MorganStanley MUFG

MORGAN STANLEY MUFG RESEARCH
JAPAN

Morgan Stanley MUFG Securities Co., Ltd.+

Kazuo Yoshikawa, CFA
Kazuo.Yoshikawa@morganstanleymufg.com
+81 (0)3 6836 8408

Ryotaro Hayashi
Ryotaro.Hayashi@morganstanleymufg.com
+81 (0)3 6836 8409

January 31, 2014

Stock Rating
Overweight

Industry View
In-Line

HOYA (7741)

3Q Results: Raising PT – Solid Execution in Both Life Care and Technology

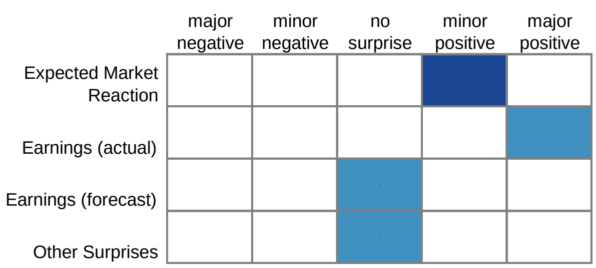
What's Changed	
Price Target	**¥3,100 to ¥3,400**
Earnings Forecasts	**Exhibit 9**

Opinion on Shares ‐ Minor positive: Reiterate OW rating, raise PT to ¥3,400 (DCF, F3/15e EPS x 21.5). HOYA is making better than expected progress in efforts to (1) grow the Life Care biz and (2) turn IT products into a cash cow amid contracting TAM.

Opinion on Results – Major positive: Dec quarter pre-tax profits from operating activities exceeded our estimate by ¥3bn. IT gained from above-seasonal HDD glass disk demand and cost cuts, while Life Care saw contributions from production increase of eyeglass lens and forex tailwinds in endoscopes.

Opinion on Outlook – No surprise: CEO Mr. Suzuki said (1) HOYA will take the best measure for optical lens business, assuming the worst, i.e., camera market continuing to shrink, (2) for IOL, HOYA has obtained regulatory approval for new products, incl. with new materials, (3) capex will remain low in 2014. The firm will come up with "something" on accumulating cash. We have reviewed our forecast to reflect cost reduction for technology products and improving endoscope margins. For F3/14, we also priced in FX gains.

HOYA (7741) 3Q First Impression: Raising PT – Solid Execution in Both Life Care and Technology



Source: Morgan Stanley Research

Key Ratios and Statistics

Reuters: 7741.T Bloomberg: 7741 JP
Japan Semiconductors

Price target	¥3,400
Up/downside to price target (%)	20
Shr price, close (Jan 31, 2014)	¥2,843
Mkt cap, curr, basic (bn)	¥1,227.1
Div yld (03/14e) (%)	2.3
ROE (03/14e) (%)*	12.8
P/BV (03/14e)*	2.3
P/E, basic (03/14e)*	20.3

*** =** GAAP or approximated based on GAAP
e = Morgan Stanley Research estimates

	F3/14				F3/15	
(¥ bn)	**3Q**	**Ce**	**Con**	**e**	**Con**	**e**
Sales	109.2	413.0	406.9	420.2	427.4	453.3
Pretax Profit	29.5	76.0	72.6	85.1	79.7	90.0
Net Profit	22.3	54.0	51.9	62.1	59.8	68.4
EPS, basic (¥)	47.8	120.9	120.3	139.9	138.5	158.1

Ce = Company estimates, Con = IFIS consensus,
e = Morgan Stanley Research estimates
Source: Company data, IFIS, Morgan Stanley Research

3Q F3/14 results details

Announcement Timing	Jan 31 (Fri) 1:30 pm
Briefing	Jan 31 (Fri) 3:30 pm
Timing of this Update	Post-briefing
Company Earnings vs. Our Estimates	55%
Company Earnings vs. Consensus (IFIS	-

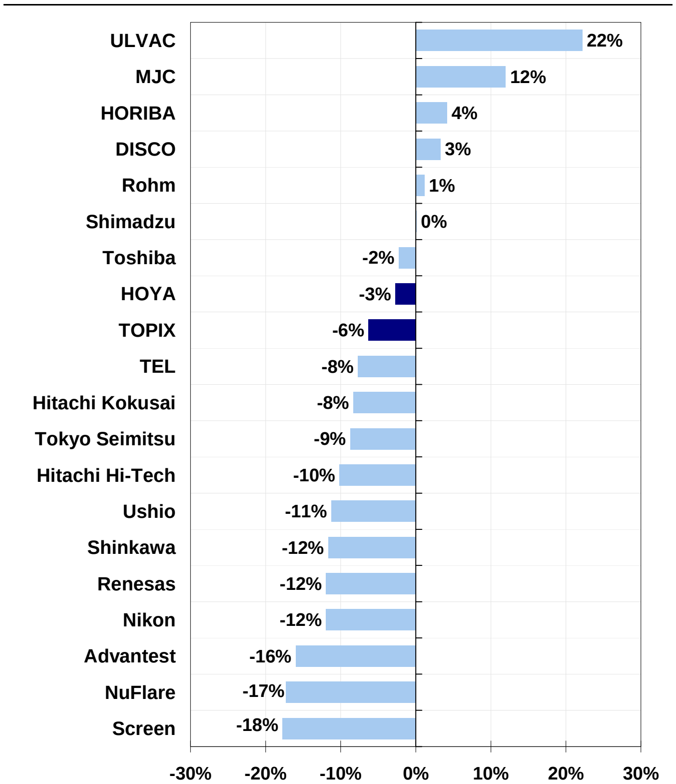
Source: Company data, IFIS, Morgan Stanley Research

3Q F3/14: Industry results to date

	release date	major negative -	minor negative -	no surprise =	minor positive +	major positive +
Hitachi Kokusai Electric	27-Jan					
Hitachi High-Technologies	27-Jan					
Advantest	28-Jan					
NuFlare Technology	30-Jan					
Toshiba	30-Jan					
Ushio	31-Jan					
HOYA	31-Jan					
Dainippon Screen Mfg.	4-Feb					
Rohm	6-Feb					
Nikon	6-Feb					
DISCO	7-Feb					
Micronics Japan	7-Feb					
Tokyo Seimitsu	12-Feb					
Horiba	13-Feb					
Industry Average						
Industry (weighted avg.)						
% of market cap		30%	2%	0%	5%	17%

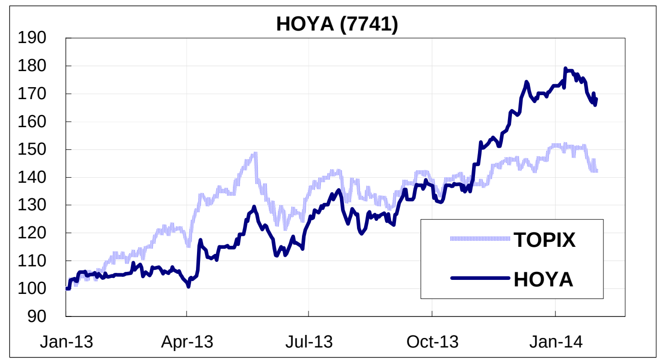
Source: Morgan Stanley Research

Exhibit 1
2014 YTD stock price performance



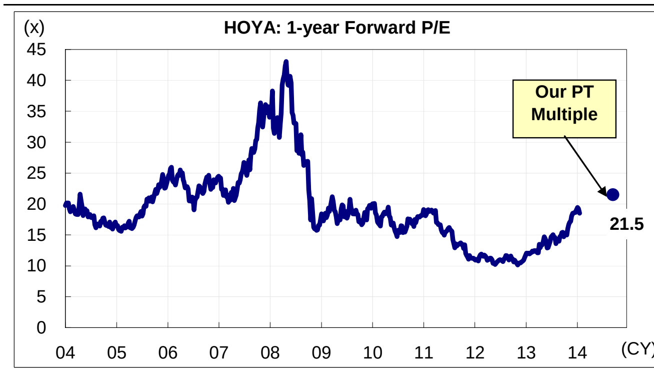
Note: Closing prices on Jan 31
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 2
2013 YTD stock price performance



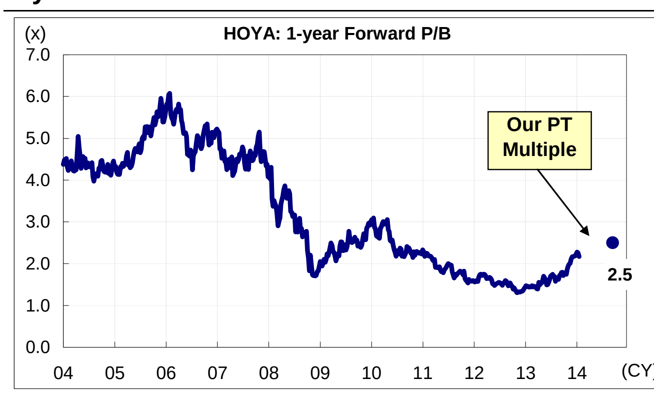
Note: Closing prices on Jan 31
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 3
1-year Forward P/E



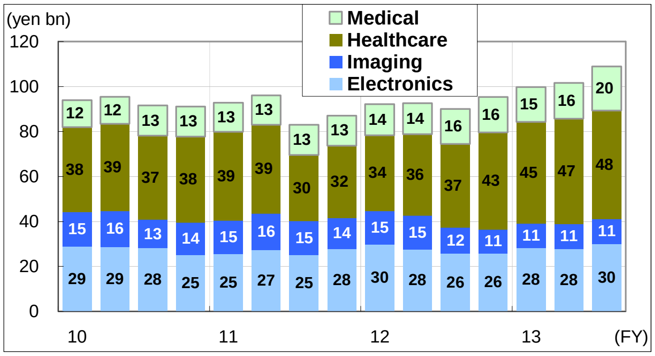
Note: Morgan Stanley Research estimates F3/14-15 earnings.
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 4
1-year Forward P/B



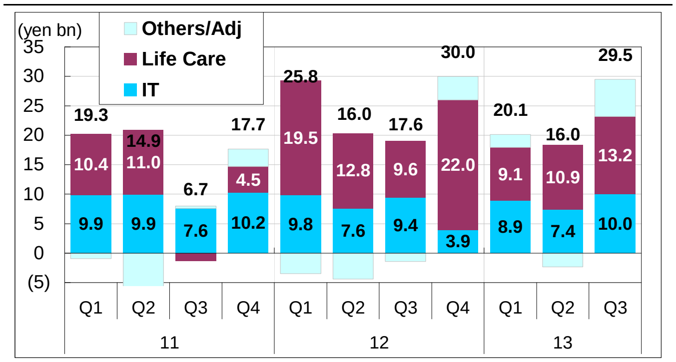
Note: Morgan Stanley Research estimates F3/14-15 earnings
Source: Thomson Reuters, Morgan Stanley Research

Exhibit 5
Quarterly sales



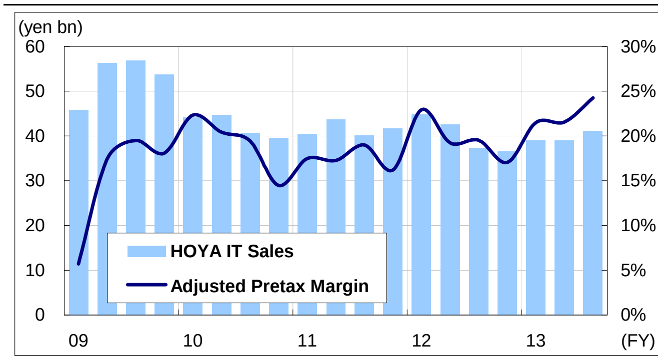
Source: Company data, Morgan Stanley Research

Exhibit 6
Quarterly pretax profit



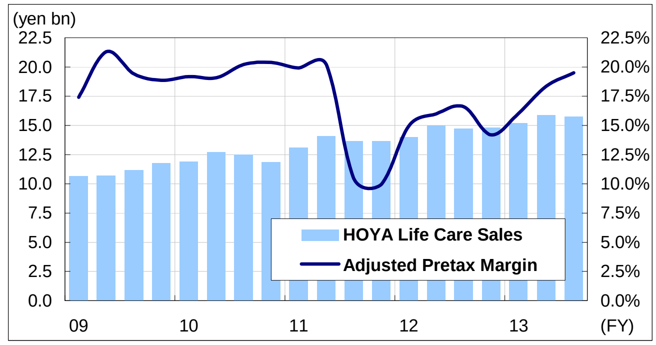
Source: Company data, Morgan Stanley Research

Exhibit 7
Information Technology: Pretax profit margin from normal operating activities



Note: F09-11 margin is Morgan Stanley Research estimates. Pretax profit margin from normal operating activities is operating profit before finance income/costs, share of profit (loss) of associates, foreign exchange gain/loss and other temporary gain/loss.
Source: Company data, Morgan Stanley Research

Exhibit 8
Life care: Pretax profit margin from normal operating activities



Note: F09-11 margin is Morgan Stanley Research estimates. Pretax profit margin from normal operating activities is operating profit before finance income/costs, share of profit (loss) of associates, foreign exchange gain/loss and other temporary gain/loss.
Source: Company data, Morgan Stanley Research

Exhibit 9
Earnings forecast

	F3/14				F3/15		
(yen billions)	Ce	IFIS	e (old)	e (new)	IFIS	e (old)	e (new)
US$/Yen Rate	100	-	99	100	-	100	100
Euro/Yen Rate	133	-	134	135	-	140	140
Forex Impact (YoY)							
Sales	-	-	35.4	36.4	-	4.2	3.1
Operating Profit	-	-	12.9	13.3	-	1.9	1.5
Sales	**413.0**	**406.9**	**414.4**	**420.2**	**427.4**	**438.9**	**453.3**
Technology	-	-	154.3	157.4	-	155.0	157.0
Life Care	-	-	258.2	260.8	-	282.3	294.7
Other	-	-	1.9	1.9	-	1.6	1.6
Pretax Income	**76.0**	**72.6**	**74.8**	**85.1**	**79.7**	**87.6**	**90.0**
Technology	-	-	33.1	35.3	-	34.0	35.7
Life Care	-	-	46.1	46.7	-	58.0	58.8
Other	-	-	-4.3	3.1	-	-4.4	-4.5
Net Income	54.0	51.9	54.9	62.1	59.8	67.9	68.4
EPS (Yen)	**120.9**	**120.3**	**127.0**	**139.9**	**138.5**	**157.0**	**158.1**
BPS (Yen)	-	-	1,187.4	1,251.8	-	1,279.4	1,344.9
DPS (Yen)	-	-	65.0	65.0	-	65.0	65.0
ROE	-	-	11%	12%	-	13%	12%
YoY % Change							
Sales	11%	9%	11%	13%	5%	6%	8%
Profit Before Tax	-15%	-19%	-16%	-5%	10%	17%	6%
Net Profit	-24%	-27%	-23%	-13%	15%	24%	10%
EPS	-27%	-27%	-23%	-15%	15%	24%	13%
Capex	19.0	-	18.0	18.0	-	20.0	21.0
Depreciation	38.0	-	33.1	35.6	-	28.5	31.2
FCF	-	-	76.8	68.9	-	78.9	79.8

Ce = Company estimates, IFIS = IFIS consensus, e = Morgan Stanley Research estimates
Source: Company data, IFIS, Morgan Stanley Research

Exhibit 10

Sales by products

(yen bn) FY	F12 Q1	Q2	Q3	Q4	F12	F13 Q1	Q2	Q3	Q4e	F13e	F14e Q1e	Q2e	Q3e	Q4e	F14e
Information Technology Sales	44.8	42.6	37.3	36.5	161.2	39.0	39.0	41.1	38.3	157.3	39.5	39.9	39.5	38.1	157.0
Electronics Products	29.8	27.5	25.7	25.7	108.8	28.2	27.7	30.0	27.9	113.8	29.0	29.3	29.3	28.4	116.0
LSI Mask Blanks	6.3	6.4	6.2	6.7	25.6	7.4	7.7	8.1	7.5	30.7	7.8	8.1	8.2	8.0	32.2
LSI Photomasks	1.8	1.8	1.7	1.8	7.1	2.1	2.2	2.2	2.2	8.7	2.2	2.2	2.2	2.2	8.8
LCD Photomasks	3.5	3.4	3.4	3.9	14.1	3.9	4.1	4.3	4.2	16.5	4.3	4.4	4.4	4.4	17.4
Glass Disks for HDD	17.8	15.3	14.3	13.3	60.7	14.6	13.7	15.3	14.0	57.7	14.7	14.7	14.4	13.8	57.6
Other	0.3	0.6	0.1	0.1	1.2	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8
Imaging Products	15.0	15.1	11.6	10.7	52.5	10.8	11.3	11.1	10.4	43.5	10.5	10.6	10.3	9.7	41.1
Optical Glass	7.8	7.7	6.6	5.2	27.3	5.7	6.0	5.9	5.4	23.0	5.4	5.5	5.2	4.9	21.1
Photonics	1.6	1.2	1.2	1.2	5.1	1.4	1.4	1.4	1.5	5.7	1.5	1.5	1.5	1.5	6.0
Optical Component & Others	5.7	6.2	3.9	4.3	20.1	3.6	3.9	3.8	3.6	14.8	3.6	3.6	3.5	3.3	14.1
										37.8					
% of Information Technology															
Information Technology Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Elecronics Products	67%	64%	69%	71%	67%	72%	71%	73%	73%	72%	73%	74%	74%	74%	74%
LSI Mask Blanks	14%	15%	17%	18%	16%	19%	20%	20%	20%	20%	20%	20%	21%	21%	20%
LSI Photomask	4%	4%	5%	5%	4%	5%	6%	5%	6%	6%	6%	5%	6%	6%	6%
LCD Photomask	8%	8%	9%	11%	9%	10%	11%	11%	11%	10%	11%	11%	11%	11%	11%
HDD Glass Disk	40%	36%	38%	36%	38%	37%	35%	37%	36%	37%	37%	37%	37%	36%	37%
Imaging Products	33%	36%	31%	29%	33%	28%	29%	27%	27%	28%	27%	26%	26%	26%	26%
Optical Lens	17%	18%	18%	14%	17%	15%	15%	14%	14%	15%	14%	14%	13%	13%	13%
Photonics	4%	3%	3%	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Optical Component & Others	13%	15%	10%	12%	12%	9%	10%	9%	9%	9%	9%	9%	9%	9%	9%
YoY % change															
Information Technology Sales	-9%	-17%	-7%	-12%	-11%	-13%	-8%	10%	5%	-2%	1%	2%	-4%	-1%	0%
Electronics Products	17%	1%	2%	-7%	3%	-5%	1%	17%	8%	5%	3%	6%	-2%	2%	2%
LSI Mask Blanks	-8%	-4%	-10%	7%	-4%	17%	20%	31%	13%	20%	6%	6%	2%	6%	5%
LSI Photomask	-6%	-16%	-9%	-2%	-8%	13%	25%	33%	19%	22%	5%	-1%	-2%	0%	0%
LCD Photomask	-18%	-9%	7%	16%	-2%	12%	21%	28%	8%	17%	11%	6%	2%	4%	6%
HDD Glass Disk	44%	5%	9%	-16%	9%	-18%	-10%	7%	5%	-5%	0%	7%	-6%	-1%	0%
Imaging Products	-37%	-37%	-22%	-23%	-32%	-28%	-25%	-4%	-3%	-17%	-3%	-7%	-8%	-7%	-6%
Optical Lens	2%	-16%	-19%	-27%	-15%	-27%	-22%	-10%	3%	-16%	-4%	-9%	-11%	-9%	-8%
Photonics	-21%	-19%	-23%	-15%	-20%	-11%	21%	23%	27%	13%	5%	4%	4%	1%	4%
Optical Component & Others	5%	6%	-27%	-20%	-9%	-37%	-38%	-3%	-17%	-26%	1%	-7%	-7%	-7%	-5%
Life Care Sales	47.4	50.0	52.8	58.8	209.0	60.8	62.7	67.8	69.6	260.8	71.6	72.8	74.6	75.7	294.7
Healthcare Products	33.6	36.2	37.2	43.0	150.1	45.3	46.7	48.1	48.9	188.9	51.9	52.9	52.9	53.1	210.8
Eyeglass Lenses	19.5	21.2	22.5	28.2	91.3	30.1	30.8	32.3	33.0	126.2	35.8	36.0	36.2	36.3	144.3
Contact Lenses	14.0	15.0	14.7	14.8	58.5	15.2	15.9	15.7	15.9	62.7	16.1	16.9	16.7	16.8	66.5
Medical Products	13.8	13.7	15.6	15.8	58.9	15.5	16.0	19.7	20.8	71.9	19.7	20.0	21.7	22.5	83.9
IOL Lenses	3.6	3.5	4.0	2.1	13.2	2.0	2.3	3.3	3.9	11.5	3.4	3.5	4.4	4.6	15.9
Endoscope	9.6	9.0	10.9	12.3	41.8	12.5	12.4	15.1	15.5	55.6	15.3	15.1	16.1	16.4	62.9
Hydroxyapatite (Ceramic Bone)	0.7	1.2	0.8	1.4	4.2	0.9	1.3	1.2	1.5	4.8	1.0	1.3	1.2	1.5	5.1
% of Life Care Sales															
Life Care Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Healthcare Products	71%	73%	70%	73%	72%	74%	74%	71%	70%	72%	72%	73%	71%	70%	72%
Eyeglass Lenses	41%	43%	42%	48%	44%	49%	49%	48%	47%	48%	50%	49%	49%	48%	49%
Contact Lenses	30%	30%	28%	25%	28%	25%	25%	23%	23%	24%	22%	23%	22%	22%	23%
Medical Products	29%	28%	30%	27%	28%	26%	26%	29%	30%	28%	28%	27%	29%	30%	28%
IOL Lenses	8%	7%	8%	3%	6%	3%	4%	5%	6%	4%	5%	5%	6%	6%	5%
Endoscope	20%	18%	21%	21%	20%	21%	20%	22%	22%	21%	21%	21%	22%	22%	21%
Hydroxyapatite (Ceramic Bone)	2%	3%	1%	2%	2%	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%
YoY % change															
Life Care Sales	-9%	-5%	23%	30%	8%	28%	25%	28%	18%	25%	18%	16%	10%	9%	13%
Eyeglass Lenses	-26%	-16%	42%	53%	7%	54%	45%	44%	17%	38%	19%	17%	12%	10%	14%
Contact Lenses	7%	7%	8%	9%	8%	8%	6%	7%	7%	7%	6%	6%	6%	6%	6%
IOL Lenses	12%	8%	23%	-40%	0%	-45%	-34%	-16%	88%	-13%	70%	50%	30%	20%	38%
Endoscope	7%	2%	14%	32%	14%	30%	38%	39%	25%	33%	22%	22%	6%	6%	13%
Hydroxyapatite (Ceramic Bone)	5%	5%	35%	125%	68%	30%	1%	50%	3%	16%	6%	6%	6%	6%	6%

e = Morgan Stanley Research estimates   Source: Morgan Stanley Research

Exhibit 11

Quarterly statement of comprehensive income

(yen bn)	F12					F13					F14e				
FY	Q1	Q2	Q3	Q4	F12	Q1	Q2	Q3	Q4e	F13e	Q1e	Q2e	Q3e	Q4e	F14e
Total Revenue	106.7	100.2	93.6	111.7	412.3	101.9	103.3	112.2	111.3	428.7	112.4	114.1	115.4	115.1	456.9
Sales	92.6	93.1	90.7	96.1	372.5	100.4	102.1	109.2	108.4	420.2	111.5	113.2	114.5	114.2	453.3
Information Technology	44.8	42.6	37.3	36.6	161.2	39.0	39.0	41.1	38.3	157.4	39.5	39.9	39.5	38.1	157.0
Electronics Products	29.8	27.5	25.7	25.7	108.8	28.2	27.7	30.0	27.9	113.8	29.0	29.3	29.3	28.4	116.0
Imaging Products	15.0	15.1	11.6	10.9	52.5	10.8	11.3	11.1	10.4	43.6	10.5	10.6	10.3	9.7	41.1
Life Care	47.4	50.0	52.8	58.8	209.0	60.8	62.7	67.8	69.6	260.8	71.6	72.8	74.6	75.7	294.7
Healthcare Products	33.6	36.2	37.2	43.1	150.1	45.3	46.7	48.1	48.9	188.9	51.9	52.9	52.9	53.1	210.8
Medical Products	13.8	13.8	15.6	15.8	58.9	15.5	16.0	19.7	20.8	71.9	19.7	20.0	21.7	22.5	83.9
Other	0.5	0.5	0.6	0.6	2.3	0.7	0.4	0.4	0.4	1.9	0.4	0.4	0.4	0.4	1.6
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance income	0.3	0.2	0.2	0.2	1.0	0.9	0.3	0.3	0.3	1.8	0.5	0.5	0.5	0.5	2.0
Share of profit of associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	13.8	6.9	2.7	15.4	38.8	0.5	1.0	2.6	2.6	6.7	0.4	0.4	0.4	0.4	1.6
Total Expense	80.9	84.2	76.0	81.7	322.9	81.8	87.5	82.7	91.7	343.6	90.6	91.5	92.5	92.3	366.9
Changes in inventories	0.4	-0.3	0.5	6.8	7.4	0.5	0.9	2.0							
Materials & consumables	17.9	18.2	18.0	16.5	70.6	21.0	20.8	21.4							
Employee benefits	22.9	23.0	22.8	26.3	95.0	25.8	24.3	25.4							
Depreciation & amortization	7.0	7.5	7.8	8.6	30.9	8.5	8.3	8.6	10.3	35.6					31.2
Subcontracting cost	1.3	1.0	0.9	1.5	4.7	1.1	1.1	1.3							
Advertising & promotion	2.5	2.5	2.7	2.6	10.3	2.7	3.0	3.0							
Commission expense	5.2	5.5	4.9	5.8	21.4	5.1	4.5	5.2							
Impairment losses	0.3	0.1	0.0	0.8	1.1	0.7	1.4	-0.0							
Finance costs	0.7	0.7	0.3	0.4	2.1	0.3	0.3	0.4	0.6	1.6					1.6
Share of loss of associates	0.4	2.0	7.2	2.3	11.9	0.4	-0.0	0.0							
Forex loss (income)	2.3	2.1	-9.2	-7.8	-12.5	-5.8	1.0	-5.4							
Disaster Loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
Other expenses	20.1	22.0	20.1	17.9	80.1	21.5	21.9	20.8							
Profit before Tax	25.8	16.0	17.6	30.0	89.4	20.1	16.0	29.5	19.5	85.1	21.8	22.6	22.8	22.8	90.0
Information Technology	9.8	7.6	9.4	3.9	31.8	8.9	7.4	10.0	8.6	35.3	9.0	9.1	9.0	8.6	35.7
Life Care	19.5	12.8	9.6	22.0	64.0	9.1	10.9	13.2	13.5	46.7	13.9	14.5	14.8	15.5	58.8
Other	0.2	0.2	0.2	-0.0	0.6	0.1	0.1	0.2	0.0	0.4	0.1	0.2	0.2	0.2	0.6
Adjustments	-3.7	-4.6	-1.6	2.9	-7.1	2.1	-2.5	2.6	-2.5	-0.3	-1.2	-1.2	-1.2	-1.5	-5.1
Pretax Profit Margin	27.9%	17.1%	19.4%	31.2%	24.0%	20.0%	15.6%	27.0%	18.0%	20.3%	19.5%	19.9%	20.0%	20.0%	19.9%
Information Technology	21.8%	17.8%	25.3%	10.7%	19.8%	22.8%	18.9%	24.3%	22.3%	22.4%	22.7%	22.9%	22.8%	22.4%	22.7%
Life Care	41.2%	25.6%	18.2%	37.5%	30.6%	14.9%	17.5%	19.5%	19.4%	17.9%	19.5%	19.9%	19.9%	20.5%	20.0%
Income tax expense	2.6	1.5	7.3	6.7	18.1	7.8	3.2	7.2	4.8	23.0	5.2	5.4	5.5	5.5	21.6
Tax Rate	10%	9%	41%	22%	20%	39%	20%	24%	24%	27%	24%	24%	24%	24%	24%
Net Profit	23.2	14.5	10.3	23.2	71.2	12.3	12.8	22.3	14.8	62.1	16.5	17.2	17.4	17.3	68.4
Owners of Company	23.2	14.4	10.3	23.2	71.1	12.3	12.7	20.6	14.7	60.4	16.5	17.1	17.3	17.3	68.2
Minority Intersts	0.0	0.0	0.0	0.0	0.1	0.0	0.0	1.6	0.0	1.8	0.0	0.0	0.0	0.0	0.2
Other comprehensive income	-19.0	1.8	34.6	25.2	42.6	12.3	2.5	28.3	-6.0	37.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income	4.2	16.3	44.9	48.5	113.8	24.6	15.3	50.5	8.8	99.1	16.5	17.2	17.4	17.3	68.4
Average Basic Shares (mn)	431.4	431.4	431.4	431.4	431.5	431.5	431.5	431.6	431.6	431.5	431.5	431.5	431.5	431.5	431.5
Basic EPS (yen)	53.7	33.5	23.9	53.8	164.8	28.5	29.5	47.8	34.1	139.9	38.3	39.7	40.1	40.1	158.1
Diluted EPS (yen)	53.7	33.4	23.9	53.7	164.8	28.5	29.5	47.7	34.1	139.9	38.3	39.7	40.1	40.1	158.1
BPS (yen)	866.8	908.8	979.0	1,090.9	1,090.9	1,113.0	1,148.4	1231.43	1,251.8	1,251.8				1,344.9	1,344.9
DPS (yen)	0.0	30.0	0.0	35.0	65.0	0.0	30.0	0.0	35.0	65.0	0.0	30.0	0.0	35.0	65.0
Payout Ratio					39%					46%					41%

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 12

Statement of Comprehensive Income

(yen bn) FY	F08	F09	F10	F11	F12	F13e	F14e	F15e	F16e	F17e	F18e	F19e	F20e
Total Revenue	**479.5**	**420.8**	**439.9**	**388.7**	**412.3**	**428.7**	**456.9**	**469.9**	**481.3**	**492.0**	**498.0**	**504.4**	**511.2**
Sales	**453.8**	**413.7**	**423.1**	**376.9**	**372.5**	**420.2**	**453.3**	**466.3**	**477.3**	**488.0**	**494.0**	**500.0**	**506.8**
Information Technology	**242.4**	**212.3**	**215.4**	**182.2**	**161.2**	**157.4**	**157.0**	**154.8**	**152.7**	**150.5**	**147.5**	**144.6**	**142.4**
Electronics Products	127.4	110.4	120.5	105.6	108.8	113.8	116.0	116.1	114.9	113.5	111.2	109.3	107.6
Imaging Products	115.0	101.9	95.0	76.5	52.5	43.6	41.1	38.8	37.8	37.1	36.3	35.4	34.7
Life Care	**207.4**	**199.2**	**206.7**	**192.9**	**209.0**	**260.8**	**294.7**	**309.8**	**323.0**	**335.9**	**344.9**	**353.7**	**362.9**
Healthcare Products	150.9	147.6	153.4	140.3	150.1	188.9	210.8	221.8	231.2	241.0	247.2	253.1	259.2
Medical Products	56.5	51.6	53.3	52.7	58.9	71.9	83.9	88.1	91.8	94.8	97.7	100.6	103.6
Other			0.9	1.9	2.3	1.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Adjustments			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance income	13.6	0.9	0.9	1.6	1.0	1.8	2.0	2.0	2.4	2.4	2.4	2.8	2.8
Share of profit of associates	1.0	0.5	1.6	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	11.1	5.7	14.3	6.5	38.8	6.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Total Expense	**430.5**	**369.3**	**366.0**	**330.2**	**322.9**	**343.6**	**366.9**	**373.5**	**380.3**	**386.9**	**391.0**	**394.7**	**399.1**
Profit before Tax	**49.0**	**51.6**	**73.9**	**58.5**	**89.4**	**85.1**	**90.0**	**96.4**	**101.0**	**105.0**	**107.0**	**109.6**	**112.1**
Information Technology			46.7	37.5	31.8	35.3	35.7	34.9	34.0	33.3	32.3	31.6	31.0
Life Care			36.7	24.6	64.0	46.7	58.8	65.5	70.8	75.5	78.4	81.4	84.4
Other			0.9	0.8	0.6	0.4	0.6	0.8	0.9	1.0	1.1	1.1	1.1
Adjustments			-10.4	-4.3	-7.1	-0.3	-5.1	-4.8	-4.8	-4.8	-4.8	-4.4	-4.4
Pretax Profit Margin			**17.5%**	**15.5%**	**24.0%**	**20.3%**	**19.9%**	**20.7%**	**21.2%**	**21.5%**	**21.7%**	**21.9%**	**22.1%**
Information Technology			21.7%	20.6%	19.8%	22.4%	22.7%	22.5%	22.3%	22.1%	21.9%	21.8%	21.8%
Life Care			17.8%	12.7%	30.6%	17.9%	20.0%	21.1%	21.9%	22.5%	22.7%	23.0%	23.3%
Income tax expense	**19.9**	**10.0**	**14.3**	**15.9**	**18.1**	**23.0**	**21.6**	**23.1**	**24.2**	**25.2**	**25.7**	**26.3**	**26.9**
Tax Rate	41%	19%	19%	27%	20%	27%	24%	24%	24%	24%	24%	24%	24%
Net Profit	**29.1**	**41.5**	**59.6**	**42.7**	**71.2**	**62.1**	**68.4**	**73.2**	**76.8**	**79.8**	**81.3**	**83.3**	**85.2**
Owners of Company	29.4	41.2	59.7	43.2	71.1	60.4	68.2	73.1	76.6	79.7	81.2	83.2	85.0
Minority Intersts	-0.3	0.3	-0.2	-0.5	0.1	1.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other comprehensive income	**-52.0**	**6.0**	**-13.0**	**-7.3**	**42.6**	**37.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total comprehensive income	**-22.9**	**47.5**	**46.5**	**35.4**	**113.8**	**99.1**	**68.4**	**73.2**	**76.8**	**79.8**	**81.3**	**83.3**	**85.2**
Average Basic Shares (mn)	432.9	432.7	431.4	431.4	431.5	431.5	431.5	431.5	431.5	431.5	431.5	431.5	431.5
Basic EPS (yen)	**67.9**	**95.2**	**138.5**	**100.2**	**164.8**	**139.9**	**158.1**	**169.4**	**177.5**	**184.6**	**188.1**	**192.7**	**197.1**
Diluted EPS (yen)	**67.9**	**95.2**	**138.4**	**100.2**	**164.8**	**139.9**	**158.1**	**169.4**	**177.5**	**184.6**	**188.1**	**192.7**	**197.1**
BPS (yen)	**788.3**	**828.8**	**873.5**	**892.0**	**1,090.9**	**1,251.8**	**1,344.9**	**1,449.3**	**1,556.9**	**1,671.5**	**1,789.6**	**1,912.3**	**2,029.4**
DPS (yen)	**65.0**	**65.0**	**65.0**	**65.0**	**65.0**	**65.0**	**65.0**	**65.0**	**70.0**	**70.0**	**70.0**	**70.0**	**80.0**
Payout Ratio	96%	68%	47%	65%	39%	46%	41%	38%	38%	38%	38%	38%	38%

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 13

Statement of financial position

(yen bn) FY	F08	F09	F10	F11	F12	F13e	F14e	F15e	F16e	F17e	F18e	F19e	F20e
Non-current Assets	**221.4**	**221.1**	**204.2**	**171.6**	**195.9**	**181.3**	**170.1**	**166.2**	**170.1**	**171.2**	**170.0**	**167.7**	**165.4**
PP&E-net	**130.5**	**122.2**	**118.6**	**108.4**	**140.7**	**122.1**	**110.9**	**107.0**	**110.9**	**112.0**	**110.8**	**108.5**	**106.2**
Goodwill	2.7	5.5	2.6	1.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Other intangible assets	19.2	17.8	15.2	13.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2
Investments in associates	9.1	9.2	11.2	12.9	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Long-term financial assets	9.1	18.8	19.0	8.4	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Other non-current assets	3.6	3.0	1.6	2.1	2.5	**6.5**	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Deferred tax assets	47.2	44.7	35.9	25.1	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Current Assets	**378.8**	**339.2**	**374.5**	**403.7**	**422.2**	**505.6**	**561.4**	**612.0**	**656.2**	**706.1**	**759.2**	**815.4**	**871.4**
Inventories	71.1	61.2	63.7	63.0	66.7	67.9	69.5	70.3	71.9	73.5	74.4	75.3	76.4
Inventory Turnover	57	54	55	61	65	59	56	55	55	55	55	55	55
Trade and other receivables	81.7	94.3	86.5	75.7	88.8	93.2	95.6	90.7	91.5	93.6	97.4	98.6	100.0
Receivable Turnover	66	83	75	73	87	81	77	71	70	70	72	72	72
Other ST financial assets	6.9	5.6	27.0	47.3	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Income tax receivables	2.4	2.3	2.3	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other current assets	7.7	7.5	9.8	6.7	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Cash and cash equivalents	207.9	167.9	185.3	204.8	248.9	326.7	378.5	433.3	475.0	521.2	569.6	623.7	677.4
Assets held for sale	1.1	0.3	0.0	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**600.2**	**560.3**	**578.6**	**575.2**	**618.1**	**686.9**	**731.4**	**778.2**	**826.2**	**877.3**	**929.2**	**983.1**	**1,036.8**
Total equity	**343.0**	**358.7**	**377.5**	**384.7**	**470.7**	**540.0**	**580.2**	**625.2**	**671.6**	**721.1**	**772.1**	**825.0**	**875.5**
Owners of the Company	**341.2**	**357.6**	**376.8**	**384.8**	**470.9**	**540.2**	**580.4**	**625.4**	**671.8**	**721.3**	**772.3**	**825.2**	**875.7**
Share capital	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Capital reserves	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9
Treasury shares	-8.0	-11.0	-11.0	-10.9	-10.7	-10.7	-10.7	-10.7	-10.7	-10.7	-10.7	-10.7	-10.7
Other capital reserves	-3.3	-3.0	-2.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Retained earnings	382.9	396.0	427.7	442.9	486.0	518.3	558.5	603.5	649.9	699.4	750.3	803.3	853.8
Accum. other compre. income	-52.6	-46.6	-59.6	-66.8	-24.2	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
Minority interests	**1.8**	**1.2**	**0.7**	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**
Total non-current liabilities	**123.1**	**114.6**	**112.0**	**69.6**	**68.7**	**68.7**	**68.7**	**68.7**	**68.7**	**68.7**	**68.7**	**68.7**	**68.7**
Interest-bearing LT debt	111.6	103.0	100.8	60.8	60.8	60.8	60.8	60.8	60.8	60.8	60.8	60.8	60.8
Other LT financial liabilities	0.3	0.0	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Retirement benefits obligation	8.5	8.2	8.1	5.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other provisions	1.9	1.7	1.5	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Other non-current liabilities	0.8	1.7	1.2	1.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Deferred tax liabilities	0.1	0.0	0.2	0.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Total current liabilities	**134.1**	**86.9**	**89.1**	**121.0**	**78.7**	**78.2**	**82.6**	**84.3**	**85.9**	**87.5**	**88.5**	**89.4**	**92.6**
Interest-bearing ST debt	48.9	4.3	2.4	41.2	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Trade and other payables	46.1	47.3	51.4	42.1	40.4	36.7	39.2	39.9	40.6	41.3	41.8	42.2	44.8
Days Payable	39	47	51	47	46	39	39	39	39	39	39	39	41
Other ST financial liabilities	0.2	0.4	0.8	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Income tax payables	7.3	4.5	3.1	2.5	4.5	5.7	5.4	5.8	6.1	6.3	6.4	6.6	6.7
% of Income Tax	36%	45%	22%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Other provisions	0.8	0.9	0.8	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other current liabilities	30.9	29.6	30.6	33.8	30.7	32.7	34.9	35.5	36.2	36.8	37.2	37.5	38.0
% of Total Expenses	7%	8%	8%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Total equity and liabilities	**600.2**	**560.3**	**578.6**	**575.2**	**618.1**	**686.9**	**731.4**	**778.2**	**826.2**	**877.3**	**929.2**	**983.1**	**1,036.8**
Interest-bearing Debt	160.4	107.3	103.2	102.0	62.7	62.7	62.7	62.7	62.7	62.7	62.7	62.7	62.7
Net Interest-bearing Debt	-47.5	-60.7	-82.1	-102.7	-186.2	-273.2	-325.0	-379.8	-421.5	-467.7	-516.1	-570.2	-623.9
Debt-to-Equity Ratio	0.5	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

e = Morgan Stanley Research estimates   Source: Company data, Morgan Stanley Research

Exhibit 14

Statement of cash flow

(yen bn) FY	F08	F09	F10	F11	F12	F13e	F14e	F15e	F16e	F17e	F18e	F19e	F20e
Net Income	29.1	41.5	59.6	42.7	71.1	60.4	68.2	73.1	76.6	79.7	81.2	83.2	85.0
Depreciation Expenses	46.8	34.0	31.3	27.9	30.9	35.6	31.2	29.7	26.2	29.6	32.4	33.8	34.3
Decrease in Receivables	40.1	-12.6	7.8	10.8	-13.1	-4.4	-2.4	4.9	-0.8	-2.0	-3.9	-1.2	-1.4
Decrease in Inventories	10.0	9.9	-2.5	0.7	-3.7	-1.2	-1.6	-0.7	-1.7	-1.6	-0.9	-0.9	-1.0
Decrease Other Current Assets	2.8	1.1	-2.0	-0.8	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in Payables	-34.9	1.2	4.2	-9.3	-1.7	-3.7	2.5	0.7	0.7	0.7	0.4	0.4	2.7
Increase Other Current Liabilities	-30.7	-3.8	-0.1	2.3	-1.2	3.2	1.9	1.0	0.9	0.9	0.5	0.5	0.6
Increase in Other L/T Liabilities	-1.7	0.1	-0.4	-2.4	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity-method Earnings	-1.0	-0.5	-1.6	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	31.9	12.9	-3.8	3.7	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Cash Flow	**92.3**	**83.7**	**92.5**	**73.7**	**89.0**	**89.9**	**99.8**	**108.7**	**101.9**	**107.2**	**109.7**	**115.8**	**120.1**
Acquisition of Fixed Assets	-34.2	-26.7	-36.0	-31.2	-43.0	-18.0	-21.0	-26.8	-31.0	-31.7	-32.1	-32.5	-32.9
Proceeds Fixed Assets Sales	1.2	2.1	1.1	0.6	7.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Proceeds Sales of Investments	17.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash used for Investments	-0.7	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition of Subsidiaries	-1.2	-3.4	0.0	-0.1	-10.1	**-4.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-17.3	-12.7	-3.0	8.2	44.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Investing Cash Flow	**-34.3**	**-40.7**	**-38.5**	**-22.5**	**-0.9**	**-21.0**	**-20.0**	**-25.8**	**-30.0**	**-30.7**	**-31.1**	**-31.5**	**-31.9**
Free Cash Flow	**58.0**	**43.0**	**54.0**	**51.2**	**88.0**	**68.9**	**79.8**	**82.9**	**71.9**	**76.5**	**78.6**	**84.3**	**88.2**
Proceeds from L/T Debt	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of L/T Debt	-9.0	-9.1	-3.3	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in S/R Borrowings	25.0	-44.6	-1.9	38.8	-39.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	-28.1	-28.2	-28.0	-28.0	-28.1	-28.0	-28.0	-28.0	-30.2	-30.2	-30.2	-30.2	-34.5
Proceeds from Share Issuance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of Treasury Stock	-0.0	-3.3	-0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	4.8	0.3	1.9	-39.8	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Cash Flow	**-7.2**	**-84.7**	**-31.2**	**-29.3**	**-69.0**	**-28.0**	**-28.0**	**-28.0**	**-30.2**	**-30.2**	**-30.2**	**-30.2**	**-34.5**
Effect of Exchange Rate	**-24.3**	**1.7**	**-5.5**	**-2.4**	**25.1**	**37.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net increase in cash	**26.6**	**-40.0**	**17.3**	**19.5**	**44.1**	**77.8**	**51.8**	**54.8**	**41.7**	**46.3**	**48.4**	**54.1**	**53.7**
Cash at beginning of period	181.3	207.9	167.9	185.3	204.8	248.9	326.7	378.5	433.3	475.0	521.2	569.6	623.7
Cash at end of period	**207.9**	**167.9**	**185.3**	**204.8**	**248.9**	**326.7**	**378.5**	**433.3**	**475.0**	**521.2**	**569.6**	**623.7**	**677.4**

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 15

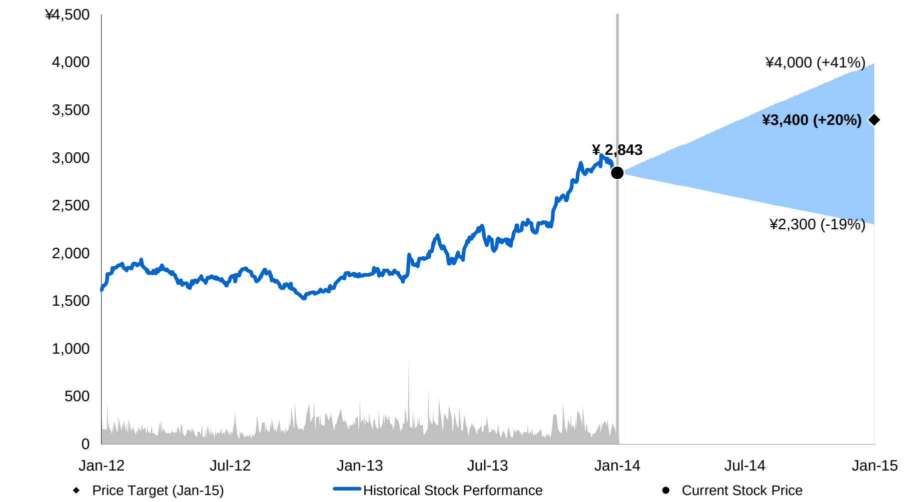
ROE

FY	F08	F09	F10	F11	F12	F13e	F14e	F15e	F16e	F17e	F18e	F19e	F20e
Return on Equity	**7.9%**	**11.9%**	**16.2%**	**11.2%**	**16.7%**	**12.3%**	**12.2%**	**12.1%**	**11.8%**	**11.5%**	**10.9%**	**10.4%**	**10.0%**
Return on Assets	4.9%	7.6%	10.8%	7.7%	12.2%	9.7%	9.8%	9.9%	9.7%	9.5%	9.1%	8.8%	8.6%
Net Profit Margin	6.4%	10.0%	14.1%	11.3%	19.1%	14.8%	15.1%	15.7%	16.1%	16.4%	16.5%	16.7%	16.8%
Asset Turnover	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Financial Leverage	1.8	1.7	1.6	1.5	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2
EBIT Margin	11.4%	13.0%	18.0%	15.9%	24.4%	20.5%	20.1%	20.9%	21.4%	21.8%	21.9%	22.2%	22.4%
Interest Burden	0.7%	0.5%	0.5%	0.4%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Tax Rate	40.7%	19.5%	19.4%	27.1%	20.3%	27.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Retention Rate	4.2%	31.8%	53.1%	35.1%	60.6%	53.5%	58.9%	61.6%	60.6%	62.1%	62.8%	63.7%	59.4%
Internal Growth Rate	0.3%	3.8%	8.6%	3.9%	10.1%	6.6%	7.2%	7.5%	7.2%	7.1%	6.8%	6.6%	6.0%

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: HOYA (7741, ¥2,843, OW, PT ¥3,400)

Risk-Reward View: FCF in 2013-15 to exceed the levels from mid-2000s when ROE topped 25%, improving prospects for shareholder returns



Price Target ¥3,400		Based on DCF (WACC: 7.2%; terminal growth: 0%). Equates to F3/15e EPS x 21.5.
Bull Case ¥4,000	F3/15e EPS x 23	F3/15e EPS x 23: Higher multiple than the base case. Accelerated growth in segments incl. eyeglass lenses, contact lenses and endoscopes Buyback equivalent to c.5% of shares outstanding is conducted F3/14e pre-tax profit ¥88.0bn, EPS ¥145 F3/15e pre-tax profit ¥100.0bn, EPS ¥176
Base Case ¥3,400	Based on DCF. F3/15e EPS x 21.5	IT segment continues to mature, but profit is virtually flat Stable growth in life care business, led by endoscopes, contact lenses and eyeglass lenses F3/14e pre-tax profit ¥85.1bn, EPS ¥140 F3/15e pre-tax profit ¥90bn, EPS ¥158
Bear Case ¥2,300	F3/15e EPS x 17	F3/15e EPS x 17: Multiple contracts compared with the Base Case Slowdown of IT products due to sluggish final demand and stiffer competition Sharp slowdown in life care products growth F3/14e pre-tax profit ¥80.0bn, EPS ¥130 F3/15e pre-tax profit ¥75.0bn, EPS ¥133

e = Morgan Stanley Research estimates; share price as of January 31, 2014, close
Source: Thomson Reuters, Morgan Stanley Research

Why OW?

- Strong FCF generation power, resulting from outstanding business execution in IT and life care segments and reduced capex levels.
- Life care growth potential: We look for mid-single-digit sales growth and stable margins for eyeglass lenses, contact lenses and endoscopes.
- Top-drawer execution in IT segment: HDD glass substrates and optical lenses still face risk from ongoing market contraction, but speedy restructuring and gains in market share provide the prospect of stable margins.

Key Value Drivers

- Market growth and market share for eyeglass lenses, contact lenses and endoscopes.
- HDD glass disks: HDD supply/ demand, market share
- IC mask blanks & photo masks: Semiconductor design activity
- Optical lenses: Digital camera market prognosis

Potential Catalysts

- M&A leading to greater competitiveness in life care biz
- Stepping up shareholder returns

PT Risk Factors

- Significant correction of end product demand
- Yen depreciation: We estimate each ¥1 depreciation against the dollar adds ¥0.3bn to annual OP, and each ¥1 depreciation against the euro adds the same. We assume rates of ¥100/$ and ¥140/€

Exhibit 16

HOYA: Fair value analysis based on DCF

(yen bn) FY	10	11	12	13e	14e	15e	16e	17e	18e	19e	20e	CAGR 12-20e
Sales	423.1	376.9	372.5	420.2	453.3	466.3	477.3	488.0	494.0	500.0	506.8	4%
Information Technology	215.4	182.2	161.2	157.4	157.0	154.8	152.7	150.5	147.5	144.6	142.4	-2%
Electronics Products	120.5	105.6	108.8	113.8	116.0	116.1	114.9	113.5	111.2	109.3	107.6	0%
Imaging Products	95.0	76.5	52.5	43.6	41.1	38.8	37.8	37.1	36.3	35.4	34.7	-5%
Life Care	206.7	192.9	209.0	260.8	294.7	309.8	323.0	335.9	344.9	353.7	362.9	7%
Healthcare Products	153.4	140.3	150.1	188.9	210.8	221.8	231.2	241.0	247.2	253.1	259.2	7%
Medical Products	53.3	52.7	58.9	71.9	83.9	88.1	91.8	94.8	97.7	100.6	103.6	7%
Profit Before Tax	73.9	58.5	89.4	85.1	90.0	96.4	101.0	105.0	107.0	109.6	112.1	3%
Pretax Profit Margin	17.5%	15.5%	24.0%	20.3%	19.9%	20.7%	21.2%	21.5%	21.7%	21.9%	22.1%	
Net Profit	**59.6**	**42.7**	**71.2**	**62.1**	**68.4**	**73.2**	**76.8**	**79.8**	**81.3**	**83.3**	**85.2**	**2%**
Depreciation	31.3	27.9	30.9	35.6	31.2	29.7	26.2	29.6	32.4	33.8	34.3	1%
Net Operating Cash Flow	**92.5**	**73.7**	**89.0**	**89.9**	**99.8**	**108.7**	**101.9**	**107.2**	**109.7**	**115.8**	**120.1**	**4%**
Capital Expenditures	38.5	33.2	45.0	18.0	21.0	26.8	31.0	31.7	32.1	32.5	32.9	-4%
% of Sales	9%	9%	12%	4%	5%	6%	7%	7%	7%	7%	7%	
Net Investing Cash Flow	**-38.5**	**-22.5**	**-0.9**	**-21.0**	**-20.0**	**-25.8**	**-30.0**	**-30.7**	**-31.1**	**-31.5**	**-31.9**	**-**
Free Cash Flow	**54.0**	**51.2**	**88.0**	**68.9**	**79.8**	**82.9**	**71.9**	**76.5**	**78.6**	**84.3**	**88.2**	**0%**
Finance Cost	2.6	2.0	2.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	-3%
Effective Tax Rate	19%	27%	20%	27%	24%	24%	24%	24%	24%	24%	24%	
Net Interest Expenses after Tax	**2.1**	**1.5**	**1.7**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**-4%**
Unlevered Free Cash Flow	**56.1**	**52.7**	**89.7**	**70.0**	**81.0**	**84.1**	**73.1**	**77.7**	**79.8**	**85.5**	**89.4**	**0%**

Major Assumptions	
WACC	**7.2%**
Cost of Liability after Tax	**1.9%**
Cost of Liability before Tax	2.5%
Tax Rate	24%
Cost of Capital	**7.7%**
Risk Free Rate	1.5%
Market Premium	6.5%
Equity Beta	0.95
Liability / (Liability + Capital) Ratio	**8%**

Perpetual Growth Rate	0.0%			0.5%			1.0%		
WACC	6.7%	7.2%	7.7%	6.7%	7.2%	7.7%	6.7%	7.2%	7.7%
F13e - F19e Unlevered FCF NPV (1)	479.9	470.4	461.2	479.9	470.4	461.2	479.9	470.4	461.2
F20e Terminal Value	1,331.7	1,239.4	1,159.0	1,446.0	1,338.3	1,245.6	1,580.4	1,453.2	1,345.0
F20e Terminal Value NPV (2)	791.8	709.9	639.6	859.8	766.6	687.4	939.7	832.4	742.2
- Net Liabilities (3)	-273.2	-273.2	-273.2	-273.2	-273.2	-273.2	-273.2	-273.2	-273.2
Equity Value (1) + (2) - (3)	**1,544.9**	**1,453.5**	**1,374.1**	**1,612.9**	**1,510.2**	**1,421.8**	**1,692.8**	**1,576.0**	**1,476.7**
Number of diluted shares (mn)	432	432	432	432	432	432	432	432	432
Fair Value (Yen)	**3,600**	**3,400**	**3,200**	**3,700**	**3,500**	**3,300**	**3,900**	**3,700**	**3,400**
Price (January 31, 2014)	**2,843**	**2,843**	**2,843**	**2,843**	**2,843**	**2,843**	**2,843**	**2,843**	**2,843**
Upside / Downside	27%	20%	13%	30%	23%	16%	37%	30%	20%

Equity beta is based on adjusted beta for the last four years. e = Morgan Stanley Research estimates   Source: Company data, Morgan Stanley Research

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Overweight/Buy	**1009**	**34%**	**315**	**38%**	**31%**
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Not-Rated/Hold	**103**	**4%**	**26**	**3%**	**25%**
Underweight/Sell	**536**	**18%**	**97**	**12%**	**18%**
Total	**2,941**		**833**		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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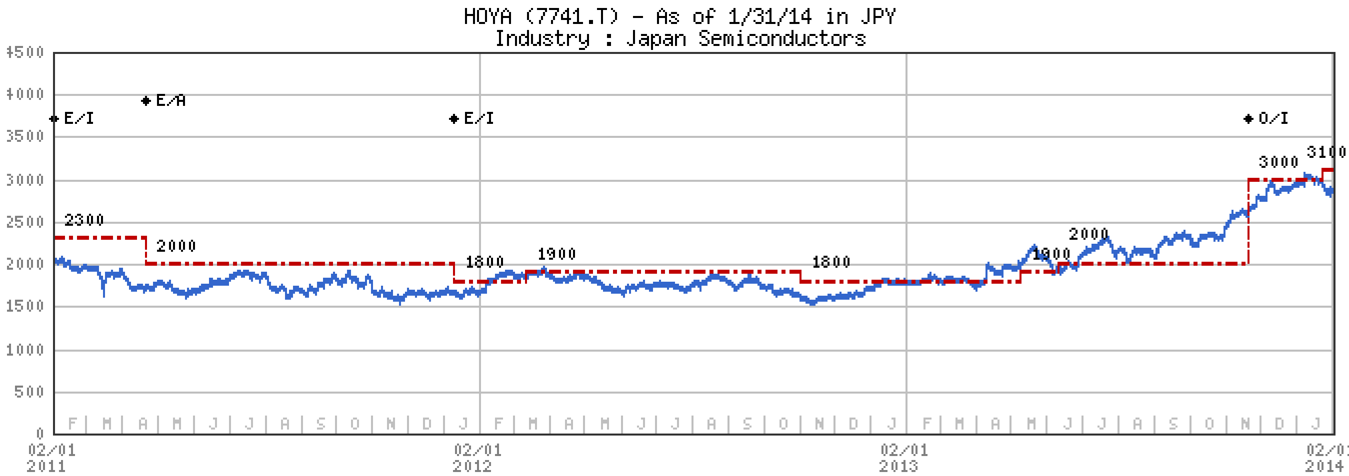
Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 2/1/11 : E/I; 4/21/11 : E/A; 1/10/12 : E/I; 11/21/13 : O/I

Price Target History: 8/18/10 : 2300; 4/21/11 : 2000; 1/10/12 : 1800; 3/12/12 : 1900; 11/1/12 : 1800; 5/9/13 : 1900; 6/10/13 : 2000; 11/21/13 : 3000; 1/22/14 : 3100

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
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MorganStanley MUFG

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Japan Semiconductors

Company (Ticker)	Rating (as of)	Price* (01/31/2014)
Ryotaro Hayashi		
Advantest (6857.T)	U (03/05/2013)	¥1,098
DISCO (6146.T)	E (09/10/2013)	¥7,210
Micronics Japan (6871.T)	U (06/10/2013)	¥5,890
NuFlare Technology (6256.T)	O (07/12/2013)	¥10,800
Tokyo Seimitsu (7729.T)	O (03/05/2013)	¥2,020
Ushio (6925.T)	E (06/18/2012)	¥1,239
Kazuo Yoshikawa, CFA		
Dainippon Screen Manufacturing (7735.T)	E (04/01/2013)	¥490
HOYA (7741.T)	O (11/21/2013)	¥2,843
Hitachi High-Technologies (8036.T)	O (12/04/2010)	¥2,373
Hitachi Kokusai Electric (6756.T)	E (10/28/2013)	¥1,357
Horiba (6856.T)	O (06/12/2013)	¥3,740
Nikon (7731.T)	E (03/05/2013)	¥1,769
Renesas Electronics (6723.T)	NA (02/22/2013)	¥546
Rohm (6963.T)	O (06/10/2013)	¥5,180
Tokyo Electron (8035.T)	++	¥5,317
Toshiba (6502.T)	E (07/29/2013)	¥432

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* Historical prices are not split adjusted.