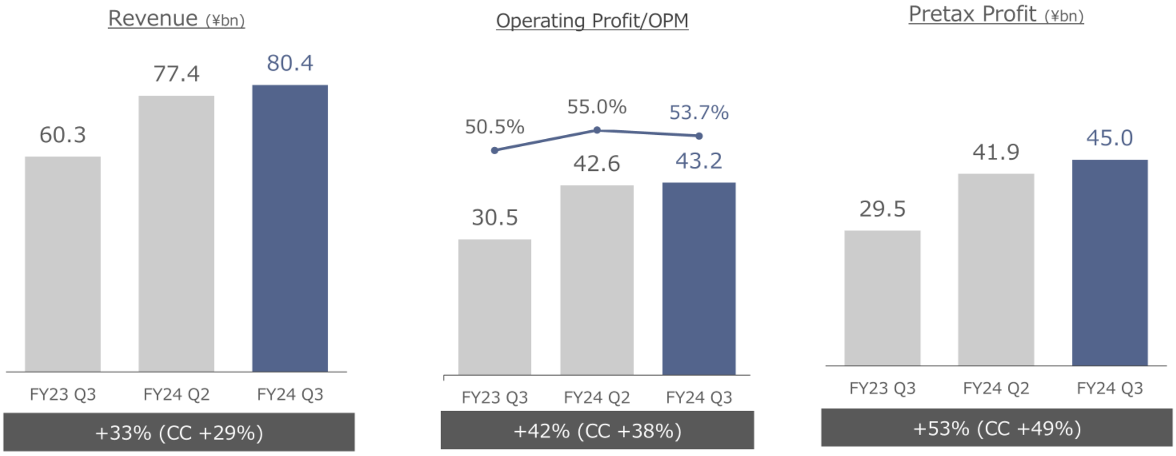
Continuing to "Artificial Bones and Others," although it is not a large amount in terms of the group as a whole. It was down 9% from last year and 11% on a constant currency basis.

This segment includes a variety of products, but the one that was most affected this time was chromatography media. There was an inventory adjustment at the distributor where we sell our products, so we took a drastic measure by stopping sales once and asking them to make an inventory adjustment. This had a significant impact on this quarter, resulting in a negative impact on the segment as a whole.

IT Business Overview

HOYA

- [Revenue] Achieved a significant increase in revenue due to continued high demand from customers.
- [Operating profit] Although the profit margin decreased QoQ due to factors such as increased depreciation, it still remained well above the target. Depreciation and other expenses are expected to gradually increase and return to an appropriate level.



Next is the Information Technology business. Revenue was 80.4 billion yen, and operating profit was 43.2 billion yen, or a profit margin of 53.7%, and pretax profit was 45.0 billion yen.

On a constant currency basis, Revenue was plus 29%, operating profit was plus 38%, and pretax profit was plus 49%.

Last year's Q3 was a time when some of our businesses were still not doing so well, so we are seeing a large increase in revenues compared to that time.

Regarding profit margins, we told you in Q2 that they would not continue to exceed 50%. When we take a closer look at whether we can achieve 50% structurally, we realize that it is difficult to continue to do so, and we believe that it is better to think of it as a one-time event.

There are two reasons why profit margins have remained high. In anticipation of future demand growth, we are in the process of restarting the Laos plant and increasing the capacity of EUV blanks, but the operating timing of the lines has shifted from month to month or term to term, causing depreciation to be delayed by one month, for example. Since demand is very strong, we are operating existing lines at full capacity, and production efficiency and cost efficiency are at their maximum. As a result, profit margins remained very high in Q3.

Looking at the current figures alone, it would be best to operate the existing capacity at full capacity, but of course we assume that demand will continue to increase, so we must expand capacity to some extent and create a system that will allow us to supply the market. In addition, since there is seasonality in Q4, we think it would be better to expect the margin to be slightly less than 50%.

LSI

Sales Growth
+28%
(CC +27%)

- ☑ Due to active advanced R&D by customers for AI-related chips, etc., demand for EUV blanks remained high.
- ☑ DUV blanks sales were also strong, especially for high-end products.
- ☑ Although it is necessary to pay attention to the trends of customers and competitors, it is expected that demand related to advanced R&D activities will continue in the future.

Next, LSI.

Demand here remained very strong, with a 27% increase on a constant currency basis.

This quarter was very strong not only for EUV, but also for the high-end DUV blanks (optical blanks), with significant growth over the previous year.

Since such demand is expected to continue to a certain extent in the future, we are steadily building a new production line at this point, and we are also considering internally how and when to increase production for the future.

FPD

Sales Growth
-4%
(CC -5%)

- ☑ Although demand for masks for smartphone development is showing signs of recovery, the production of blanks has not stabilized, as it was in the previous quarter, resulting in a decrease in revenue.
- ☑ Production of photomasks began at the factory in Chongqing, China.
- ☑ R&D activities for smartphone displays are expected to gradually increase in preparation for new products in 2025.

Next, FPD.

Sales growth was -5%.

As we have explained before, our overall production capacity was lower than last year due to the replacement of equipment and facilities, but our new plant in China finally started up and we were able to make our first shipment in December.

However, regarding our factory in China, we are in a situation where we are starting up lines sequentially rather than moving multiple lines at once. We would like to gradually grow our business in China.

HDD Substrates

Sales Growth
+65%
(CC +57%)

- ☑ Momentum for 3.5″ nearline drives continued, with sales levels exceeding Q2.
- ☑ As planned, the factory in Laos resumed operations at the beginning of the year. It is operating at around a quarter of capacity: utilization will be fine-tuned as the situation develops.
- ☑ Q4 usually sees a decrease in capacity due to the Vietnamese Lunar New Year holiday, but this year, the reopening of the Lao plant and by continuing the operation during the holiday period in Vietnam are expected to mitigate the seasonality.

Next is the HDD substrates.

With a constant currency basis of plus 57%, demand for 3.5" continues to be very strong: sales levels are now above Q2 and 3.5" are now matching previous peaks.

We believe that demand will continue to increase, so in January we resumed operations at our Laos plant and began production. Although we have only returned a quarter of the line, we are considering gradually increasing the number of lines in the next fiscal year while monitoring the situation.

In Q4, sales usually drop seasonally due to the operating days of our factories, but since demand from customers is strong, we plan to respond by giving up vacation time to ensure a solid supply.

Imaging

Sales Growth
+12%
(CC +8%)

- ☑ Due to seasonal factors such as the Christmas shopping season, sales of interchangeable lenses for mirrorless cameras continued to be strong.
- ☑ Sales of products other than digital cameras, such as in-vehicle lenses for autonomous driving, also continued to be strong.
- ☑ Demand for Q4 is expected to decrease due to seasonal factors.

Next are imaging-related products.

We continue to be able to capture demand with an 8% increase in sales on a constant currency basis. Digital cameras also continue to be in reasonable demand, and we are in a situation where we are able to capture a solid market share and supply.

Since Q4 is a period of reduced demand in reaction to the Christmas sales season, sales are expected to fall, reflecting the usual seasonality.

Capital Allocation

Internal Investment

- Continuous capacity expansion for products in a phase of growing demand
- Upgrading production equipment in line with advanced technology
- Development of next-gen products, increased activity in clinical trials, etc.

M&A

- Conduct bolt-on M&A with a focus on expanding the customer base (e.g. acquisition of competitors in the eyeglass lenses and contact lenses areas)
- Continue to explore new opportunities in adjacent areas.

Shareholder Return

- Achieve EPS growth that exceeds profit growth through continuous share buybacks.
- Resolved to cancel 2.47 million shares acquired through the 2nd share buyback in FY24.
- Resolved to conduct a 3rd share buyback of ¥50 bn. The total amount for FY24 will be ¥150 bn.

I am not trying to explain anything new in terms of cash allocation, but we will continue to make solid internal investments as well as M&A when the opportunity arises.

Regarding M&A, we have made acquisitions in eyeglass lenses in Q3 that are not so large but will contribute to the growth rate, and we intend to continue to do so well. We would also like to continue to make M&A in the area of contact lenses. Our policy of returning surplus funds to shareholders remains unchanged.

With regard to shareholder returns, the Board of Directors today resolved to cancel the previous share repurchase since the repurchase was completed. In addition, a new share buyback of 50 billion yen has been resolved. As a result, the Company expects to repurchase 150 billion yen of its own shares this fiscal year.

Q4 & Full Year Guidance

- [Q4 YoY] As we are assuming no FX gains or losses, we expect a decrease in profits compared to the same period last year, when we had FX gains of ¥10.8 bn.
- [Q4 QoQ] Although we expect revenue to be at the same level as Q3, we expect profits to decrease due to a seasonal decrease in revenue from the Information Technology business, which has relatively high profitability, and an increase in depreciation
- [Full year] Record-high sales and profit are expected due to a rebound from the previous year, mainly in the Information Technology business.

FY24 Q4 (¥bn)

	FY24 Q4	YoY	QoQ
Revenue	219.9	+12%	-0%
Pretax Profit	63.8	-11%	-2%
Net Profit	47.7	-17%	-6%

*FX assumption USD=¥154、EUR=¥167

Full Year (¥bn)

	FY23	FY24	YoY
Revenue	762.6	869.2	+14%
Pretax Profit	236.6	256.1	+8%
Net Profit	182.6	198.3	+9%

Finally, here are our forecasts for Q4 and the full year.

For Q4, we forecast Revenue of 219.9 billion yen, pretax profit of 63.8 billion yen, and net profit of 47.7 billion yen, which is about the same as for Q3.

The first point to note is that compared to last year, pretax profit was -11%. Last year's Q4 was a quarter in which there was a 10.8 billion yen FX gain and other income. Since these factors are not factored in this year, we are projecting a double-digit YoY decline in pretax profit.

Although we do not disclose operating profit, we expect it to be at the same level or double-digit growth, since revenue is expected to increase by 12%.

Sales are expected to remain almost unchanged, but looking at the contents, the Information Technology business is expected to decline slightly due to seasonality, while the Life Care business is expected to increase slightly.

Moderator: Now, CEO Ikeda will give an overall summary of the current financial results.

Ikeda: To repeat, the IT incident occurred at the beginning of this fiscal year, and afterwards, I believe we were able to prevent market share loss and bring back sales by continuing to invest the necessary sales promotion expenses during this quarter, especially in eyeglass lenses, which were the most heavily affected by the incident, with the goal of recovering sales.

Also, last fiscal year was bad for both of our two main IT businesses due to inventory adjustments by our customers, but those inventory adjustments have been resolved, and this fiscal year we saw very strong demand continue from Q1 to Q3. I believe that Q3 was a stable quarter with a similar trend to Q2.

Under such circumstances, the situation in China for the three products of the Life Care business is clearly an issue. However, the reasons for the weak performance of each business are clear to some extent, and we will take appropriate measures to deal with them.

In general, I would say that it was a stable quarter, continuing from Q2, and the overall numbers were somewhat solid. I also believe that it was a quarter in which the issues that need to be addressed became relatively clear.

Question and Answer Session

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

Yoshida [Q]: Hi, I'm Yoshida from CLSA Securities, how do you see the market for EUV blanks and HDD substrates for the calendar year 2025? If possible, I would appreciate it if you could comment on the quarterly direction or up/down direction.

Ikeda [A]: First of all, HDDs are usually low in the first quarter of the calendar year, from January to March, because our factories in Vietnam usually go on long vacations from the end of January to the beginning of February, which is seasonal. However, this time, because of strong demand, we are not in a situation where we can shut down the factory for maintenance. However, because demand is strong this time, we are not in a situation where we have to shut down the factory for maintenance as we normally do. I would like to add that this will increase our costs. The strong demand is expected to continue until at least the first half of the calendar year (June). As for the second half of the year, it is too early to say, but based on the projections shared with us by our clients, it does not look like there will be much of a drop off. However, the ups and downs of this industry are quite dramatic, so we are not sure about the second half of the year yet.

For EUV blanks, demand is also very strong, and the situation is such that we are running production at full capacity. By customer, there are some customers for whom demand is very strong, while others are slowing down a bit. However, we currently have the majority share of the EUV blanks market, so even if there is a shift in orders among customers, the demand will come to us, so we believe that we will be fine for the first half of the year.

We are also in ongoing discussions with each of our customers to determine what the medium-term demand will be in the 2027-2028 year period for our investment decisions.

In the long run, I believe that both are growth businesses, and as mentioned above, we expect strong demand to continue for the first half of this calendar year.

Yoshida [Q]: In a follow-up, I would like to ask you about hard disks. Your customer commented that there will be supply constraints in March due to production issues, will this affect your company?

I would also like to ask what you think the pace of the start-up of the Laos plant capacity is at this point, and since that is equipment that has already been started up once, will the profit leverage be much higher when the plant is restarted this time around?

Ikeda [A]: There was talk of production problems at our customers' sites in March, but in fact, orders have not dropped at all and remain strong. If demand were declining, both parties would discuss the possibility of stopping operations at a high-cost holiday point, but since we have continued operations without making such a choice, we have not seen any impact on our business so far.

The Laos plant will be operating at 20～ 25% of capacity when it reopens, but we plan to raise the capacity utilization rate depending on demand, since we can raise the rate if we hire more operators. As for whether or not demand will rise, we are currently assuming that demand will remain flat from the current level during the first half of the year. Beyond that, we do not see a rise in demand at this point.

Hirooka [A]：The depreciation image is as you said, and the cost structure should be similar to that of the Vietnam factory. On the other hand, we will not be operating the production line at full capacity, but will gradually increase the number of lines, so in this respect, I think it will be a little more inefficient than the existing Vietnam plant.

Yoshida [M]: Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Nakamura, please begin.

Nakamura [Q]:My name is Nakamura from Goldman Sachs.

You explained that the profit margin for the Life Care business did not rise as much as you had expected in Q3, but could you please explain again, including the timing and time frame for another recovery to the 20% OP margin?

Hirooka [A]：That may have been a bit misleading. I was thinking of lowering the profit margin this year by a few percentage points from the original level, and then adding or subtracting from that level. For example, in the past, we would have set the profit margin at 20% and raised or lowered it depending on the amount of costs, and we would not have said that we would never cut 20%. Similarly, this year, the line was lowered by a few percent, and we allowed for plus or minus in relation to that lowered line, with the nuance that this time the line swung a little lower within that range.

The reason we did not go to the upper end of the range is that we had a one-time cost, albeit several hundred million yen, and the headwind in China, a good market from a business standpoint, had a some effect on our profit margin.

The reason we are lowering our sights by a few percent is, I repeat, to solidify sales and return to continued growth. In making the decision as to whether to return to a profit margin of 20% as quickly as possible or to consolidate growth, we decided that, when looking at the company as a whole, it was more important for the Life Care business to increase sales firmly for the future this time than to recover profit margins quickly. We have decided to take a more proactive approach to the Life Care business.

As for at what point we will return to normal, basically it will be based on the sales situation, but we would like to conduct activities to bring it closer to that point in the next fiscal year. We are now in the process of creating an annual plan for each of our businesses, and we will decide on the direction to take in February and March. we will proceed with the same approach as this time until Q4, and from the next fiscal year we will restore the profit margin, but we are in the process of creating that time line right now, so I hope you will understand that we are still working on that plan.

Nakamura [Q]:Okay, I would like to know the growth rate of EUV blanks in Q3 and the level of Q4, which you have assumed, as well as your view of the growth rate for the next fiscal year and beyond. I understand that you had previously projected an annualized growth rate of approximately 10%, but could you please reiterate whether there has been any change in your view?

Hirooka [A]：The growth rate in Q3 was almost 40% YoY.

Ikeda [A]: In Q4, the Singapore factory also has fewer operating days, so a simple comparison of QoQ will be negative, but we expect strong demand to continue in the environment.

As for the growth rate for the next fiscal year and beyond, it is very difficult to say, since it depends greatly on the starting point for calculating the CAGR, since this year's growth is tens of percent, but the previous year's growth was negative. Based on this, we are currently looking at 10% plus as we have done so far.

Nakamura [M]: Thank you very much.

Moderator [M]: Thank you very much. Next, Mr. Katsura, please continue.

Katsura [Q]: I am Katsura from SMBC Nikko Securities. I was wondering if you could tell me how you see CAPEX and depreciation for the current fiscal year, and also give me a hint as to the direction you see for the next fiscal year.

Hirooka [A]：Depreciation has been pushed back a bit, and it depends on the exchange rate, but basically it should be taken as the Q3 figure x 4. There will be no sudden increase. CAPEX will be about 50 billion yen～ 55 billion yen for the year this fiscal year.

Regarding CAPEX for the next fiscal year, in terms of cash flow, which is the actual investment and money going out, there will be some in and out, but I think it is best to have an image that it will be about the same as the current fiscal year.

As mentioned above, we are in the process of making our annual plan and will consider investments in EUV and HDD substrates in the plan, so the possibility may be a little larger on a decision-making basis. However, the actual implementation of these investments will probably be two years or so down the road.

Katsura [Q]: How about depreciation?

Hirooka [A]:I think depreciation will increase.

Katsura [Q]: Is it in the direction of increasing? I understand. Thank you very much.

You mentioned earlier that the growth rate of EUV blanks is about 10% per year, but how about blanks as a whole? I think it varies from region to region and from product to product. I feel that various changes are taking place, including your view of changes in the market environment.

Ikeda [A]: In terms of blanks as a whole, I think it would be in the mid-single digits. However, we are in the process of preparing our annual plan, and it is necessary to verify the plan in light of changes in the environment.

Katsura [Q]: Are there any shades of gray or views by application or by region?

Ikeda [A]: This also varies quite a bit up and down depending on the customer, and there are also some applications where we don't know for sure whether the blanks is actually used in LSI or in memory, so it's honestly difficult to say for sure.

Katsura [Q]: So, am I correct in understanding that there is quite a bit of variation?

Ikeda [A]: Yes.

Katsura [M]: Thank you very much. That is all.

Moderator [M]: Thank you very much. Now, Mr. Nakanomyo, please.

Nakanomyo [Q]: My name is Nakanomyo from Jefferies Securities. I know it is too early to say, but I was wondering if you could give me your opinion on the impact of DeepSeek on the medium term demand for EUV blanks.

Ikeda [A]: I think there is a lot of debate about the definition of DeepSeek itself, such as what the reported figure (development cost of 800 million yen) is defined as, so I think this point will depend on future research.

If we were to take what is being said in the press as it is, I think that in the end, this is a technology to improve the efficiency of computing resources. If cost efficiency is improved and practical applications are developed, the number of applications will increase, which will expand the base of applications and lead to an increase in demand. This will lead to a wider range of applications, which may in turn lead to an increase in demand.

The most distinctive feature of our blanks business is that we have a high market share not only in the leading edge of EUV, but also in the entire range of optical products, from low-end to high-end. I believe that there are some positive factors for us as a whole.

Nakanomyo [Q]: Thank you, one additional point, you mentioned that the demand for DUVs is strong, is it possible that this demand is generated by the Chinese generative AI connection, whether it is DeepSeek or not?

Ikeda [A]: I am not certain about the customers of the mask shops we serve, but in terms of direct sales, I think it is true because we do not sell high-end DUV blanks to China.

Nakanomyo [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Kaye, please.

Kaye [Q]: My name is Kaye from Comgest. Regarding blanks, the demand from one customer may have weakened a bit while the other customer has increased in the opposite direction. With regard to the usage of EUV blanks by different customers, do they use different numbers of blanks or do they replace them more often? Is the usage of the product not so much related to the customer, and as a result, are there variance between customers? Also, if customers who are currently increasing their demand for EUV blanks take up an even larger share of the market in the future, will this be a factor that slows down the growth of demand?

Furthermore, as far as you can tell, each customer may have a slightly different view of the transition to High NA. Can you share yourt thoughts around this?

Ikeda [A]: It is very difficult to answer this question, but for example, when we qualify a 3-nanometer process, we work with several customers to qualify the process, and the number of masks used and the ratio of binary to phase shift masks do not vary greatly.

However, in the mass production stage after certification, we honestly do not know, for example, how much blanks will be used for logic and memory, respectively. At least at the time of process qualification, we can only say that the structure will not vary greatly from customer to customer.

Right now, mass production is at 3-nanometer, and 2-nanometer processes are coming out, but High NA will not be used in the 2-nanometer processes. Beyond that, the development of nodes called A16 and A14 is underway, and these nodes will probably not include High NA either. It will probably start beyond that. However, I can't say for sure because that part is not yet finalized and may change in the future.

Kaye [Q]: Thank you very much. With regard to your company's blanks manufacturing facility, is it correct to say that it is not yet at the stage where it is ready for High NA?

Ikeda [A]: We need to be able to develop blanks for High NA, so that is not the case. High NA requires different materials for absorbers and films, so we are preparing equipment that can handle deposition, measurement, and inspection for these materials.

Kaye [M]: Thank you very much. It was very helpful.

Moderator [M]: Thank you very much. Mr. Kohtani, please.

Kohtani [Q]: I am Kohtani from Mizuho Securities.

The design of a product that appears to be MiYOSMART has been disclosed in the US, although clinical trials have not yet begun. The number of subjects is 240, which is more than I expected, and 2030 is listed as the primary completion date. Is there an interim analysis of this?

It seems that SightGlass, your competitor's product, is on a schedule that will probably take one year to go through the approval process, so why does your company need three years? Can you tell us about your clinical trials in the U.S., including the approval timeline?

Ikeda [A]: As per the disclosed information, we are on schedule to finish in 2030. It is difficult to answer why it will take so long, but we have discussed various certification strategies, etc., and the current schedule is as shown in the disclosed information.

Kohtani [Q]: Is it correct that the application for approval will be filed after the clinical trials are completed in 2030?

Ikeda [A]: That part has not been finalized yet. We are in the process of discussing various issues.

Kohtani [Q]: I understand. Until now, there have been various innovations in eyeglass lenses, such as progressive lenses and free-form technology, for example, but they were mainly targeted at the elderly.

Why is MiYOSMART starting trials in the U.S. so far behind the competition, given its enormous potential as the first pediatric innovation? I believe that your company was ahead of the competition in China, but how do you understand the delay in the U.S. trials?

Ikeda [A]: It is difficult to be first in every market in the world at the same time, so we have prioritized our efforts. We started our studies and developed products in China first, and we prioritized the Chinese market from the standpoint of market size. We see it as a matter of priorities.

Kohtani [M]: I understand very well. Thank you very much.

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

[End]

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