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Attention: All concerned parties

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Q&A for the Financial Results Briefing Session for the First Half of the Fiscal Year Ending May 31, 2021 (Excerpts)

On January 20, 2021, we held an online financial results briefing for analysts and institutional investors for the first half of the fiscal year ending May 31, 2021. This document summarizes and makes public the main contents of the Q&A session during the briefing. Some of the contents have been edited for clarity.

Q1: In the Internet of things related works segment, looking only at the three months of the second quarter, profits were up and the profit margin was also high. It was mentioned that the composition ratios had increased for illuminators for overseas customers and pupil lens modules for Japanese customers. Is it correct to think that this can be sustained from the third quarter onward?

Also, if we were to order the products in this segment by profitability, is it correct to assume that, looking at the slide "3. Business Expansion Going Forward: Product Portfolio (Internet of Things Related Works)," the closer to the upper right corner a product is, the more profitable it is?

A1: I think this trend will continue unchanged from the third quarter onward. While it depends on how much illuminators for Japanese customers come in here, we think it will contribute to our business performance, since we are continuing to receive robust inquiries about illuminators for overseas customers.

As for the returns shown on the slide, we have taken into account not only profitability but also volumes in terms of absolute amounts. This is why pupil lens modules, which are profitable but have a low unit price, are positioned to the lower left of existing products. The image is this kind of order.

Q2: Regarding the pupil lens modules for overseas customers that will be put into mass production before long, which products within customers' lineups of image sensor products are they intended for: high-end products, low-end products, or 3D sensing products?

A2: They are for high-end products. At present, we have received two requests from overseas customers. One is for an eye pupil lens for overseas, and the other is for a diffuser filter, both of which we supply. Overseas customers want us to raise the specs for the diffuser filter, and we plan to firmly meet this request. Sales for mass production of pupil lens modules for overseas are also starting little by little.

Our understanding of why there are such requests from customers is that the inspection of microlenses on image sensors is becoming more important. We imagine that in the future, diffuser filters will be used for overseas customers' low-end products, and pupil lens modules, whose optical characteristics can be matched precisely, will be used for high-end products. In any case, I imagine that the higher the specifications of the image sensors, the worse the production yield, and that is why our pupil lens modules and other products are needed to solve this problem.

Q3: I have two questions about the Internet of things related works segment. This first is about the competitive environment for illuminators. Could you confirm that there has been a change in the share situation with competitors and what the situation will be in the future?

The other question is about the movements of Chinese customers. I understand that the volume of orders is not yet large, but could you tell us how much you think it will increase in the future?

A3: The competitive environment has not changed. Our understanding is that this competitive environment is created by measures taken by Japanese customers in their purchasing strategies. This is why we imagine that competition will not disappear in the future for repeat orders for illuminators in Japan. We believe that it will be important to figure out how to turn a profit amid competition and also how to avoid conflict with solutions that are different from the competition while fighting with the competition.

As for Chinese customers, orders and launching are complete. The price range is the same as for illuminators for overseas customers. We haven't gone into mass production yet, so we haven't received that many orders.

However, we believe that we must prepare for future scenarios in the image sensor market. One scenario is that our existing customers continue to win in the image sensor market. The other scenario is that new entrant manufacturers emerge in the image sensor market.

If our existing customers continue to win, all we will have to do is keep making further improvements to our current products. In the scenario where new entrant manufacturers emerge, it will be difficult to respond without solidly rolling out solutions to such manufacturers—right now, especially new customers in China—and building a network. In addition to providing illuminators, we think it is also important to provide pupil lens modules, and inquiries are strong, so we will respond aggressively.

My personal view is not positive as to whether new customers in China will start mass production in two to three years. However, they have a lot of talented human resources, and I think that given time there is a good possibility that production lines will be set up, so we will pay close attention to China as a promising market in the future.

Q4: Regarding the Internet of things related works segment, you mentioned pupil lens modules for new overseas customers. Could you tell us the time frame for launching? Also, regarding the recovery in demand among Japanese customers, is it for existing plants or for the new building in Nagasaki?

A4: Since the lead time for pupil lens modules is relatively short, it is possible to receive orders and make sales within the same period. At present, advance preparations are underway for illuminators as well, so it will be possible to handle orders and sales during the same period, which is usually difficult with this product. I think we are the only ones who can achieve this short delivery time at the moment, so we plan to do our best to meet customer needs.

As for demand among Japanese customers, we understand that it is for existing plants. Since delivery to the new building in Nagasaki is still a long way from now, I understand that we are currently using vacant space to respond.
