

# Q&A of Nikon IR Day 2022

## Disclaimer

This document (A Selection of Questions and Answers) is not a verbatim transcript of the questions and answers that took place at the presentation as of May 26, 2022.

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.

## Imaging Business

Q : What percentage do mirrorless cameras account for within your forecast of 700,000 DCIL units in FY 2025? And what was that percentage for FY 2021?

A : We expect mirrorless to account for about 90% of sales in FY 2025. Mirrorless cameras continue to grow. They were about 60% in FY 2021 and are planned to be about 80% this year.

Q : In the mid- to high-end market that is your focus, one would expect competition to intensify as you go about acquiring support from broader customer segments, including younger buyers. What is your competitive edge?

A : For one, it is the strength of our products. Nikon was called a latecomer to the mirrorless market. But we were able to leapfrog the competition by developing the engine, sensor, AF and other systems from the ground up. Our deeply rooted practice of developing products from the customer's perspective led to our success with the Z 9. Our strengths lie in such corporate culture and technological prowess.

Moreover, over the past two years our marketing activities expanded real and digital touch points and raised awareness. We have also worked to raise after-purchase customer satisfaction. These activities have contributed to solid growth in the Nikon fan base. Younger generations are the focus of our efforts to win over new users. Our marketing approach has leveraged social media and key opinion leaders, delivering very positive results. For example, our Z 9 launch events in China were attended by about 500 participants per city, about 80% of which were in their thirties or under and video users. We will continue to pursue marketing activities to appeal to existing users and acquire new users to grow our user base.

Q : It appears your plan for volume share in the market for pro/hobbyists is to reach about 23% in FY 2025, a 5-percentage point increase from FY 2021. What is the probability of reaching that target, given the focus your peers have also placed on pro/hobbyists?

A : We had already achieved a solid share in the DSLR market, so we believe there is plenty of room to increase share. This year our plan is that about 90% of DCIL will be mid- to high-end models as we add to the success of the Z 9 and Z fc launched last fiscal year with new mid- to high-end models this fiscal year, too. We also aim to expand our lens lineup from around 30 today to more than 50 in 2025. Given the variety of filming scenes and workflow needs for pro/hobbyists, we aim to deliver lenses that meet those needs and gain share by achieving synergies between the camera body and lens.

Q : In the past, you had stated your ambition to become No.1 in full-size mirrorless cameras. Which will you prioritize--profit or volume share?

A : Share is an important KPI. However, instead of narrowly pursuing a number, we aim to deliver the planned products and quantities, and have our value proposition understood and our products bought by our customers. As a result, we end up prioritizing earnings.

Q : Looking forward, you are not expecting much revenue growth. Yet you aim to grow your lineup to 50 or more lenses. What do you think of your R&D spend moving forward?

A : We recognize the need for an appropriate level of R&D expenditures moving forward. To be competitive in the market, investments in R&D need to be made to develop differentiated technologies. We plan for R&D expenditures to remain mostly flat out to FY 2025. Note that R&D expenditures related to growth-driver imaging contents will be booked as expenses related to investments in growth under the companywide P/L.

Q : Demand for video is growing, but there are also many other products that can take video, such as video cameras and action cameras. Please tell us about the positioning of DCIL in the video market and the benefits of DCIL.

A : (In particular, full-size) DCIL are equipped with large sensors and are capable of a great deal of expression. Traditionally, mainstream video cameras had small sensors and relatively pan focus. Recently, however, the expansion of platforms like social media has spurred greater demand to take more emotional and distinctive video. We believe these customers need large-size sensors and a broad selection of lenses.

Q : Amid your focus on pro/hobbyists, what percentage do pro/hobbyists each comprise and how will that change moving forward?

A : We do not have accurate percentages splitting pro/hobbyists but understand hobbyists to account for the overwhelming majority. Note that we position users who upload images as work product as creators, not as professionals. Our strategy is to solidly support professionals and use that influence to expand our reach into hobbyists, as well.

Q : What has changed since Mr. Ikegami has taken over as General Manager of the business unit in terms of strategic priorities and operations?

A : As far as the organization is concerned, completing the restructuring was the top priority. So, a structure that could execute on that priority was built out. At the same time, the organization was made to be as flat as possible to better allow for direct delivery of instructions and close communication. Moreover, communication with the upper ranks of management was implemented to pursue business operations based on consensus with management. These were the biggest changes.

Q : Please provide your direction on what type of sales channels will be used to target your primary focus on pro/hobbyists.

A : Our channel strategy is not to put our products on a shelf and sell in mass quantities. We aim to sell primarily through channels that possess expertise. This shift began two years ago. Currently, direct sales as a percentage of the total are rising, partially because of COVID-19. We consider this an important direct touch point with the customer and plan to strengthen it moving forward.

## **Precision Equipment Business**

### **(FPD Lithography Business)**

Q : You say that volumes in FPD lithography systems remain stable at a certain level, but will it be based on supporting customers' additional or renewal investments and the shift to higher resolution? Or do you mean that volumes are remaining steady based on demand driven by new technologies?

A : We expect construction of new, large-scale plants to decline while we secure a certain level of volumes from the replacement of existing equipment and the shift to higher precision.

Q : Would an increase in investment into LTPO (low-temperature polycrystalline oxide), backplane technology for OLED displays, be a positive for Nikon to the extent it leads to new demand?

A : Our FPD lithography systems strengths lie in their high resolution, and we consider advances toward new technologies to be a positive for us.

## **(Semiconductor Lithography Business)**

Q : What market share for semiconductor lithography systems does your Medium-Term Management Plan assume?

A : Presently, competition in i-line and KrF lithography systems is fierce, and Nikon has a low share. However, we aim to grow share to a certain extent based on the assumption demand will grow moving forward. Furthermore, we plan to grow our nearly 50% share in ArF Dry lithography systems further and also gradually grow share in ArF immersion lithography systems to achieve the volumes planned for FY 2025.

Q : I believe your forecasts do not include any investment in a new plant by your core customer, but momentum for such an investment appears to be gathering with talk of government subsidies. Is there any upside potential to your outlook?

A : We are not aware of details related to any additional investment from our core customer, but we hope to receive additional orders for ArF Dry and ArF immersion lithography systems.

Q : What are your sales forecasts for ArF Dry and ArF immersion lithography systems for customers other than your core customer in FY 2025?

A : We have received orders from multiple customers for a broad range of applications. In FY 2025, we plan to more than double sales volumes of ArF Dry and ArF immersion lithography systems to customers other than our core customer, compared to average sales volumes from FY 2019 through FY 2021.

Q : Is there a geographical concentration of orders from customers other than your core customer?

A : We are receiving orders from China, Taiwan and Japan.

Q : Does that mean you are receiving orders, not inquiries, from customers in China, Taiwan and Japan?

A : We have received orders for a certain number of volumes in this year and next from multiple customers.

Q : As part of the restructuring you have implemented since 2016, your policy was to minimize inventory risk of ArF immersion lithography systems. In the process of acquiring new customers, this risk may emerge again. How do you plan to control that risk?

A : Based on the order's degree of certainty, we will manage so as to shrink turnaround times to avoid accumulating inventory to the extent possible and minimize risk.

Q : What is behind the recent increase in orders?

A : ArF Dry lithography systems have been stable. The fact that we have won the customer's trust is a major factor. For ArF immersion lithography systems, we attribute it to our customer's evaluation of the strengths of our equipment. Moreover, we believe our efforts since around 2020 to become closer to customers other than our core customer, understand their needs and pursue discussions has begun to bear fruit.

Q : 3D-NAND is an area of strength for the competition, but do you have an edge here? Would the further advance of layering become an inflection point that highlights the competitive edge of Nikon's products?

A : As the layer count goes beyond 100 layers, wafer warping becomes exacerbated. We have seen results toward solidly improving precision with our high-performance alignment station iAS (inline Alignment Station).

The extent of wafer warping depends on the number of layers and the manufacturing method. Our equipment is currently under evaluation by multiple 3D-NAND makers, including whether switching to ours would present an advantage.

Q : What is your production capacity for ArF Dry and ArF immersion lithography systems?

A : In the past, we had said our production capacity was about 30-40 systems a year. Now, however, we have begun production of a variety of optical lenses in the Components Business, which is related to the semiconductor business. Considering these activities, our production capacity for lithography systems may be less than 30-40 systems now. We have been debating internally how best to add production capacity.

Q : At the Q3 earnings presentation in February 2022 you had indicated you had enough production capacity. What, if anything, has changed in these three months?

A : An increased likelihood of winning orders from customers other than our core customer, a rise in demand in the Components Business for optical components that only Nikon can supply, and our plan for the new i-line model have resulted in the possibility that current production capacity may not be enough to keep up with all these demand factors.

Q : You have stated you plan to introduce a new i-line lithography system product. Can we also expect i-line lithography systems to grow moving forward?

A : The i-line lithography system that we unveiled is based on the i11D system, which initially shipped in 1994. We plan to develop a system that delivers superb cost performance for our customers and release the product in the first half of 2024. It is based on an existing system; therefore, it is relatively easy to expand production capacity. So, we will deliver the volumes required depending on demand.

Q : Digital scanners possess great potential, and the environment has also been put in place. What is your outlook?

A : They are currently in development. We are studying having customers evaluate prototypes upon request. Although unlikely to contribute to revenues in FY 2025, we plan to move forward with the expectation of a limited contribution around 2030.

## **Healthcare Business**

Q : Tell us about the market for retinal diagnostic imaging systems.

A : There are two markets. One, ophthalmologists. And two, optometrists, where there are large markets in the US, UK, and Australia. The optometrist is like a family doctor for the eyes. In the US and elsewhere, patients typically first get screened by an optometrist, then get treated by an ophthalmologist if advanced ophthalmological care such as surgery is required. Moving forward, as populations age globally and as younger patients are expected to experience more ophthalmological ailments, the optometrist market is expected to grow. The ophthalmologist market is also expected to grow to a certain extent with growth in the number of patients.

Q : Please tell us about historical business performance at Optos, your retinal diagnostic imaging systems subsidiary.

A : Since acquiring Optos in 2015, it has achieved market-beating sales growth and profit.

Q : What growth rate do you expect from your subsidiary Optos' retinal diagnostic imaging systems looking out to 2025?

A : The overall market for ophthalmic diagnostic systems has been growing at an annual rate of about 4%, but presently Optos is aiming for about 6% to 8% growth. Optos' wide angle retinal diagnostic imaging systems are regarded highly for their contribution to early discovery of disease. In some Asian regions, Optos products enjoy an advantage because its wide-angle retinal cameras receive higher insurance reimbursement than general retinal cameras because early confirmation of disease through eye examinations can help contain medical costs.

Q : Given the royalty payments to Lonza for Contract Cell Manufacturing, what kind of sales are needed to become profitable?

A : The business narrowly turned profitable last fiscal year. Moving forward, we aim to bring a number of projects into mass production, grow sales and increase operating profit.

## **Components and Digital Manufacturing**

(Components Business and Industrial Metrology and Others)

Q : Can you provide a breakout of operating profit in the Components Business for FY 2025?

A : Presently EUV related components account for a significant proportion of profit contribution. Moving forward, however, we expect to see sales growth in optical parts including optical components and consumables to semiconductor related customers and other industries, encoders used in industrial robot joints and photomask substrate for FPD. By FY 2025, these other products should contribute more profit, and EUV related components should account for a smaller proportion of total operating profit.

Q : Please share your mid- to long-term projections for the EUV related components business.

A : We expect growth in shipment volumes of EUV lithography systems to continue. As such, we also expect strong growth in our EUV related components, which are used in EUV related inspection systems. As for operating margin, we have adopted a model geared to quickly recover our investment. As such, the margin is high initially, then settles down as mass production progresses. Meanwhile, operating profit as an amount should continue to grow out to FY 2025.

Q : In going from ¥38.0B to ¥70.0B in sales in the Digital Manufacturing Business, please describe the level of sales contributions this year and in the final year of the Medium-Term Management Plan from Laser Radar, X-ray and CT inspection systems, and CNC Video Measuring Systems from the existing Industrial Metrology Business.

A : We expect Industrial Metrology overall to contribute about ¥60.0B of the total ¥70.0B in revenues forecast in FY 2025. We do not disclose figures broken out by the three product lines in your question. Presently, sales of industrial microscopes and video measuring systems comprise the base of revenues. Moving forward, we plan to grow by incorporating the three products into customer production lines as in-line measurement solutions to enhance efficiency.

Q : What kind of business opportunity would exist for CNC Video Measuring Systems if new demand emerged, such as for chiplets in semiconductor backend processes?

A : We are receiving inquiries related to chiplets (technology to create processors by combining different types of semiconductors primarily in 3D direction) but are not in a position to ascertain future business volumes. CNC Video Measuring Systems are used in packaging inspections on semiconductor backend processes, and we continue to expect opportunities to grow this business, as we have received inquiries from advanced packaging companies.

## **Sustainability, corporate governance, and capital allocation**

Q : What challenges do you see in relation to human resources management and what needs to change to grow over the mid- to long-term?

A : Two things need to change to shift from a business model based on the traditional sale of finished products to existing customers to a model based on a solutions business incorporating finished products as well as components and services for new customers, as described in the Medium-Term Management Plan. One, the conventional employee mindset needs to change, and abilities need to be upgraded. Two, we need to acquire external talent to underpin new organizational capabilities. To acquire, develop and leverage new types of talent, the personnel systems and evaluation and compensation practices need to be revised substantially.

Q : Historically, the term of service for a Nikon CEO has been relatively static. What should this look like moving forward?

A : A candidate that would succeed the CEO is selected based on a process defined by the nominating committee. The nominating committee has also established guidelines for the term of service. We believe the term of service should reflect the circumstances under which the company finds itself at that time and not be a fixed term.