Q&A of Financial Results for the Year Ended 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 May 9, 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.

Imaging Products Business

Q: What are the factors behind sales revenue growth and operating profit decline in FY2024?

A: Sales revenue should grow with a continued focus on mid/high-end models, an expanded lineup of mirrorless products, increased sales volumes, and a sales contribution from the RED acquisition, which was completed in April. Meanwhile, we expect operating profit to decline on costs related to the RED acquisition and the amortization of intangible assets. However, excluding the effects of the RED acquisition, operating profit would be flat or grow slightly.

Q: Do you expect the high level of profitability in the Imaging Products Business to continue?

A: Although our products have become more competitive, we have completed shifting our lineup toward mid/high-end models, and competition is fierce, so we expect average selling prices to peak out. As we continue our strategic focus on profits, it is important we continue to launch attractive products with more value-added. Our acquisition of cinema camera major RED is a part of that strategy. We aim to jointly develop distinctive products and expand our business in the fast-growing professional digital cinema camera market.

Precision Equipment Business

Q: What is your outlook for the FPD Lithography Business?

A: We expect to sell 39 FPD lithography systems this fiscal year, none of which will be the high-margin systems for G10 panels, so profitability will be under pressure. That said, growing demand for FPD lithography systems that support high resolution is a bright spot in the outlook for profitability. Our FPD lithography systems for high-resolution panels have been well received, and inquiries are on the rise. We aim to secure volumes to reduce our cost of goods, add more value with new technologies, and improve profitability.

Q: What is your outlook in FY2025 for sales volumes of ArF immersion lithography systems?
A: In FY2024, we expect sales volumes of ArF immersion lithography systems to decline year-on-year, but the outlook for FY2025 is still uncertain. We have been approaching a diverse range of potential customers rather than our core customer to expand profit on increased sales volumes.

Q: When do you expect a recovery in demand for service of semiconductor lithography systems?
A: The semiconductor market recovery should gain full steam in the latter half of FY2024, so toward the end of FY2024 or in FY2025, we should see service revenue growth driven by relocations and modifications, as well as repair parts and consumables resulting from higher utilization rates.

Healthcare Business

Q: Is there upside risk to the ¥1.0B in assumed one-time costs this fiscal year? Please describe what the costs are.
A: The one-time costs are related to a contingent liability described in our consolidated financial results. The amount is subject to change. The costs include attorney fees and investigation costs.

Components Business

Q: Please share your outlook for the Components Business, which you said would grow from FY2024 into FY2025.
A: In FY2025, we expect demand to grow in EUV related components, although that hinges upon consumption of inventory we have already delivered to our customer. Meanwhile, for three years we have worked to develop customers for optical components outside of EUV applications. Here, supply had been postponed due to a slowdown in the semiconductor market. That supply should resume and expand from the end of FY2024 and into FY2025. Meanwhile, consumable materials for light sources should contribute to earnings as customer utilization rates rise.

Q: You are expecting EUV related components to recover into FY2025. Does that also include a contribution to revenue from Hi-NA applications?

A: As miniaturization progresses in EUV lithography systems, higher resolution of inspection equipment will also advance. We expect demand for our Hi-NA product to grow and contribute to improved earnings in FY2025 in our Components Business.

Digital Manufacturing Business

Q: What is the status of order intake at SLM?

A: In FY2023, order intake at SLM grew 40% year-on-year. As of the end of FY2023, its order backlog was about ¥10.0B. About 40% of what we expect to book as sales revenue this fiscal year was secured at the beginning of the fiscal year. SLM will continue to grow order intake throughout the fiscal year and aims to turn profitable on an EBITDA basis over the full year.

The company-wide

Q: Please share the reason for the increase in corporate expenses in FY2024 and the outlook for corporate expenses in FY2025.

A: FY2024 corporate expenses include about ¥5.0B in one-time costs for headquarters relocation and an increase of about ¥2.0B in IT-related investments.

FY2025 corporate expenses will see one-time costs related to headquarters relocation disappear, but strategic investments in IT will continue.

Investments in IT and production facilities had been put on the back burner during tough earnings periods in the past. Now we will move forward with those investments to a rational extent. Our Medium-Term Management Plan calls for ¥30.0B investment in renewing our backbone systems and ¥100.0B in reorganizing our production facilities. Only a small amount of these investments will be incurred by FY2025, but these investments are necessary for Nikon to become a ¥1T-revenue company.

Q: Considering the plan for FY2024, leaving the Medium-Term Management Plan's operating profit target of ¥70.0B as is for FY2025 seems aggressive. Do you think the plan is achievable?

A: We are forecasting ¥35.0B in operating profit in FY2024, but excluding one-time costs such as headquarters relocation, operating profit would be about ¥40.0B, in line with FY2023. We are aware the target for FY2025 in the Medium-Term Management Plan is challenging, but we believe it to be achievable based on internal discussions of analysis of a variety of scenarios.