

## Message from the CFO

**In order to “Respond to the Arising Crises” and to “Establish a Foundation for Growth,” Nikon will implement strategic capital allocation through repeated dialogue with shareholders and investors.**



### Muneaki Tokunari

Director  
Executive Vice President

## Medium-Term Management Plan and Imaging Products Business Restructuring

In May 2019, Nikon announced a Medium-Term Management Plan set to conclude with the fiscal year ending March 31, 2022. This plan targets ROE of 8% or more by defining the priority strategies necessary to improve the profitability of existing businesses and to generate new core pillars of profit through strategic investments.

In addition, we announced policies for restructuring measures for the Imaging Products Business in November 2019, with the goal of responding to rapid market shrinkage. From a strategic perspective, the Imaging Products Business will be focused on products for professionals and hobbyists, which are a source of consistent demand. In terms of efficiency, we are streamlining development, production, sales, and management systems. In May 2020, we set the target of realizing reductions in business costs\* of more than ¥50.0 billion during the period of the Medium-Term Management Plan in comparison with the fiscal year ended March 31, 2019.

\* Business costs = fixed costs included in cost of sales + selling, general and administrative expenses

## Performance in Fiscal Year Ended March 31, 2020, and Condition of Two Main Businesses

In the fiscal year ended March 31, 2020, consolidated revenue came to ¥591.0 billion, a year-on-year decrease of 17%; operating profit was ¥6.7 billion, down 92%; and profit attributable to owners of the parent totaled ¥7.6 billion, a drop of 88%.

Revenue was down in all businesses. Both operating profit and profit attributable to owners of the parent fell sharply as a result of the additional impairment losses for non-current assets recorded in the Imaging Products Business and the Industrial Metrology Business after careful review of future profits that considered the significant deterioration of the business environment and the impacts of the global COVID-19 pandemic.

The Imaging Products Business, one of Nikon's main businesses, accounting for 38% of total revenue, has achieved certain results from the restructuring of mirrorless camera sales and the attachment ratio of interchangeable lenses and has reduced business costs by approximately ¥25.0 billion. However, the business was significantly affected in the late stage of the fiscal year when demand plummeted and new product launches had to be postponed due to the impacts of the global COVID-19 pandemic. Coupled with the recording of restructuring relevant expenses and impairment losses of non-current assets, the Imaging Products Business posted an operating loss of ¥17.1 billion in the fiscal year ended March 31, 2020.

It can be expected that the Imaging Products Business will continue to face a shrinking market going forward, and that the Imaging Products Business will regretfully be forced to record an operating loss again in the fiscal year ending March 31, 2021. The entire industry has entered into a period of transformation. Under these circumstances, we aim to quickly achieve profitability in the Imaging Products Business by accelerating its restructuring and by taking further measures, including increasing the amount of cost reduction and advancing our action plan.

The Precision Equipment Business, accounting for 41% of Nikon's total revenue, managed to secure operating profit of ¥46.7 billion in the fiscal year ended March 31, 2020, which was still a decrease from the previous fiscal year. The sales volume of systems in Semiconductor Lithography Business grew and led to increases in revenue and profit. Regarding the FPD Lithography Business, the sales volume of systems decreased as customers were at their shifting point of capital investment demand pertaining to small- and medium-sized panels, and installations of certain equipment planned for the fiscal year ended March 31, 2020, were suspended because of the COVID-19 pandemic.

## Message from the CFO

The Precision Equipment Business is expected to benefit from steady demand over the medium to long term amid the trend toward higher resolution in the FPD Lithography Business and the progress of 5G communications and Internet of Things (IoT) technologies in the Semiconductor Lithography Business. However, revenue for the fiscal year ending March 31, 2021, could still be somewhat impacted by the global COVID-19 pandemic as timing of equipment shipments and installations are dependent on the feasibility of sending engineers overseas.

## Financial Soundness

On March 31, 2020, the equity ratio stood at 53.7% on a consolidated basis, and we had secured on-hand liquidity amounting to more than ¥400.0 billion through the combined total of cash on hand and commitment lines of credit for working capital. These figures indicate that Nikon's financial base has maintained a sufficient degree of soundness. Leveraging this financial soundness, we will lay the groundwork for responding to the crises we face while establishing a foundation for growth through strategic investments and other means.

## Capital Allocation and Shareholder Returns

An important mission of a CFO is to determine how to allocate the capital entrusted to us by shareholders in order to maintain the financial soundness needed to respond to crises and establish a foundation for growth while issuing shareholder returns. One of the top priorities of the Medium-Term Management Plan is to generate new core pillars of profit through aggressive investment in new areas. Nikon will continue to adhere to this basic policy on capital allocation going forward.

More precisely, we intend to apportion up to 40% of available capital, from on-hand funds and medium- to long-term operating cash flow forecasts, to strategic investments, mainly in new areas of business. At the same time, 35% of available capital will be devoted to research and development while 15% is directed toward capital investments. In these investments, we will carefully select themes from the perspective of medium- to long-term profitability to ensure that funds are allocated to purposes that contribute to improved competitiveness. The remaining 10% or more of available capital will be used for shareholder returns.

In regard to shareholder returns, we will continue to adhere to our policy of targeting a cumulative total return ratio of 40% or more over the period of the Medium-Term Management Plan. However, I regret to inform you that we have decided to move away from the previously announced target of issuing a full-year dividend of ¥60 per share or more in light of the rapid market fluctuations and decrease in available capital that occurred recently.

We recognize that providing consistent returns to shareholders is an important management issue, therefore, we are committed to carefully monitoring changes in the operating environment as we strive to achieve the ideal balance of financial soundness, growth investments, and shareholder returns from a medium- to long-term perspective.

### Basic Policy for Medium- to Long-Term Capital Allocation

#### Focus resources on strategic investments to establish new core pillars of profit

	Strategic Investments	R&D	Capital Investment	Dividends and Other	Proportion
<b>New Fields</b> (Material Processing Business, and other long-term growth areas)	Max 40%	10%	5%		40% to 50%
<b>Existing Fields</b>		25%	10%		30% to 40%
<b>Returns to Shareholders</b>				10% or more; total return ratio of 40% or more	10% or more
<b>Total</b>	40%	35%	15%	10% or more	100%

Scope: On-hand funds – working capital + 5-year cumulative operating cash flows (before deducting R&D)

## Stakeholder Engagement and Ongoing Enterprise Value Improvement

I was appointed as Nikon's CFO in April 2020. At my previous company, I also worked as the CFO for a number of years. In this capacity, I continuously engaged in reciprocal communication with shareholders and other investors, utilizing the input gained therein to drive ongoing improvements in enterprise value.

Dialogue with shareholders and other investors is an important venue for learning and discovery. In the future, I will promote both timely information disclosure and frank communication to help reflect the input from capital markets into management so that it can be utilized when formulating business strategies and capital measures.

At the same time, I recognize that the trust of our customers, business partners, employees, society, and various other stakeholders is imperative to the ongoing improvement of enterprise value. By engaging in reciprocal communication with those multi-stakeholders on various occasions, I aim to return Nikon to the growth track, even in this difficult operating environment.