

Q&A of Medium-Term Management Plan (FY 2022-2025)

The following is a selection of questions and answers from the presentation of Nikon's Medium-term Management Plan.

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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 April 7, 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 Products

Q: The operating profit target of ¥20B is the same as that of the previous plan. What is different this time?

A: Recently, we have enjoyed favorable customer reviews of our mirrorless cameras and lenses. We plan to continue to deploy a lineup that focuses on pro/hobbyists as they seek new ways of imaging expression. We also aim to continue to invest in development aimed at bolstering competitiveness. At the same time, we have completed our conversion to a lean operating structure capable of withstanding market contraction. We expect to be able to maintain profitability even if today's revenues of ¥180B shrink to ¥150B in the future. Please note that we have not factored in any contribution from growth driver "Imaging Contents" until 2025.

Precision Equipment Business

Q: Why are you planning for revenue to grow while profit declines?

A: We are planning to grow revenues in the Semiconductor Lithography Business. However, in the FPD Lithography Business, we expect a decline in sales volumes of systems for large panels, which are particularly profitable. Therefore, we expect to see profits decline modestly in the Precision Equipment Business as a whole. The plan reflects only business into which we currently have visibility. As customer investment outlooks change, there may be upside to performance in FY2024 and beyond.

Q: What is your outlook for the Semiconductor Lithography Business by customer and technology?

A: We plan to grow sales to customers in North America and Asia looking out to FY2025. By technology, ArF and ArF immersion will continue to be the biggest contributors of revenue.

Q: Is the "Digital Lithography" which is positioned as a growth driver already replacing existing lithography systems?

A: Digital lithography is useful for shrinking development and prototyping timelines and achieving customization and miniaturization for a wide variety of devices. On the other hand, existing lithography systems using photomasks are suited for mass production situations. As such, the two complement each other. Looking 10 years into the future, digital lithography has the potential to offer new avenues other than miniaturization and 3D. We aim to cultivate the business so that it will make a commensurate contribution to earnings looking out to FY2030.

Healthcare Business

Q: Your plan goes from operating profit of ¥3.5B in FY2021 to ¥10B in FY2025. How do you plan to achieve that?

A: We plan to grow profits in three businesses: biological microscopes, retinal diagnostic imaging systems, and contract cell manufacturing. We expect each market to grow. In biological microscopes, in addition to research institutions and university customers, in recent years we have grown our customer base into the private sector market, such as pharmaceutical companies and hospitals. We are also focused on new product launches and digitalization of biological microscopes. In retinal diagnostic imaging systems, we are making progress in improving profitability through efforts to add OCT functions and cut COGS. Moreover, "Contract Cell Manufacturing" which is positioned as a growth driver is expected to begin contributing to operating profit in FY2022 and reach about ¥2B in operating profit by FY2025.

Components Business

Q: "Optical and EUV Related Components" are positioned as short-term growth drivers. Does that mean the profit contribution will last only a few years?

A: The business will grow and begin to contribute to profits within the near-term and expected to grow continuously. Customers are asking us to increase the production of “EUV Related Components”. And we have received orders for next-generation high NA (numerical aperture) units. Furthermore, “Optical Components” meet a diverse range of customer needs tied to the semiconductor related industry, such as miniaturization and higher densities. Therefore, we expect the business to continue contribute to profits over the mid- to long-term, as well.

Digital Manufacturing Business

Q: How do you plan to grow, from the perspective of existing and new businesses?

A: Under our Medium-Term Management Plan, Digital Manufacturing Business refers to the Industrial Metrology Business (reported under Industrial Metrology and Others) and the “Material Processing and Robot Vision” (reported under the Components Business). (No change to reporting segments. See slide 45 of the presentation materials.) In the short-term, existing businesses in Industrial Metrology Business Unit should play a central role in earnings. X-ray and CT inspection systems and laser radar metrology equipment should grow solidly. “Material Processing and Robot Vision” is a new business that should scale up as we pursue more opportunities in contract processing, joint application development with customers and alliances with customers inside and outside Japan.

Overall

Q: Please tell me about any differences in how you prepared numerical targets this time versus the previous plan.

A: In the past, we had missed numerical targets on a number of occasions. Therefore, this time, we were very mindful of gaining trust from our stakeholders. Specifically, management and HQ conducted more exacting reviews of the business plans, including studies of downside risk and recovery measures. The aim was to reduce capital costs by solidly achieving targets and increasing predictability of business performance.

Q: Please tell us about your capital allocation policy, including the share buybacks announced on April 7, the same day as the plan.

A: The priority for capital allocation is investment in growth. At the same time, we also look to fulfill shareholder returns through stable dividends and opportunistic share buybacks. Based on this policy, we recently announced ¥30B in share buybacks leveraging cashflows generated through balance sheet optimization. Looking forward over the 4 years of the Medium-Term Management Plan, we plan to return to shareholders 10% or more of the ¥700B or more in available capital. We also aim for a total shareholder return ratio of 40% or more of profit.

Q: Please tell us about the segment changes.

A: Beginning April 2022, we are transferring costs associated with the Next Generation Projects Division, which leads the development of multiple growth drivers, from the Precision Equipment Business to Corporate P/L Non-attributable to Any Reportable Segments, to provide a more realistic and understandable picture of profitability in the Precision Equipment Business. (See slide 45 of the presentation materials.) Note that in FY2021, such costs are expected to amount to ¥12.5B.