Progress of Medium-Term Management Plan

May 28, 2020
Executive summary

Medium-Term Management Plan targets

- Continue to build a foundation for growth over the mid/long-term
- Aim to achieve ROE at level higher than 8%

Business strategy

- Imaging Products Business
  Rebuild business with an understanding of accelerating market shrinkage. Aim to achieve early profitability

- Precision equipment businesses and other
  Market has been performing steadily. Aim to expand more business opportunities.

- Growth areas
  Promoting scale up through alliances and product launches make progress.

- Make solid progress in building a foundation for growth.

Governance

- Establish a nominating committee, chaired by an external director.
- Increase diversity among directors.
## Progress and Direction for Medium-Term Management Plan: Imaging Product/Precision Equipment/Healthcare

### Generate stable CF from Precision Equipment Business and Early achieve profitability of Imaging Product Business

<table>
<thead>
<tr>
<th>Business environment</th>
<th>Progress</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imaging Products</strong></td>
<td>• Market shrinkage is accelerating.</td>
<td>• Rebuild business and aim to achieve early profitability by further restructuring.</td>
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</tbody>
</table>
| **Precision Equipment** | • FPD market has been performing steadily.  
• Semiconductor market has been in stable growth, driven by 5G and IoT. The next big revenue opportunity is an investment for 7nm. | • FPD lithography: Revenue growth by capturing demand for high-resolution displays.  
• Semiconductor lithography: Growth in immersion sales, strengthen China business and expand sales in semiconductor related measuring equipment. |
| **Healthcare** | • Performing steadily over mid/long-term. | • Steady growth in biological microscopes and fundus cameras.  
• Obtained a license for manufacturing regenerative medicine products and established structure for mass production of contract cell manufacturing.  
• Strengthen competitiveness of products and solutions to improve profitability.  
• Scale up contract cell manufacturing by pursuing new customer opportunities. |

### Progress and Direction for Medium-Term Management Plan

- **Strengthen competitiveness of products and solutions to improve profitability.**
- **Scale up contract cell manufacturing by pursuing new customer opportunities.**
- **Performing steadily over mid/long-term.**
- **FPD market has been performing steadily.**
- **Semiconductor market has been in stable growth, driven by 5G and IoT. The next big revenue opportunity is an investment for 7nm.**
- **Recently, revenue recognition postponed to next FY2021/3, yet mostly in line with plan.**
- **FPD lithography: Revenue growth by capturing demand for high-resolution displays.**
- **Semiconductor lithography: Growth in immersion sales, strengthen China business and expand sales in semiconductor related measuring equipment.**
- **Steady growth in biological microscopes and fundus cameras.**
- **Obtained a license for manufacturing regenerative medicine products and established structure for mass production of contract cell manufacturing.**
- **Strengthen competitiveness of products and solutions to improve profitability.**
- **Scale up contract cell manufacturing by pursuing new customer opportunities.**
- **Rebuild business and aim to achieve early profitability by further restructuring.**
- **Difficult to achieve the goal of stably secure ¥20.0B or more operating profit, announced last year.**
- **Market shrinkage is accelerating.**
- **FPD Lithography:**
  - Revenue growth by capturing demand for high-resolution displays.
Rebuild business under harsh market environment by further cost reduction and restructuring

**Overall**
- During Medium-Term Management Plan period, **cut ¥50.0B in business costs vs. FY2019/3.**
  → Pulled forward execution and pursued larger cuts to turn profitable in early stage, given the harsh market environment.

**Development**
- **Further selection of product development. Aggressively shift resources to growth areas.**
  → Continue focusing on mid and high-end models, conducting communal designing and shifting resource etc.

**Sales**
- **Drastically revise sales strategy, optimize sales companies. Thoroughly improve efficiencies.**
  → Thoroughly reduce sales and marketing expenses leveraging digital marketing.
  → Drastically rebuild global sales network in this fiscal year.

**Production**
- **Optimize site function and size**
  → Utilize sites for other businesses, such as Precision Equipment, where demand is expected.
  → Optimize the number of staff at overseas sites by about 700 people. Continue to reduce fixed costs according to the decrease of production volume.
### Progress and Direction for Medium-Term Management Plan

- **Digital Solutions/Industrial Metrology & Others, cost reduction**

  **Accelerate commercialization and expansion in growth areas, leveraging synergies with alliances.**

  **Steady execution of cost reduction**

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<td><strong>Digital Solutions Business</strong>&lt;sup&gt;*&lt;/sup&gt;</td>
<td>• Digitalization and automation is proceeding in manufacturing industry.</td>
<td>• Utilize alliances and M&amp;A to scale up for transitioning from building a foundation to phase of achieving growth.</td>
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<tr>
<td></td>
<td>• Built structure for alliances, such as with DMG MORI, and begin launch of optical processing machines to the market.</td>
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<td>• Began shipment of lidar sensors to Velodyne, under contract manufacturing agreement.</td>
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<td>• Receiving orders for high-precision optical components from major customers, and built a foothold toward sales expansion.</td>
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<tr>
<td><strong>Industrial Metrology &amp; Others</strong>&lt;sup&gt;*&lt;/sup&gt;</td>
<td>• Although market deteriorates, demand for 3D metrology is growing in manufacturing industry.</td>
<td>• Focus on target areas and launch products that fulfill needs.</td>
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<td></td>
<td>• Sales expansion activities to targeted customers, such as the automotive industry, proceeding as planned.</td>
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<td>• Developing 3D metrology systems aiming for in-line use.</td>
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<td><strong>Cost reduction</strong></td>
<td>• The decrease in procurement volume of parts due to COVID-19.</td>
<td>• Improvement of headquarter efficiency is proceeding as planned.</td>
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<td>• Procurement cost reduction is affected by the decrease in procurement volume, but the results exceeded the target in the first year</td>
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<td>• Aim to achieve target with new logistic reform.</td>
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<td>• Achieve target of ¥18.0B or more, by further improvement of operation efficiency and cost reduction measures.</td>
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Digital Solutions Business: A new business unit responsible for integrating Material Processing Business and Vision System & Robotics related businesses, and accelerating scale up businesses of the growth areas, collaborating with Next Generation Project Division.

<sup>*</sup>1: Disclosed as part of the Industrial Metrology & Others segment. <sup>*</sup>2: Digital Solutions Business is excluded.
Towards Realizing growth (Overall)

Redisplaying of last year’s Medium-Term Management Plan

Central medium-term theme
Material Processing Business

Areas of Long-Term Growth

Digital Manufacturing

Vision Systems /Robotics

Healthcare

Material Processing Business: Commercialization of optical processing machines and related solutions in the digital manufacturing area

Progress to date

- Built structure for alliances with partners.
- Launched optical processing machines into the market.
- Began collaboration with launch customers.
- Supplied non-contact 3D metrology systems to machine tool manufactures.

- Began shipments of lidar sensors as contract manufacturer.
- Launched intelligent actuator unit for robotic joint units for collaborative robot.
- Developed and began sales of embedded cameras.
- Started mass production of high precision optical components for semiconductor related equipment.

- Obtained manufacturing license for Contract Cell Manufacturing.
- Concluded contract with Heartseed to produce iPS cell-derived cardiomyocytes for clinical trials.
- Preparing to start diagnosis support with AI for retinal disease in Europe.
Material Processing Business Nikon aimed

- **Substantially relieve pain points** by special processing on customers’ core components.

- Propose **new value** through a wide range of processing methods according to customer needs.

- Leverage Nikon’s unique processing technology utilizing optical measurement and precision control technologies.

- Realize **unique value** by enhancing component performance, replacing existing processing methods, and more.

- Construct an **ecosystem** complementing Nikon’s material processing technologies.

**Customers**

- Energy
- Aerospace
- Automotive
- Healthcare
- Others

**Provide value through wide range of approaches such as equipment sales, contract processing business etc.**

- **Phase 1:** Additive processing
- **Phase 2:** Removal processing
- **Phase 3:** Riblet processing

**Manufacturers inside and outside Japan, tech companies and start-ups**

**Nikon**

Nikon’s unique digital manufacturing utilizing optical technologies

**Partners**
Pursue a variety of customer values through Nikon’s unique material processing business

Phase 1: Additive processing
- Molding and additive manufacturing
- Welding

Phase 2: Removal processing
- Measurement beam
- Laser beam

Phase 3: Riblet processing

Provide state-of-art processing solutions utilizing high precision stage control, non-contact 3D metrology and optics application technology.

- 3D optical alignment
- No set up required

- Flat surface finishing using high precision measurement and feedback processing

- Riblet = forming an optimized artificial sharkskin structure (reduces fluid resistance)

Differenzation points

Providing value to customers

- Repair dies (No replacement needed).
- Repair turbine blade (No replacement or welding needed).

Started developing applications for customer products.

- Replace metal hand scraping.
- Manufacture micromachining dies.
- Improve ultrahard tool durability and processing efficiency.

Collaborating with launch customers aiming market launch.

- Improve fuel efficiency of turbines.
- Improve efficiency of wind power generation.
- Improve fuel efficiency of aircraft and helicopters.

Started detailed studies with potential customers.

Started development of dedicated machine tools.

Contribute to reduction of environmental burden, standardization and simplification of processing technologies
Business concept for Riblet processing

Riblet processing makes the following possible:

• Improve fuel efficiency of industrial equipment and reduce CO₂ in:
  – Turbines in thermal power plants
  – Wind power generation
  – Aircraft
  – Helicopters
  – and more...

• Improve performance of home appliances and electronics and reduce R&D costs

More than ¥1.0T market

Riblet processing reduces the fluid resistance and improves energy efficiency

Leverage Nikon’s strength in optics (lasers)

Capable of forming micron-sized riblets

Improve energy efficiency by forming suitable riblet shape to create a smooth flow on the processed surface.
Leverage alliances to advance the Material Processing Business

<table>
<thead>
<tr>
<th>Essential technologies</th>
<th>Equipment</th>
<th>Contract processing services</th>
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<tbody>
<tr>
<td>XTIA</td>
<td>DMG MORI</td>
<td>Provide customer platform</td>
</tr>
<tr>
<td>Optical comb based measurement</td>
<td>Provide global sales network</td>
<td>Provide systems</td>
</tr>
<tr>
<td>High-speed image processing</td>
<td>Technological alliance</td>
<td>Provide infrastructure</td>
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</table>

- **Mutually complementary technologies**

**Optics**
- Precise measurement
- Controls

**Image processing**

- **XTIA’s Optical comb sensor**
- **Laser Scanner**
- **Lasermeister 101A**
- **Embedd camera for industrial tools**
- **New on-machine measuring system**
- **Additive processing machine (Phase 1)**
- **Removable processing machine (Phase 2)**
- **Riblet processing machine**

- **New plans in progress**

- **Provide technologies related to measurement and cameras**
- **Provide Laser Scanner**

- **Provide series of optical processing machines and knowledge of high-precision processing operations**
Business expansion scenario for growth areas in mid-/long-term

**FY2021/3-22/3**
- Customer and product development
- Scale up businesses
  - Deploy varieties of customer applications
  - Acquire major customers in each industry to scale up
  - Grow to high profit business making approx. ¥100.0B sales
  - Accelerate launch through M&A and alliances
  - Forge partnerships with pilot customers and begin some joint projects
  - Agile cross-functional development

**FY2023/3-25/3**
- Establish new core pillars of Nikon

**FY2026/3 and beyond**
- M&A and synergies
- Material Processing Business
- Vision System /Robotics, high-precision optical components
- Establish whole growth areas of material processing business, Vision Systems / Robotics related businesses
Focus resources on new fields to establish new core pillars of profit, without emphasizing short-term FCF

<table>
<thead>
<tr>
<th>New fields (Material processing business, areas of long-term growth)</th>
<th>Strategic Investments</th>
<th>R&amp;D</th>
<th>Capital Investment</th>
<th>Dividend &amp; Other</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max 40%</td>
<td>10%</td>
<td>5%</td>
<td>10% or more</td>
<td>10% or more</td>
<td>40 to 50%</td>
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<td>25%</td>
<td></td>
<td>10%</td>
<td></td>
<td>10% or more</td>
<td>30 to 40%</td>
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<tr>
<td>Return to shareholders</td>
<td>40%</td>
<td>35%</td>
<td>15%</td>
<td>10% or more</td>
<td>100%</td>
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<tr>
<td>Scope: Funds on hand - working capital + 5-year cumulative operating CF (before deducting R&amp;D)</td>
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