

Q&A of Financial Results for the 3rd Quarter of the Year Ending March 31, 2024

Disclaimer

This document (Q&A of financial results) is not a verbatim transcript of the questions and answers that took place at the presentation as of February 8, 2024.

Rather, the Company has exercised its discretion in providing a summary for those who did not participate.

Also, forward-looking statements, such as performance forecasts and the like, provided in these materials are based on certain assumptions and may differ significantly from actual business results as a result of a variety of factors.

The company-wide

Q: What is your outlook for future cash flows?

A: Some transactions involve advances received, complicating the forecasting process, but we strive to improve cash flow across the company as a whole. The cash flow improvement achieved in this quarter was due to improvements to working capital as well as the sale of investment securities. Through Q3 of this fiscal year, Nikon has sold a cumulative ¥11.4B of shares, with more dispositions planned for Q4.

Imaging Products Business

Q: The Imaging Products Business has exhibited strength this fiscal year. What is the outlook for next fiscal year?

A: We attribute the strength to two factors. One, amid a post-pandemic recovery in demand for cameras, parts shortages led to prolonged tightness in supply, which in turn reduced the need for sales promotion expenses. Today, however, the market has normalized, and sales promotion expenses are on the rise mainly in the United States for the holiday season. Another factor is the support we have enjoyed from mainly younger generations in response to stronger Nikon products. Although the competition is fierce, we aim to roll out technologies from the successful Z 9 and Z 8 models into mid-range models to win broader customer support.

Although we have enjoyed high operating margins from the high teens to approx. 20% for several quarters, moving forward we expect the operating margin to settle down between 10% and 15%. In May, we plan to release numerical targets for next fiscal year and the revised targets for the Medium-Term Management Plan.

Precision Equipment Business

Q: Please explain the background to the upward revision attributed to increased sales volumes of FPD lithography systems.

A: The upward revision of ¥13.0B in revenue and ¥4.0B in operating profit in the Precision Equipment Business is mostly attributable to the booking in Q3 of 3 G10.5 FPD lithography systems for large panels. These 3 units were delivered to the customer in the past and Nikon had received advances for them. With greater clarity from an accounting perspective, we were able to book the revenue. This is a one-time phenomenon. As we have explained in the past, although we are hopeful for demand for G10.5 FPD lithography systems for large panels in FY2026 and beyond, we do not expect much demand until then.

Q: Please share next fiscal year's outlook for FPD lithography systems and semiconductor lithography systems.

A: In FPD lithography systems, we expect this fiscal year to be the bottom with a recovery in demand next fiscal year. We expect to sell volumes in the mid to high 30s of mainly G6 and G8 units. Our high-resolution G8 FPD lithography systems have been well received by customers. The increase in sales volumes will drive revenue growth; however, profitability should decline as we sell fewer high-margin G10 systems.

In semiconductor lithography systems, demand from non-core customers has been strong. However, ArF lithography system sales volumes may decline from the 18 units projected this fiscal year as sales to our core customer decline.

For the Precision Equipment Business as a whole, we expect next fiscal year's operating profit to be about the same as this fiscal year.

Q: Please explain the situation for the semiconductor lithography system business in China.

A: In China, there is a large gap in business scale compared to our competitor, but we are growing customers gradually. This fiscal year the business centers around ArF dry lithography systems. However, next fiscal year, we plan to launch our new ArF immersion model (NSR-S625E) and, with the inquiries we have received, expect to grow sales of ArF immersion.

We will also leverage the new launch of the NSR-2205iL1 i-line lithography system to grow our business in China. We have received many inquiries because many refurbished tools are being used in China. Nikon may see only single-digit sales volumes next fiscal year, but we will strive to grow our customer base to drive future service revenue. Our aim is to grow our business in China leveraging both ArF and i-line systems.

Healthcare Business

Q: Why did you revise down by ¥3.0B your full-year operating profit outlook for the Healthcare Business?

A: Much of the downward revision is attributable to one-time costs. Here is the breakdown of the total ¥3.0B downward revision: approx. ¥1.0B for disposals and write-downs of obsolete system microscopes and Eye Care Solutions products; approx. ¥1.0B for attorney fees and technology survey costs related to the provision taken in Q2; also, there were increased parts costs and expenses tied to field service revenues.

Q: What is your outlook for the Healthcare Business next fiscal year?

A: There are uncertainties next fiscal year as Western economies are expected to see an economic slowdown. In Life Science Solutions, we are expanding sales channels into the private sector, such as pharmaceutical companies and bio ventures, but capital investments are weak in anticipation of an economic slowdown. In the academia market, the United States Government is working under a stopgap budget, making it more difficult to expect major investments until the United States presidential election is over. On top of that, due to the impact of increased parts costs, operating profit for next fiscal year should be approx. ¥10.0B excluding one-time costs from this fiscal year.