HOYA

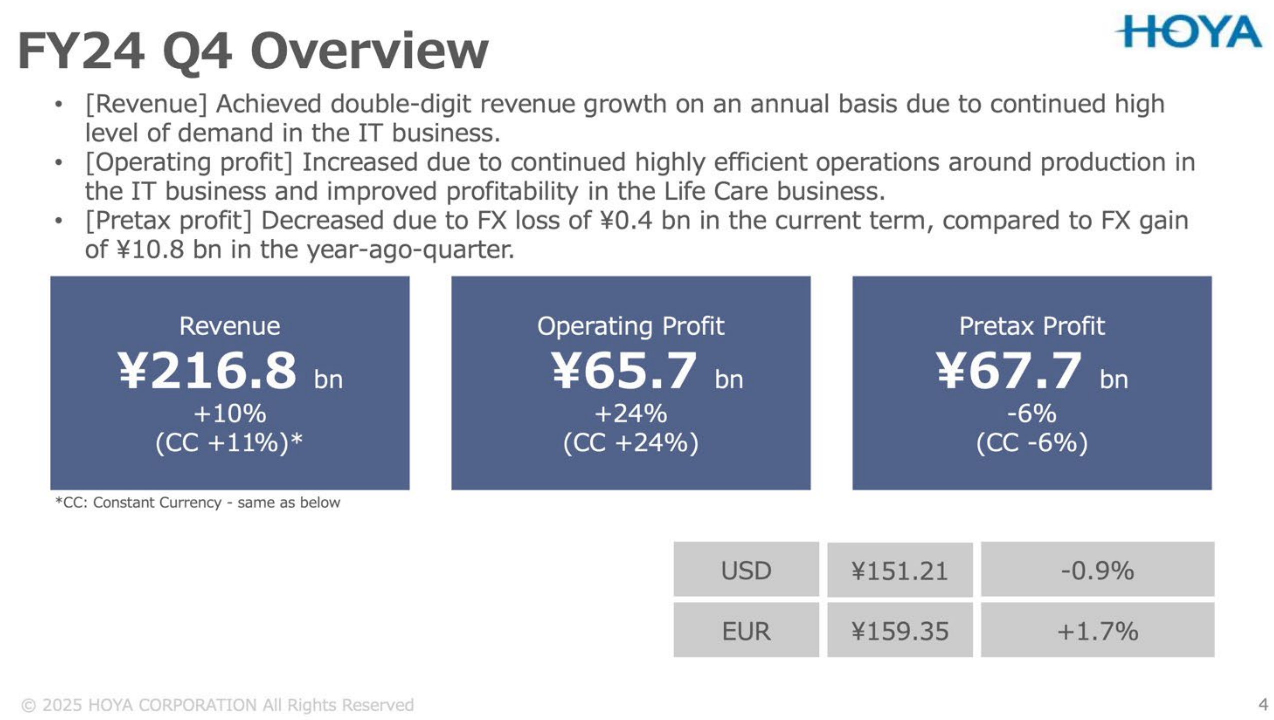
FY24 Q4 Earnings Call Transcript

May 1, 2025

[Speakers]

Eiichiro Ikeda	Director, Representative Executive Officer, CEO
Ryo Hirooka	Director, Representative Executive Officer, CFO

Moderator: We will now begin the earnings call for the fourth quarter of FY24. Attending from our side today are Eiichiro Ikeda, Director and Representative Executive Officer, CEO, and Ryo Hirooka, Director and Representative Executive Officer, CFO. Mr. Hirooka will begin the presentation.



Hirooka：I am Hirooka, CFO. Let me begin by explaining the results for the three months of Q4. Revenue was 216.8 billion yen, up 10% YoY and up 11% on a constant currency basis. Operating profit was 65.7 billion yen, up 24% YoY. Pretax profit was 67.7 billion yen, down 6% YoY.

The main reason for the decrease in pretax profit is due to the comparison with the 10.8 billion yen FX gain and extraordinary gains recorded in the previous year's Q4.

Revenue and operating profit increased by double digits for the group as a whole, mainly due to continued strong demand in the Information Technology business. The Life Care business also saw an improvement in earnings in Q4, recording significant YoY growth.

FY24 Full Year Overview

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- Achieved double-digit revenue growth on a consolidated basis due to a significant rebound from the previous year, when core products in the Information Technology business were affected by inventory adjustments
- Life Care business was affected by an IT incident at the beginning of the year, but due to quick recovery and yen depreciation, revenue exceeded the initial plan.
- As a result of the above, both sales and profits reached record highs.

Revenue	Operating Profit	Pretax Profit
¥866 bn	¥255.8 bn	¥260 bn
+14%	+22%	+10%
(CC +11%)*	(CC +19%)	(CC +7%)

*CC: Constant Currency - same as below

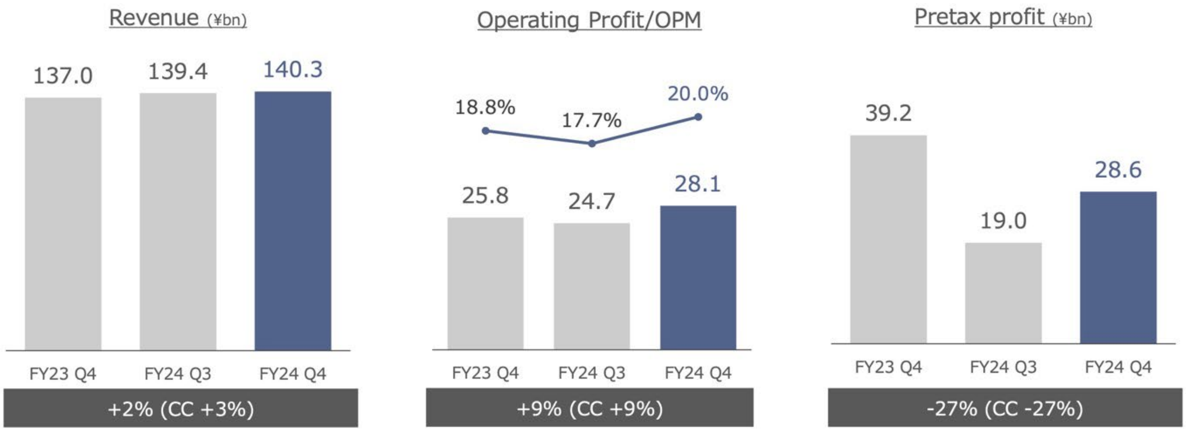
USD	¥152.57	-5.0%
EUR	¥163.66	-3.8%

Since this is the full year, we will briefly discuss the full year figures as well. Revenue was 866 billion yen, up 14% YoY and 11% on a constant currency basis. Operating profit was 255.8 billion yen, up 19% YoY. Pretax profit and net income also increased YoY, showing a solid year of growth.

The Information Technology business led the way in both sales and profits, while the Life Care business also recovered from the IT incident. As a result, we were able to post its best ever performance, thanks in part to the effect of yen depreciation.

Life Care Business

- [Revenue] Eyeglass and contact lenses drove sales growth.
- [Operating profit] Increased from the previous year, when there was a one-off expense.
  Profit margin reached 20%.
- [Pretax Profit] FX gains declined YoY from ¥7.9 bn to ¥0.5 bn, leading to a decrease in PTP.



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I will now explain each segment. First, in the Life Care business, Revenue was 140.3 billion yen, up 2% YoY, constant currency basis up 3%, operating profit was 28.1 billion yen, up 9% YoY, profit margin was 20%, and pretax profit was 28.6 billion yen, down 27% YoY. The decrease in pretax profit was due to FX gains and extraordinary gains recorded in the previous year's Q4.

In addition, the change in pretax profit QoQ is quite large. This is because the segment recorded a large impairment in Q3, so the profit increased compared to that.

While the steady growth in sales of contact lenses in brick & mortar stores and online was positive, the Life Care segment as a whole grew only 3%, again suffering in part from the slowdown in growth caused by the not-so-good economy in China.

In Q4, the recovery phase from the IT incident has come to an end, and the organization has moved into a phase of "growth while generating profitability". Q4 was a period of preparation for this, and included the reorientation of the organization.

While our policy until Q3 was to use expenses well to bring back sales, we changed the direction of the organization in Q4, which resulted in a considerable curtailment of expenses, partly as a reaction to the change. In addition, there were some one-time gains, resulting in a 20% increase in some aspects.

As a point of reference, we believe that the company has already overcome the phase of sales recovery due to the IT incident, and we are now aiming for growth that outperforms the market while ensuring profitability. To achieve this, the challenges differ for each product, but for FY25, we would like to make solid investments in growth while maintaining profitability in each, or work to improve profitability.

Eyeglass Lenses

Sales Growth
+5%
(CC +6%)

- Despite continued weakness in the Chinese market, sales to emerging markets such as Brazil and to chain stores in Japan remained strong, resulting in mid-single-digit growth.
- Sales of myopia management lenses MiYOSMART grew high-teens globally.
- Launched VisuPro lenses for early presbyopia, and expanded the lineup of photochromic lenses. We will continue to develop products that meet the needs of all life stages.

Let's look at the situation by product, starting with eyeglass lenses. We were able to achieve solid growth of 6% on a constant currency basis. Although the Chinese market continues to face difficult conditions, growth in emerging markets such as Brazil and Eastern Europe drove overall growth. In addition, sales to Japanese chains were strong during the quarter.

While we have prioritized sales recovery in the nine months since the IT incident, we are committed to investing in growth and outperforming the market while ensuring our revenue strength. The development and launch of new products will be our hook in this regard.

As for MiYOSMART, we had a quarter of low growth in China, but were able to achieve solid growth globally.

Contact Lenses (Eyecity)

Sales Growth
+4%
(CC +4%)

- While acquiring new customers, progress was made in improving retention through online sales and private brand products.
- The number of stores at the end of FY24 was 376: YoY +13 stores.
- Plan to open around 15 stores per year from FY25 onward. Aiming to become the overwhelming No. 1 retailer of contact lenses in Japan

Next is Eye City, a retailer of contact lenses. The sales growth rate was stable at 4%. In a good way, there are no major topics in this situation, and the company is growing well and generating revenue.

Endoscopes

Sales Growth
-5%
(CC -4%)

- In the Chinese market, sales rebounded as YoY comps lapped from the anti-corruption campaign and by the changes in sales channels.
- However, overall sales declined due to weak sales in the key markets: Europe and the US.
- In addition to regional business restructuring in the US and China, the company began a comprehensive global transformation initiative.

Next is endoscopes. The result was a constant currency basis of -4%, resulting in negative growth for the entire year, which is a tough result. Business in China has slowed down since

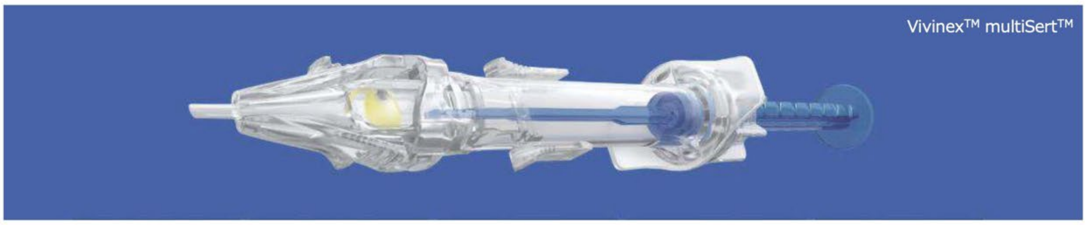
FY23 Q4, and although it has turned positive in YoY comparison, overall, we have yet to make up the lost ground. In addition, sales in Europe and the U.S. were weak in this quarter, resulting in negative growth overall.

In FY25, we will rebuild the U.S. and China as priority regions and aim for growth again.

IOLs

Sales Growth
+0%
(CC +1%)

- In China, the NVBP continued to put pressure on pricing as well as the market shifting towards multifocal lenses.
- Overall sales were flat YoY due to weak sales at Japanese hospitals.
- Reviewing overall business strategy, including China.



In IOLs, sales were almost flat at 1% on a constant currency basis. The situation in China continues to be a drag. Since the NVBP started in the middle of FY24 Q1, it has not yet run its course in YoY, resulting in a significant drop in sales. In addition, in the Chinese market, the shift from monofocal to multifocal continued during the year, and this was the reason for the large YoY decline in sales.

On the other hand, the situation is bottoming out, as we are seeing a gradual swing back from multifocal to monofocal, and the effects of the NVBP are gradually running their course. In light of this situation, we would like to reevaluate how to develop our business in China.

Also, the situation of Japanese hospitals was not so good during the quarter under review, but we are not too worried about this because we believe that we can improve the situation here.

Since we were able to increase sales in the second half of the single digits in other regions, we were able to secure almost the same level of sales as the previous year in this quarter, despite the difficult conditions in China and Japan.

Artificial Bones and Other

Sales Growth
+3%
(CC +3%)

- Although sales of chromatography media continued to decline due to inventory adjustments, sales of endoscope washer-disinfectors and artificial bones, which captured demand during the busy season, drove overall sales growth.
- The impact of inventory adjustment of chromatography media is expected to continue for the time being. We aim to stabilize overall performance with endoscope washer-disinfectors and artificial bones.

Next is a collection of smaller businesses such as artificial bones and medical devices.

Although there were shades of gray for each product, overall growth was 3%.

IT Business Overview

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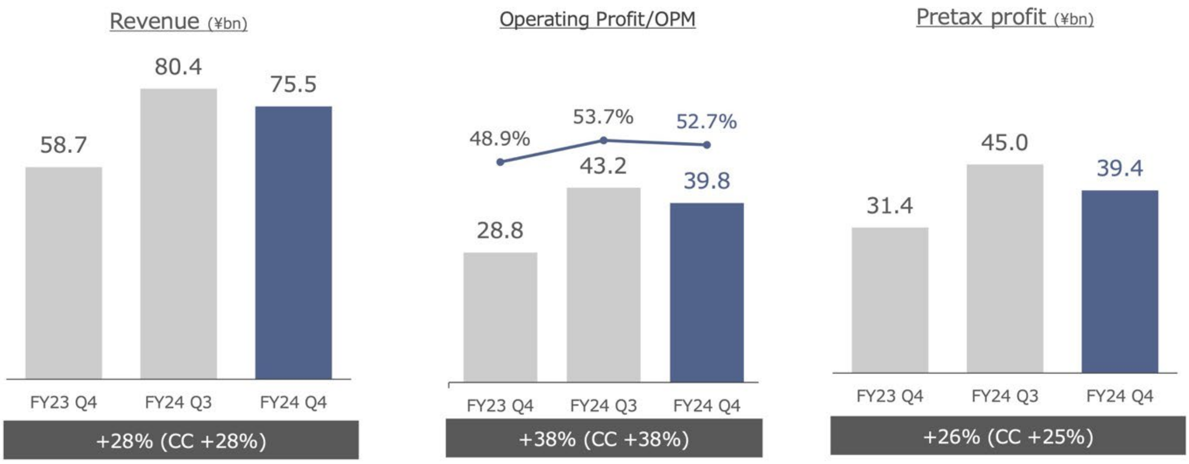
- [Revenue] Increased significantly as strong customer demand largely cancelled seasonality.
- [Operating profit] D&A expenses increased due to the increase in production capacity. However, margins remained high due to the continued high capacity utilization of existing production lines.



We will now turn to the Information Technology business. Revenue was 75.5 billion yen, up 28% YoY; operating profit was 39.8 billion yen, up 38% YoY; profit margin was 52.7%; and pretax profit was 39.4 billion yen, up 25% on a constant currency basis.

Sales in this segment usually decline compared to Q3 due to seasonality. Last year's Q4 was also weak. This year, there is a slight decline again compared to Q3, but this level is limited because demand was strong considering the seasonal factors. Normally, we temporarily shut down the factory and go on vacation in Q4, but this year we continued some operations in order to respond to demand. That is how strong the demand was.

As for profits, in addition to strong sales, demand for high value-added products in both electronics and imaging-related products grew, leading to an increase in profit margin. We had previously said that the profit margin would normalize early and fall below 50% in the current quarter. Profit margins are difficult to predict in some respects, as they are highly dependent on the mix of businesses and products.

The key point for the future is how to establish and solidify our market position in the markets of the Information Technology business. To achieve this, we need a stable supply system, and we will consider increasing our production capacity. At the same time, how to secure profitability is also an important issue.

In the Life Care business, one target is a profit margin of 20%. In the Information Technology business, although it may fluctuate from quarter to quarter, we intend to aim for steady growth over the medium to long term with a profit margin of 50% as a benchmark, while firmly increasing sales and profit amounts.

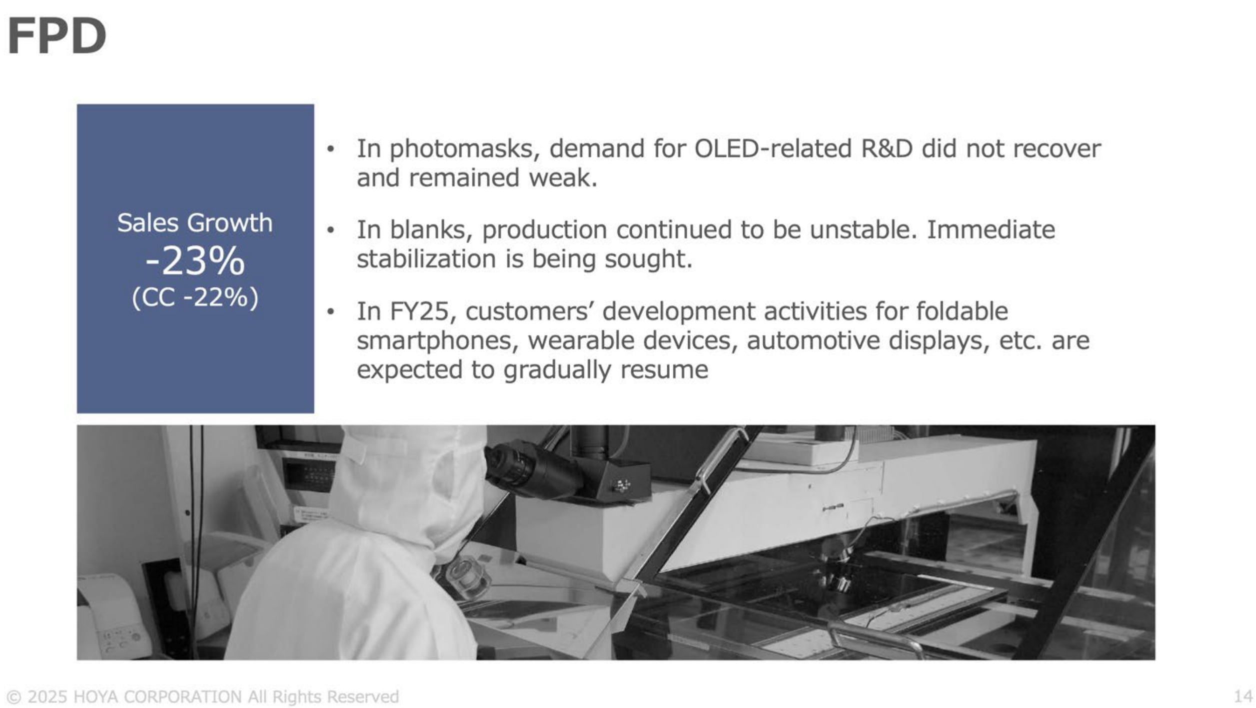
LSI

Sales Growth
+39%
(CC +39%)

- High demand for EUV blanks sustained due to active advanced R&D by customers.
- Sales of DUV blanks continued to increase, presumably due to increased demand for high-end DUVs used in EUV lithography.
- Made progress in 1nm generation qualification activities. Further strengthening the position as front runner.

By product, first of all, LSI sales grew nearly 40%. Last year's Q4 was a time when customers were still adjusting their inventories, so the growth was very high compared to that time. Demand for EUV as well as DUV (optical) blanks has been strong since Q3, especially for high-end products, and has exceeded our forecast.

From a competitive landscape view, we are steadily working to capture a steady share of the market for cutting-edge products. We believe that we will be able to achieve stable growth over the medium to long term, and to achieve this, we will continue to invest in production increases as needed.



Next is FPD. This was a very difficult quarter with a negative 22%.

The market was not very strong, but there were also internal factors related to the start-up of the Chinese plant. Although we have been gradually starting up the production line, there has been an imbalance whereby orders received from Chinese customers are manufactured at other sites, resulting in a drop in sales. We believe that this situation will gradually be resolved once the Chinese factory is stably up and running, and we will handle this situation well in FY25.

HDD Substrates

Sales Growth
+43%
(CC +42%)

- Demand for 3.5-inch substrates for near-line applications remained strong.
- Seasonal effects were mitigated by operating factories during the Lunar New Year holiday in response to strong demand.
- HDDs continue to offer advantages over SSDs in terms of capacity per unit price, price stability, and reliability in the near-line market.

Next is HDD substrates. Sales grew 42%, which is a significant increase since it compares to FY23 Q4, when the market was still in poor condition.

This product was the most affected by seasonality in Q4, but since we operated the factory during the Chinese New Year (Tet vacation in Vietnam) to meet demand, sales and profits were higher than in the normal seasonality.

Imaging

Sales Growth
+10%
(CC +10%)

- Strong sales of interchangeable lenses for mirrorless cameras continued. Demand was stable for materials and GMO (Glass Mold Optics) suitable for smaller and lighter lenses.
- Sales of products other than those for digital cameras, such as polarizing glass for near-infrared used in optical communications, were also strong.
- Developing demand for new applications and expanding market share for both materials and lenses.

Next are the imaging related products. Sales growth was high throughout the year and 10% for Q4. In addition to sales of lenses and materials for digital cameras, we also received orders for lenses and materials for various applications other than cameras, and were able to achieve stable growth during the year. In addition, we have been strengthening our profit structure since the past, and this has contributed to the profit margin of the Information Technology business as a whole.

Businesses Which May Have Impact From the Tariff

Product	Major Production Sites	Competition	Counter Measures
Eyeglass Lenses	Thailand Philippines Vietnam	Competitors may have a higher % of manufacturing in North America.	Price negotiation with customers
Endoscopes	Japan Malaysia (repair)	Neutral	Price negotiation with customers Consider expanding repair centers in the U.S.
LSI	Singapore Japan	Neutral	Price negotiation with customers Increase Singapore shipment ratio
Other than above	–	–	(No impact, or negligible impact on the group as a whole)

As tariff rates, details, and implementation dates are constantly changing, we will monitor the situation and update the estimated impact as necessary at the appropriate time.

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Next, I will explain about tariffs. Various figures have been released regarding tariff rates, and it is very unclear how tariff rates will evolve in the future, so there is no point in giving you estimated figures when we do not know what the assumptions are, so I would like to explain so that you can get an overall picture.

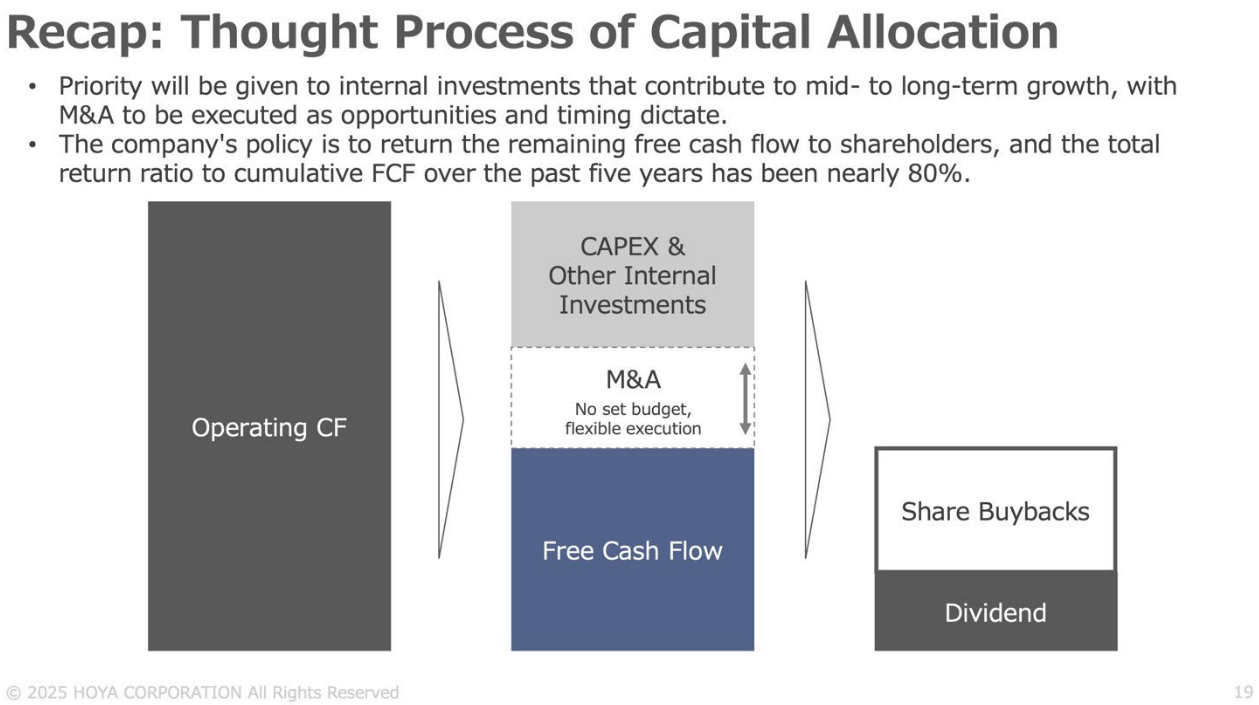
First of all, our overall sales to the U.S. market account for about 15% of our total sales, which is basically not that high.

In addition, with regard to China, which currently has the highest tariff rate, in our case, the volume of goods exported from China to the U.S. is very small. The overall picture is that the group has a small percentage of the most tariff-affected portion because we can also change the source of the products exported from China.

As I mentioned, sales in the U.S. account for 15% of the group's total sales. The main products are eyeglass lenses, endoscopes, and LSIs. The competition for endoscopes and LSIs is similar to that of our competitors. However, considering our competitor's domestic production bases in the U.S. and labs in Central and South America, it is possible that their North American production ratio is higher than ours, but we assume that some of their products are imported from China as well. It is difficult to make a general comparison because some products are also imported from China.

In light of this situation, we intend to respond by passing prices to our customers, and some of them have already begun discussions. We are not sure what the actual tariff rates will be, so we are taking a wait-and-see approach, but basically we are aiming to mitigate the impact of the tariffs through price pass-through and internal efforts.

What we need to keep in mind is not so much the direct impact, but rather the extent to which the economy will be affected by this. Since the Information Technology business is quite sensitive to the economy, I think it is important to keep a close eye on the situation. At this point, we have not heard of any specific talk of a decrease in orders under such an environment, so I would say that we are not being affected indirectly at this point, but of course the environment could change. However, there is a possibility that the environment will change, and we would like to respond to this situation while keeping a close eye on it.

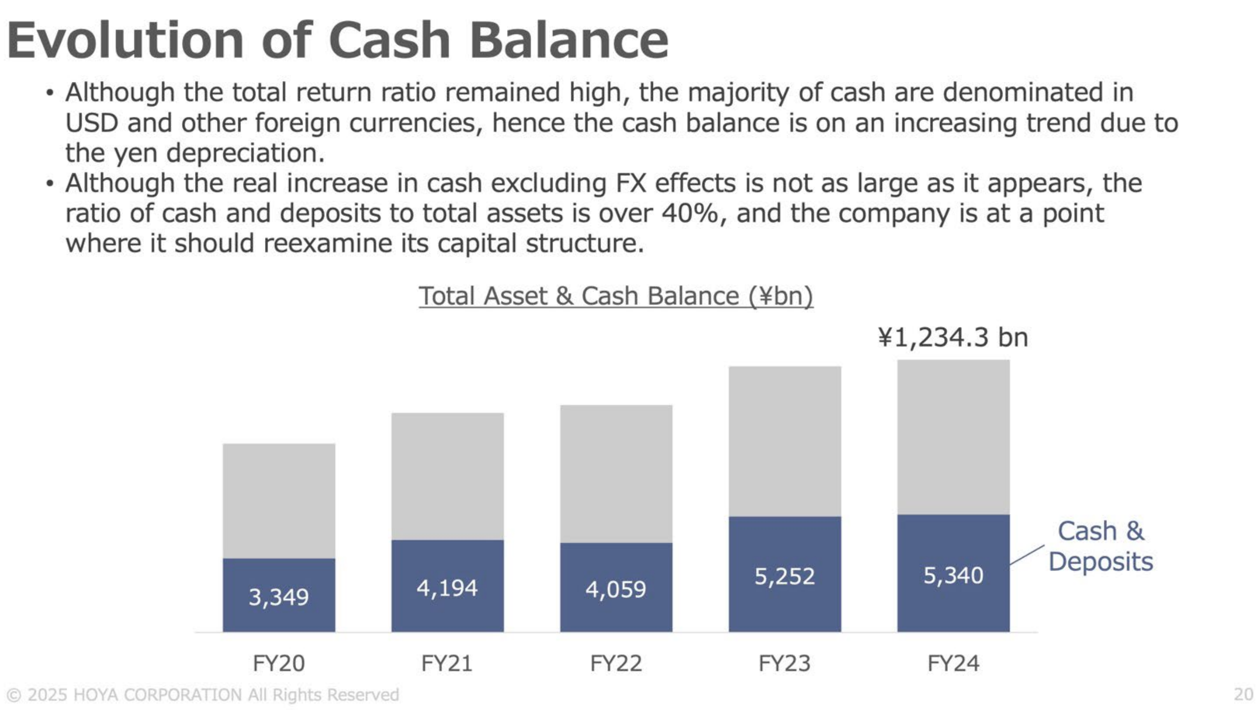


Finally, as part of its capital policy, the company today announced a review of its dividend policy.

First of all, it is important to note that we have not fundamentally changed our overall approach to capital allocation. We must continue to invest in increased production from within our cash flow and aim to increase sales and profits. We want to do M&A for growth rather than limiting ourselves to existing businesses and internal development, so we have a somewhat thick cash position, but we are not looking to accumulate cash, and our policy of returning profits to shareholders has not changed at all.

Whether the method is dividends or share buybacks is only a difference in means, and we would like to consider this in the context of total return. The total return ratio is sometimes around 50% and sometimes close to 100%, depending on the situation at the time, and it can rise or fall from year to year.

In any case, we have not changed our overall approach, and we have cut out a portion of the dividend to consider this time. We have received comments from shareholders and investors regarding dividends, and this time we have clarified the criteria for such . As for excess cash other than dividends, we intend to respond flexibly by buying back shares as we have done in the past.



Since we have a very large amount of foreign currency deposits, we are in a situation where our balance in yen terms will swell as the yen depreciates. We had expected the yen to unwind to yen appreciation more quickly, but it did not, and our cash and deposits have continued to increase. We recognize the large amount of cash and deposits as an issue.

Historical Dividend Payout Ratio

- In terms of dividends, the payout ratio has been on a downward trend, as the pace of dividend increases has been slow compared to profit growth.
- In light of the fact that a certain number of investors value dividends and the recent trend of increasing cash balance, we have decided to revise our dividend policy.

Payout Ratio in the Past 5 Years

	FY19	FY20	FY21	FY22	FY23
Dividend per share	¥90	¥90	¥110	¥110	¥110
Total amount of dividends	¥33.8 bn	¥33.5 bn	¥40.3 bn	¥39.1 bn	¥38.6 bn
Payout Ratio	29.7%	26.8%	24.6%	23.4%	21.3%

Source: Company's Tanshin

Again, we view shareholder return as total return, and this slide shows only the dividend portion of our performance. Although we have increased the dividend once in the past five years, the dividend payout ratio has been declining, and we have received some feedback on this point, so we have decided to revise how we distribute dividends.

New Dividend Policy

- Considering this situation, we decided to expand dividends by formulating a new dividend policy based on a "**40% progressive dividend**" program.
- Under the new dividend policy, the company plans to pay a year-end dividend of ¥115 per share, an increase of ¥50.
- There is no change in the fact that the company will continue to buy back shares in a flexible manner while monitoring free cash flow so that cash balance does not increase further.

Shareholder Return Policy (excerpt)

We return profits to shareholders through dividend payments and share buybacks using excess cash, while enhancing investments that contribute to the long-term enhancement of corporate value. Our basic dividend policy is to pay a progressive dividend with a target payout ratio of 40%, aiming for stable and sustainable dividends. We will continue to strive to both increase corporate value through investment for growth and return profits to shareholders.

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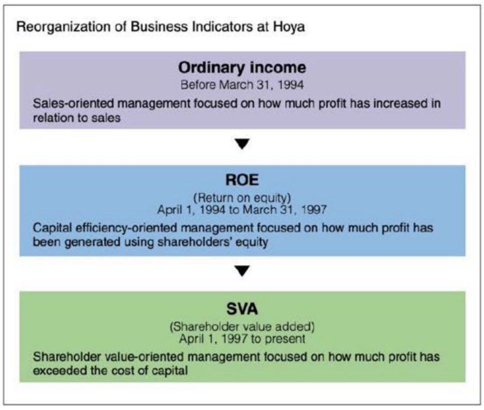
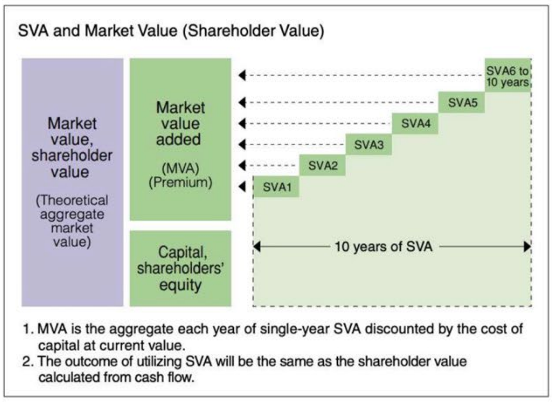
In light of the above, our approach is to aim for a dividend payout ratio of 40%. The Board of Directors is scheduled to make a formal resolution later this month, but we are projecting a year-end dividend of 115 yen. We believe that the balance between the interim and year-end dividends is also important, so we would like to pay a dividend of 40% of half of FY24 earnings per share, or 115 yen at the end of the fiscal year.

Prioritize Capital Efficiency

- In the 1990s, we adopted a cost-of-capital management index. Currently we review each business by whether returns exceed the cost of capital.
- We will focus further on the "denominator" more by further enhancing shareholder returns while expanding the profitability of our businesses, which is the numerator.

Reference: Our 2006 Annual Report





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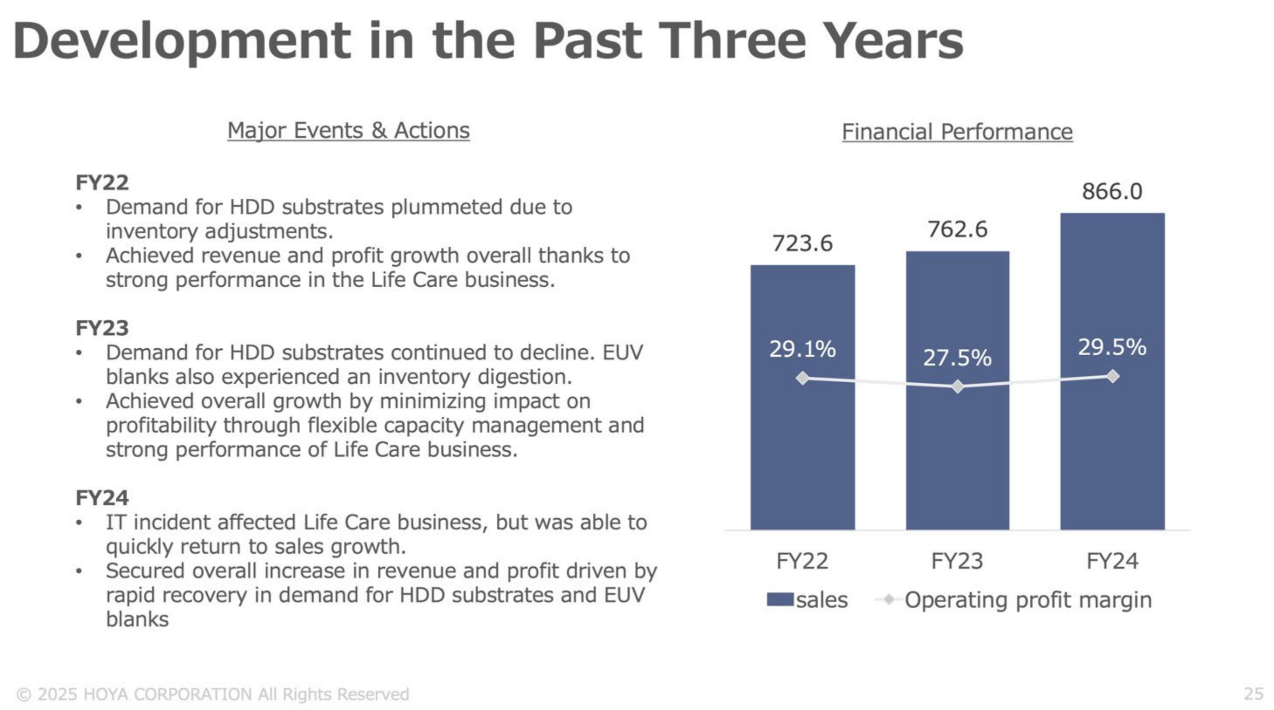
We are aware that there are many challenges, but we have always viewed capital efficiency as one of them. I would like to emphasize that the company, including successive generations of management, has long taken capital efficiency seriously.

Moderator: Mr. Ikeda, CEO, will continue the presentation.



Ikeda: My name is Ikeda, CEO. First, looking back over the last three years, three years ago in FY22, right after the pandemic, HDD substrates experienced a sharp drop in demand due to inventory adjustments. However, after the pandemic, our Life Care business performed well, resulting in an overall increase in sales and profit.

In FY23, the following year, demand for HDD substrates continued to decline, and demand for EUV blanks also dropped sharply due to inventory adjustments. However, we were able to achieve an increase in total sales and profit thanks to flexible cost reductions that kept profitability from declining too much and stable growth in the Life Care business.

As for FY24, an IT incident, a HOYA-specific issue, affected the Life Care business, but we were able to recover in a short period of time and achieved a large increase in overall sales and profit thanks to a rapid recovery in demand for HDD substrates and EUV blanks.

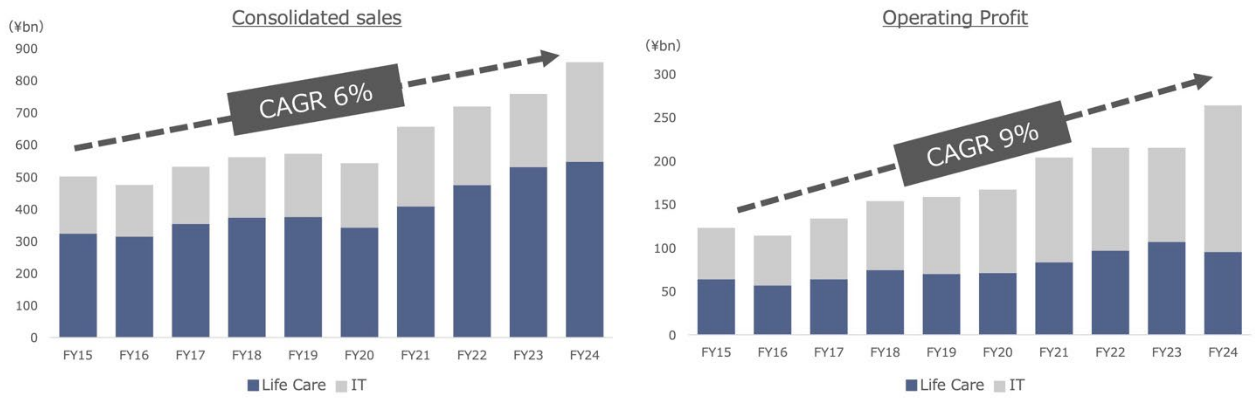
Global Environment

The external environment is changing at an unprecedented pace. Various risks, centered around geopolitical tensions are emerging.

As has been the case for the past three years, we expect to see many changes in the external environment in the future.

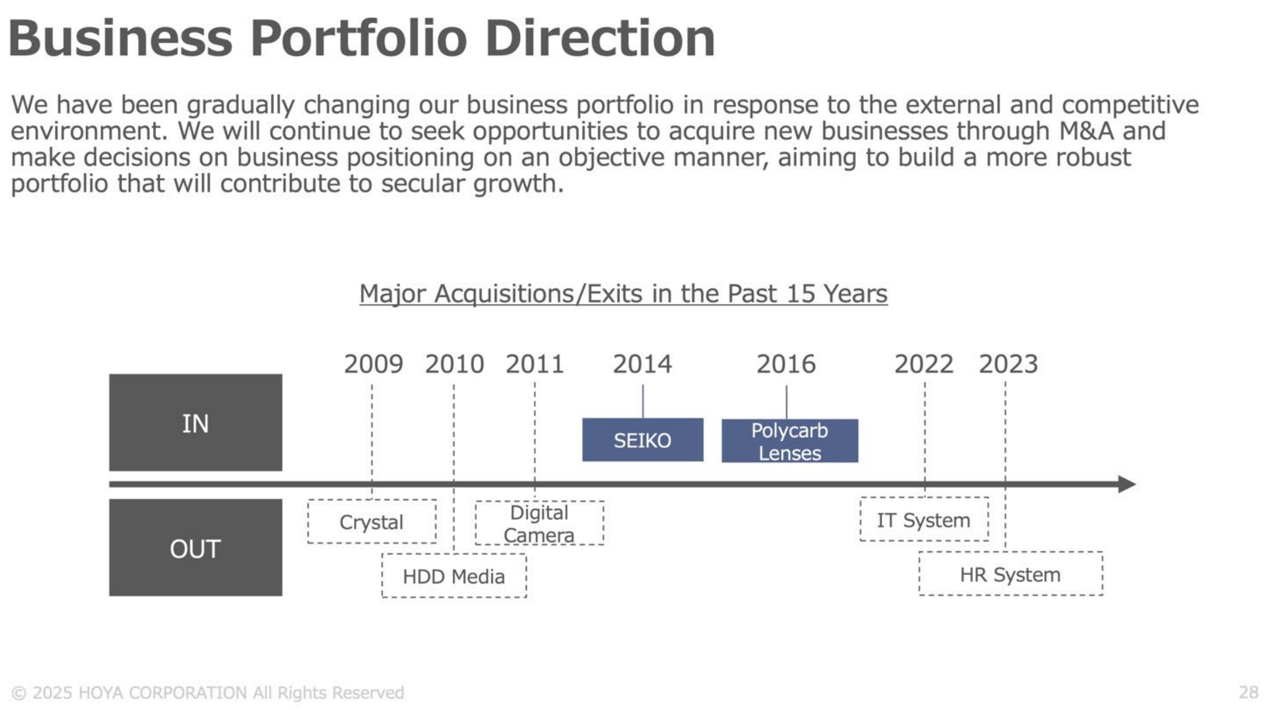
True Value of Business Portfolio Management

Even with individual products being affected by changes in the external environment and temporary factors, overall performance is stable due to the different nature of the Life Care business and the IT business. Although some products are expected to be affected by reciprocal tariffs in the near future, the company will work to stabilize the performance of the group as a whole.



Earlier, we looked back over a three-year period, but we will extend this further to a ten-year period, which is our past performance. Although individual products have been affected by changes in the external environment and temporary factors in various ways, we have been able to maintain stable performance as a whole by developing businesses of different natures, namely Life Care business and Information Technology business.

Although reciprocal tariffs are expected to have some impact in the near future, we intend to absorb this impact by taking firm measures to deal with it and stabilize the performance of the group as a whole.



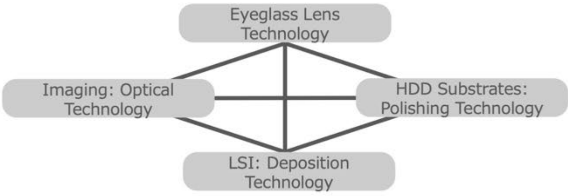
We have been changing our business portfolio in response to the external and competitive environment. We will continue to seek opportunities to acquire new businesses through M&A and make decisions on the positioning of each business on a fair and unbiased basis, aiming to continuously build a portfolio that can grow stably over the long term.

Business Portfolio Direction - Cont'd

Positioning the ophthalmology-related business as a stable growth area and the IT business as a high-growth area, the company will conduct new business development activities through both internal development and M&A.

Internal Development

Ex. XR Project



M&A

Ophthalmology
Explore lenses and devices to improve and address issues related to vision.

Information Technology
Explore semiconductor-related components and materials where we can utilize our management resources, including our optical expertise and customer relation.

In our search for new business opportunities, we have positioned the ophthalmology area as a stable growth area and the Information Technology business as a high-growth area, and are focusing on internal development and M&A activities. In internal development, we are developing new technologies and products by combining the core competencies of each business. On the other hand, in M&A, we will continue to explore new businesses targeting the ophthalmology and Information Technology business areas.

Ophthalmology: Focal Points in Existing Business Lines

Keywords: #stable growth, #structural growth, #market share gain

Product	Focal Points
Eyeglass Lenses	• Reevaluate the balance between investment and profitability • Leverage position as Early Adopter for myopia-suppressing eyeglass lenses • Bolt-on M&A to expand market share
Contact Lenses	• Establish dominant No. 1 position in real retail in Japan through new store openings + bolt-on M&A • Expansion of private brand product lineup • Start overseas expansion within the next 3-4 years
IOLs	• Consistently introduce new products to the market • Leveraging product strength to gain market share mainly from smaller manufacturers

Next, I would like to focus on each of our businesses. First, in the ophthalmology area, we basically want to achieve stable growth. To achieve this, we will strive to expand our market share.

As for eyeglass lenses, we will expand our market share through bolt-on M&A. In addition, we intend to promote the formation of a market for myopia management lenses based on MiYOSMART.

Similarly, for contact lenses, we will use bolt-on M&A to further increase our share of the brick and mortar retail business in Japan and expand our lineup of private brand products. Currently, our main products are single vision daily disposable lenses, but we intend to expand our product lineup to include multifocal, toric, and 2-week disposable lenses, which we will use to expand the Eye City business and as a hook for overseas expansion over the next 3 to 4 years.

In the area of IOLs, we intend to consistently launch new products and leverage our product edge to gain market share.

IT: Focal Points in Existing Business Lines

Keywords: #high growth area, #maintain high market share, #internal development

Product	Focal Points
LSI	• Maintain First Supplier Position in advanced nodes • Invest at the right time in accordance with the technology roadmap, including phase shift/High NA/Hyper NA
FPD	• Steady start-up of the Chinese plant • Enhance presence of the Blanks business
HDD Substrates	• Expansion of customer base. Ultimately, aim for full penetration of the market • Develop capacity plans based on the assumption of secular growth in the near-line HDD market
Imaging	• Stable growth by expanding market share in shrinking market • Exploration of niche areas and agile investment

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Next is the information technology field, where we are determined to maintain our position as a first supplier in the development of cutting-edge semiconductor development processes. We will continue to make the necessary investments to maintain the same status beyond A14.

As for FPD, we are in the process of setting up a factory in China, and our immediate task is to obtain certification from our customers there as well, and steadily get it up and running. In the mid- to long-term, we would like to expand the presence of our blanks business by using blanks manufactured in-house there.

Regarding HDD substrates, we are dependent on one of the three drive manufacturers, and we are aiming to have the other two use our products. We expect that one more company will use our products at the beginning of next year, and although we do not know the timing yet, we are making good progress in joint development activities with the remaining one company.

Finally, for imaging-related products, although the market for digital cameras is shrinking, we intend to increase our share of this market and achieve stable growth by increasing profitability through sales of high value-added products. We also hope to develop several products in niche areas other than digital cameras.

Important Themes in the Mid- to long-term

Changes Associated With Ongoing Global Decoupling

- The horizontal division of production has given way to a regionally complete business structure, making it increasingly important to optimize the production system.
- On the other hand, we will monitor the trends of our customers to capture opportunities related tothese trends: inefficiencies in the industry and intensified competition in technological development among countries.

Integrating Healthcare and Technology

- The boundary between healthcare and technology is blurring, as in the case of "smartwatches for health management," and this trend will become more acute in the future. As with the XR Project, which is a leading project in this field, we will explore growth opportunities in business areas that cross both fields.

*For the sake of disclosure, we have classified businesses as Life Care and IT, but the meaning of this distinction is likely to diminish over time.

Revisitng “A Big Fish in a Small Pond” Philosophy

- We will delve deeply into the philosophy that is the source of HOYA's competitive edge. Define niche markets in existing battlefields as well as market selection in new businesses to create optimal strategies.

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While there will be many changes in the world over the medium to long term, we will continue to build a business portfolio that will allow us to achieve stable growth over the medium term, even in the face of change, while keeping in mind the points described on this slide. We will also make the necessary investments to achieve this.

Q&A Session

Moderator [M]: We will now move on to the Q&A session. Mr. Yoshida, please.

Yoshida [Q]: Hi, thank you for your time. Could you please comment on the FY25 growth rates for blanks and HDD glass substrates? I would appreciate it if you could comment on EUV and DUV for blanks and inch by inch for hard disks if possible.

Ikeda [A]: Both blanks and HDDs continued to show fairly strong momentum throughout the year in FY24, so it is honestly difficult to say whether the year-on-year figures will be what you expect.

As for HDDs, 2.5-inch HDDs are expected to decline 25% to 30% from the previous year, with 3.5-inch HDDs making up the difference, resulting in an overall growth rate in the mid-single digits.

Yoshida [Q]: Thank you very much. I would like to know the FY25 growth rate for the main products in the Life Care segment, and if you can see any impact of tariffs on sales and costs for Q1, please comment on that.

Ikeda [A]: Regarding growth rates, we are targeting mid-single digit growth for both eyeglass lenses and contact lenses retail. For IOLs, we are targeting mid to high single-digit growth.

Hirooka [A]:Regarding tariffs, we have not heard of any specific impact at this time. Customers are also taking a wait-and-see approach, and there is no impression that they are placing rush orders or conversely pushing out orders in reaction to the tariff program.

Yoshida [Q]: For the time being, is a large part of your business covered by the inventory of local sales companies?

Hirooka [A]：We do try to cover it to some extent with inventory, and on the other hand, we try not to move products around. However, the tariff rate is currently 10%, so in general, I think it is not difficult to pass on the price.

Yoshida [M]: I see. That is all. Thank you very much.

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

Shibano [Q]: My name is Shibano from Citigroup Inc. CFO Hirooka explained to us earlier about your capital policy, and I would like to venture a question to CEO Ikeda on this point.

Looking back on FY25, although we were affected by a cyber incident at the beginning of the year, I think our performance was very strong thereafter, especially in the Information Technology business. In addition, you have been aggressive in returning profits to shareholders, as in the past, but I was concerned about the fact that the stock market was not very positive about your company, and that the valuation of your company was not high.

I would like to ask a question based on that premise. In your presentation material, you explained that you will pay more attention to the denominator, and I believe that FY25 is richer in terms of the distributable amount.

In light of this, please tell us what you consider to be an appropriate level of cash and deposits. Also, in terms of investment opportunities, your M&A discipline is known to be very strong. If your discipline does not change, does that mean there are no opportunities for M&A in the future? And are there any organic investment opportunities in your own existing businesses? For example, is there an option to prepare production capacity in the U.S.? I would like to ask CEO Ikeda about these questions.

Ikeda [A]: To reiterate, our approach to the allocation of funds has not changed. The only difference is that we have considered a rebalancing between dividends and share buybacks as a way of returning profits to shareholders. Since each business requires investment to increase production, CAPEX plans are formulated for each business and will be implemented in FY25 as well. However, when we acquire the third customer, a large investment in increased production will be necessary. In addition, we will also have insufficient capacity for eyeglass lenses if the growth rate of 4%-5% continues, so we will take proper care of this issue.

As for how much cash to keep, one guideline is to have roughly three to four months of monthly sales as working capital, plus two to three months for unexpected items, for a total of six months of monthly sales plus α.

Shibano [Q]: I understand. Thank you very much.

Regarding tariffs, there was a comment that eyeglass lenses will respond to tariffs by passing on the cost to the customer. I think that in the U.S., we are in the phase of increasing our market share, but if your company is slightly behind in terms of competition and production location, I thought it would be more appropriate for you to swallow the cost of tariffs.

Hirooka [A]：This is a difficult subject, but I don't think everything will be uniformly the same. Competitors are also saying that they will raise prices, and I think we will have to make a decision based on a standoff with them. Tariffs are not naturally imposed on retail prices, and I think it will be a case-by-case basis whether the customer or the manufacturer bears the burden of tariffs. However, I don't think it is an amount that we are forced to swallow entirely due to the scale of the amount.

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

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

Nakamura [Q]:Thank you very much.

I would like to confirm a minor point regarding tariffs: I understand that a 10% tariff has already been imposed since the beginning of April, and that your local subsidiary will pay the 10% tariff first, and then negotiate the price with customers. Is that correct?

Hirooka [A]：Yes, that is correct.

Nakamura [Q]:The price increase required to absorb that 10% cost would be different for each product, but how much do you envision for each, and how should we consider the risk of volume reduction in terms of price elasticity?

Hirooka [A]: In order to cover sales expenses at our local sales subsidiaries, there is a gap between the purchase price of local sales subsidiaries and the selling price, and we believe that this will not have an impact on consumer purchasing sentiment (assuming a tariff of around 10%).

Nakamura [Q]:Okay, I understand. Thank you very much. One of your hard disk customers commented in their recent earnings announcement that they could see near-line-related demand through the first half of 2026. I believe that your company has already restarted operations at one-fourth of the glass substrate plant in Laos.

Ikeda [A]: With the current volume, I don't think we will reach full capacity in FY25, even if we increase the operating line from one-fourth to one-third of the current level.

Nakamura [M]:Okay, thank you.

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

Nakanomyo [Q]: My name is Nakanomyo from Jefferies Securities. I believe that demand for hard disks is still strong for the time being, but is there a possibility that demand will recede due to tariff impacts and other factors, and that an adjustment will be made? Or do you feel that there is no possibility of adjustment because demand is strong for AI servers? Similarly, some customers seem to be slowing down for EUV blanks, so are you expecting any adjustments on this end as well?

Ikeda [A]: With regard to HDDs, we have no information from our customers that would indicate a slowdown. Of course, we honestly do not know what will actually happen. Looking at the market's past performance, it has repeatedly adjusted every few years. There is a possibility that the tariffs may trigger such a phase this time, but even if the tariffs have no impact, an adjustment is likely to occur at some point. Based on this premise, I believe it is important to maintain profitability by flexibly reducing costs during down cycles, and when demand returns, to be in a position to immediately start up and maintain market share.

The same is basically true for EUV. In a competitive environment, we have maintained a high presence, with development activities steadily progressing two generations ahead of 2-nanometer. As long as we maintain this position, we should be able to take cost-related measures when demand declines. We believe that even if one of our customers slows down, the amount of the slowdown will be transferred to the other company and TAM will remain the same, so it is important to maintain a high share of our customers' business to ensure that TAM is properly captured. It is also important to respond to any increase or decrease in TAM by controlling costs.

Nakanomyo [Q]: I understand that your stronger foundry customer is talking about export restrictions to China, but do you see this having impact on demand?

Ikeda [A]: I am not pretty much sure about that, but even if demand were to deteriorate, I think it all comes down to taking market share across the board, no matter which product or customer.

Nakanomyo [M]: Thank you very much.

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

[End]
