Discussion and Analysis of Financial Results

Market Environment

During the fiscal year ended March 31, 2021, global economic activities remained sluggish as certain regions went under lockdown, due to the impact of COVID-19 which emerged at the end of the previous fiscal year. For the latter half of the fiscal year, however, the situation began to pick up mainly in the manufacturing industry, despite disparities of recovery among the regions. Meanwhile, causes for concern proliferated, including the status of COVID-19 and U.S.-China friction, and the outlook of the global economy remains uncertain.

In such an economic climate, the Topcon Group upheld its philosophy of "Contribute to enrich human life by solving the societal challenges within healthcare, agriculture and infrastructure," and worked to achieve a sustainable improvement of corporate value.

The Company's business activities around the world became subject to restrictions, triggered by the COVID-19 pandemic, which emerged around the fourth quarter of the fiscal year ended March 31, 2020. Starting from the second quarter of the fiscal year ended March 31, 2021, the Company experienced swift recovery thanks to robust demand for its businesses as essential businesses, against the backdrop of economic restoration. Nevertheless, global movement restrictions are still in place as the COVID-19 pandemic has yet to be brought under control, and the economic climate remains unpredictable.

The Company's business domains of healthcare, agriculture, and infrastructure (i.e., Eye Care, IT Agriculture, IT Construction, and infrastructure development), all embrace the firm needs of society as infrastructure and societal challenges that need to be solved, and the strengths of these business domains were recognized as essential businesses even amid the COVID-19 pandemic. Accordingly, while the impact on the timeline is inevitable, the third mid-term business plan, which is currently being implemented, will remain unchanged in terms of its management vision defined as "Expand our businesses and solve the societal challenges within the growing market of Healthcare, Agriculture and Infrastructure," and its growth scenario.

In light of the delays in the progress of the mid-term business plan due to the COVID-19 pandemic, we have extended the timeline of the third mid-term business plan for one year until the fiscal year ending March 31, 2023. We will continue to earnestly promote initiatives under the management vision whose strengths were reaffirmed even amid the COVID-19 pandemic.

Furthermore, continuous demand and business growth are expected in each of our business domains. In the Healthcare domain, new needs became evident which coincided with our solutions, including demands for tele-optometry corresponding to social distancing needs in response to the impact of COVID-19. Meanwhile, in the Agriculture and Infrastructure domains, we are beginning to see a boost from economic restoration demand in addition to our strengths as an essential business.

Consolidated Results

For the fiscal year ended March 31, 2021, consolidated sales declined by 1.2% from the previous year to ¥137,247 million. Net sales have been on a recovery trend since bottoming out in the first half of the first quarter in line with the resumption of economic activities around the world, and robust recovery as an essential business continued to the end of the fiscal year. In terms of profit, operating income increased by 22.5% year-on-year to ¥6,593 million, due to the reduction of fixed costs including various expenses and research and development expenses, as well as a recovery in net sales. Ordinary income increased by 93.0% year-on-year to ¥5,587 million, and profit attributable to owners of the parent increased by 154.0% year-on-year to ¥2,376 million.

Segment Information

Although the Positioning Company was affected by lockdowns mainly in Europe and North America in the first quarter, sales remained strong against a backdrop of robust demand as an essential business. In the construction field, the U.S. housing construction market recovered rapidly, which pushed up sales of laser products. IT Construction was also on a recovery trend, and aftermarket sales increased in IT Agriculture. As a result, net sales decreased by 3.5% year-on-year to ¥71,416 million. Operating income increased by a substantial 33.6% year-on-year to ¥6,064 million, due mainly to a reduction in selling, general and administrative expenses.

Although the Smart Infrastructure Business was impacted by COVID-19 in the first quarter, sales saw an increase against the backdrop of robust demand as an essential business. In Japan, the impact of COVID-19 was limited, partly due to healthy demand resulting from the expansion of i-Construction projects and others as well as increased sales of IT Agriculture products owing to a subsidy program by the national government. Meanwhile, sales declined in parts of Asia, India and the Middle East due to the prolonged spread of COVID-19. As a result, net sales increased by 1.7% year-on-year to ¥33,982 million. Operating income was flat year-on-year at ¥4,972 million due in part to the impact of a temporary decline in plant operating rates in order to use up inventories from the end of the previous fiscal year, despite the increase in net sales and continued reductions in selling, general and administrative expenses.

In the Eye Care Business, demands dropped sharply as a result of lockdowns imposed due to COVID-19. However, demand has been on a recovery trend after bottoming out in April 2020. The market recovered rapidly from the third quarter onward due to vigorous demand for tele-optometry system that supports social distancing as well as the market recovery and the effects of reorganization of our sales network in China. As a result, net sales decreased by 1.1% year-on-year to ¥44,251 million. Although we worked to reduce fixed expenses, operating income decreased by 10.5% year-on-year to ¥122 million mainly due to the impact of a decline in net sales.

Financial Position

Total Assets

As of March 31, 2021, total assets stood at ¥168,210 million, an increase of ¥6,489 million from the end of the previous fiscal year.

Current assets

Current assets increased by ¥3,413 million from the end of the previous fiscal year to ¥101,942 million. This was mainly due to increases in cash and deposits and accounts receivable, despite a decrease in inventories.

Non-current assets

Non-current assets increased by ¥3,075 million from the end of the previous fiscal year to ¥66,268 million. This was mainly due to increases in tangible fixed assets and investment securities, despite a decrease in intangible fixed assets.

Liabilities

As of March 31, 2021, total liabilities stood at ¥97,522 million, an increase of ¥460 million from the end of the previous fiscal year.

Current liabilities

Current liabilities decreased by ¥19,304 million from the end of the previous fiscal year to ¥49,062 million. This was mainly due to decreases in short-term borrowings and the current portion of bonds payable.

Non-current liabilities

Non-current liabilities increased by ¥16,764 million from the end of the previous fiscal year to ¥48,460 million. This was mainly due to increase in bonds payable.

Net Assets

As of March 31, 2021, total net assets stood at ¥70,687 million, an increase of ¥6,028 million from the end of the previous fiscal year. This was mainly due to increase in retained earnings and foreign currency translation adjustment.

Cash Flows

As of March 31, 2021, cash and cash equivalents (hereinafter referred to as "net cash") stood at ¥20,446 million, an increase of ¥4,662 million from the end of the previous fiscal year. This was mainly due to an increase in net cash resulting from a decrease in inventories and issuance of corporate bonds, despite a decrease in net cash resulting from an increase in accounts receivable, acquisition of fixed assets and investment securities, and repayment of short-term borrowings.

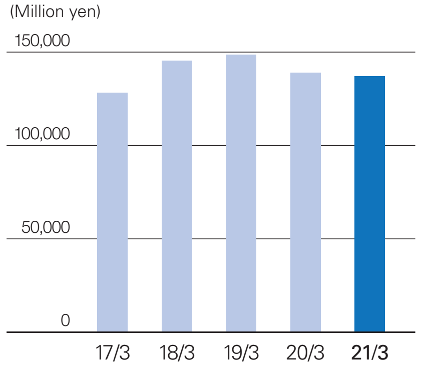
Net Cash Flow Provided by Operating Activities

During the fiscal year ended March 31, 2021, net cash provided by operating activities totaled ¥19,439 million, compared to ¥7,944 in the previous fiscal year. This was mainly due to making a profit before income taxes and a decrease in inventories, despite a decrease in net cash resulting from an increase in accounts receivable.

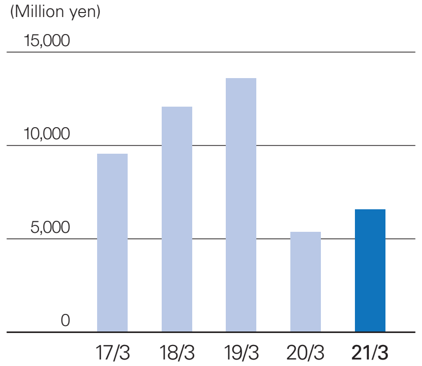
Net Cash Flow Used in Investing Activities

During the fiscal year ended March 31, 2021, net cash used in investing activities totaled ¥9,226 million, compared to ¥6,807 million in the previous fiscal year. This was mainly due to purchases of tangible fixed assets, intangible fixed assets, and investment securities.

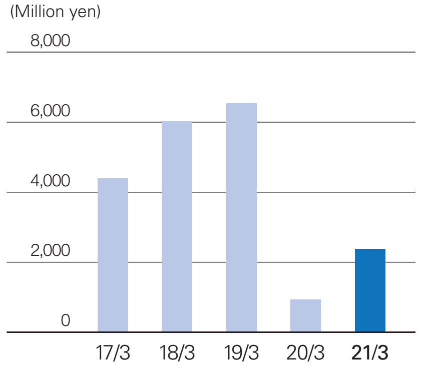
Net Sales



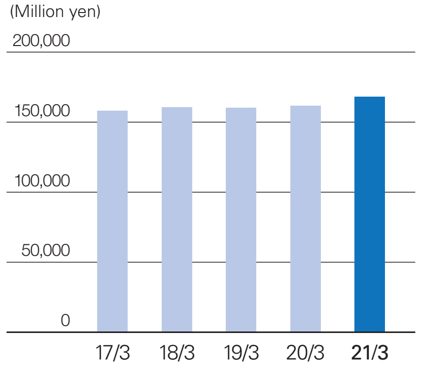
Operating Income



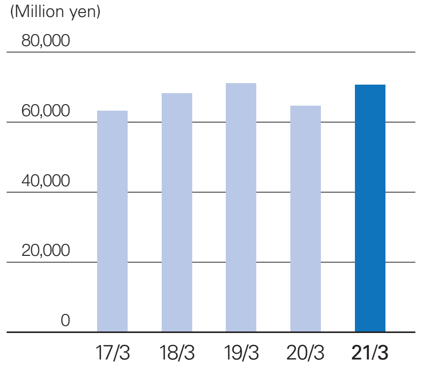
Profit Attributable to Owners of the Parent



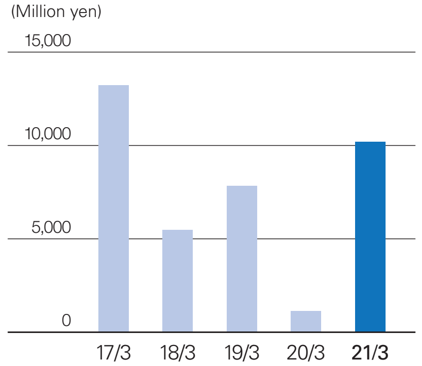
Total Assets



Net Assets



Free Cash Flows



* i-Construction is a registered trademark of the National Institute for Land and Infrastructure Management, Ministry of Land, Infrastructure, Transport and Tourism.

Discussion and Analysis of Financial Results

Net Cash Flow Provided by Financing Activities

During the fiscal year ended March 31, 2021, net cash used in financing activities totaled ¥6,195 million, compared to ¥1,995 million provided by financing activities in the previous fiscal year. This was mainly due to repayments of short- and long-term borrowings, redemption of corporate bonds, and dividends paid.

Capital Expenditures

In the fiscal year ended March 31, 2021, total capital expenditures for the Topcon Group amounted to ¥4,206 million.

Capital expenditures by business segment comprised ¥972 million for the Smart Infrastructure Business, ¥1,546 million for the Positioning Company, and ¥1,599 million for the Eye Care Business. Capital expenditures were mainly for research and development, enhancement of production systems, improvement of business efficiency, and investments for the purpose of updating molds and other items.

Dividend Policy

Topcon places priority on the payment of dividends as a means of returning profits to shareholders. Topcon's basic policy regarding the appropriation of profit is to ensure a continuous and stable payment of dividends in line with the growth in consolidated business results.

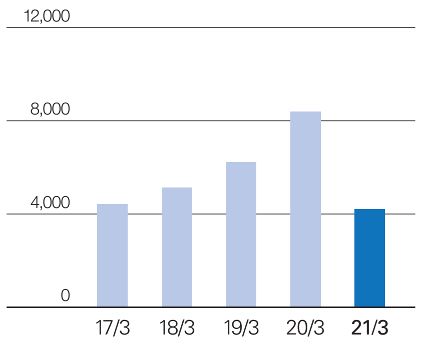
As a basic policy, Topcon makes dividend payments twice per year in the form of interim and year-end dividends. The Company's Articles of Incorporation also allow for dividends to be determined by the resolution of the Board of Directors rather than by the General Meeting of Shareholders, and provide the record date for the year-end dividend as March 31, and for the interim dividend as September 30 of each year, as well as allowing for the payment of dividends from surplus by determining a separate record date.

As for the dividends from surplus for the fiscal year ended March 31, 2021, there was no payment for interim dividends as originally planned in light of negative impacts from COVID-19 pandemic (compared with ¥14.00 per share interim dividend in the previous fiscal year). However, because we were able to post profit exceeding the plan, based on the basic policy to return profits to our shareholders, ¥10.00 per share (compared with ¥5.00 per share in the original plan and ¥10.00 per share in the previous fiscal year) was paid for the year-end dividend, bringing the total full-year dividends to ¥10.00 per share (compared to ¥24.00 per share in the previous fiscal year).

The Company effectively uses its internal reserves for the proactive development of its future businesses, including research and development as well as capital expenditures.

Capital Expenditures

(Million yen)



Business Risks

Business risks relating to business conditions, financial status, and other matters that may potentially have a significant impact on investor decisions include the following.

Economic Conditions Relating to Product Demand

The Topcon Group (hereinafter "the Group") is primarily engaged in three businesses, namely the Positioning Company, the Smart Infrastructure Business, and the Eye Care Business. Product demand is impacted by trends in the markets to which the respective business segments belong (construction and civil engineering, agriculture, and ophthalmic/eyeglass markets), and should any major fluctuation occur in these markets, it may impact the financial position and business results of the Group.

Moreover, given the Group's high ratio of overseas sales and its extensive marketing areas around the world, which include the U.S., Europe, Asia, and China, as well as Japan, the economic conditions in these areas may impact the financial position and business results of the Group.

Overseas Business Development

The Group is engaged in a wide range of overseas activities, including the export of its products and overseas production. Hence, the deterioration of political and economic conditions overseas, trade and currency restrictions, reforms of laws and tax systems, a deterioration of public security, conflicts and terrorism, wars, and natural disasters may impede the Group's overseas activities, and impact the financial position and business results of the Group.

Intensifying Competition (Price and Non-price Competition)

The Group faces competition in the form of the supply of similar products by competitors, in each of its businesses. To maintain its competitive edge, the Group promotes the early market launch of new products, the development of new technologies, and cost reductions, among other efforts. However, should delays occur in new product development, the development of new technologies takes longer than expected, or the price of raw materials soars, it may impair the Group's growth potential and profitability, and impact the financial position and business results of the Group.

Fluctuations in Interest Rates, Foreign Exchange Rates, and Other Conditions in the Financial Markets

The Group maintains a high ratio of overseas sales in its total consolidated sales. Since this presents exposure to exchange-rate fluctuation risk, the Group uses forward exchange contracts to maintain an appropriate level of exchange hedge within the scope of demand. Despite these precautions, volatility in exchange rates may impact the business results and financial position of the Group. The Group also borrows funds from financial institutions, which presents exposure to interest-rate fluctuation risk. Changes in financial market conditions could lead to sharp rises in interest rates. Such fluctuations could increase the Group's interest payments, which may impact the business results and financial position of the Group.

Fund Procurement

The Group raises its necessary funds through borrowings from financial institutions, bond issues, and other means. Going forward, the Group may encounter situations in which loans cannot be continued or new loans cannot be taken out, due to a deterioration of the financial markets, poor business performance, and other reasons. Moreover, the Group's fund procurement could become restricted or fund-raising costs could rise in the event that the Group's credit rating by the rating agencies is downgraded. Should such a situation occur, it may impact the financial position and business results of the Group.

New Business Strategies

The Group considers initiatives for new businesses to ensure future growth, as appropriate. However, new businesses involve numerous uncertainties, and in the event that they are not achieved as planned, it may impact the financial position and business results of the Group.

Corporate Acquisitions

The Group strives to build a system that can foster optimal business forms suited for business characteristics, and at times takes steps such as corporate acquisitions to expand operations. Nonetheless, such actions can affect the Group's business results and financial position if sharp changes in the market and competitive environment cause the acquired businesses to underperform or management resources cannot be put to effective use.

Fixed Assets

The Group holds tangible fixed assets and intangible fixed assets such as goodwill through corporate acquisitions. Should the value of these assets decrease due to a decline in profitability, fall in market prices, or other factors, it will lead to impairment losses or incurring of loss on sales at the time of disposal, which may impact the financial position and business results of the Group.

Procurement of Materials and Other Items

The Group needs to rely on a limited number of suppliers or suppliers who are difficult to replace, when using certain special materials in its production activities. Should delays and etc. of supplies occur, they may result in an increase in purchasing costs, and delays of production, and potentially impact the financial position and business results of the Group.

Quality Issues

The Group makes a concerted effort into quality control to ensure optimal quality, in line with the attributes of each product. However, it is virtually impossible to eliminate quality issues completely due to unforeseen circumstances, which could lead to recalls, litigation, and other actions, and such a situation may impact the financial position and business results of the Group.

Intellectual Property Rights

The Group utilizes various intellectual property rights in its research and development activities, and recognizes these rights as the Group's proprietary rights or rights under legal licensing agreements. However, the Group may unwittingly become the subject of litigation due to infringements of intellectual property rights by third parties. Should a dispute regarding intellectual property rights occur, it may impact the financial position and business results of the Group.

Laws and Regulations

Among the Group's products, certain products in the Eye Care Business are regulated as medical devices by the Pharmaceutical Affairs Act of Japan, as well as the laws relating to medical devices of the countries in which the Group operates. Should these laws and regulations undergo changes, or the Group no longer be able to obtain the approvals and authorizations necessary to conduct business in a timely manner, it may impact the financial position and business results of the Group.

Natural Disaster and Accidents

Any unforeseen manmade or natural disasters such as fires, earthquakes, terrorism, wars, or epidemics, in the areas in which the Group conducts its business could result in human casualties and property damage, as well as suspension of business activities, and may impact the financial position and business results of the Group.

(Risks Associated with the Spread of the COVID-19)

Due to the spread of COVID-19, sales activities and shipments in each country were under major restrictions into the fiscal year ended March 31, 2021, and impacted the Group's business activities and financial results. However, the situation began to pick up mainly in the manufacturing industry through the latter half of the fiscal year, despite disparities of recovery among the regions. The Group expects similar recovery trends to continue going forward.

The Group has been taking measures, including reinforcement of its corporate sustainability and improvement of its financing capabilities to ensure ample business funds (operating funds) looking ahead of business growth after COVID-19 is contained. However, should the pandemic continue in the long term, it may cause a slowdown in demand and adversely impact the Group's logistics, procurement of materials, production, and accounting estimates, which, in turn, may impact the financial position and business results of the Group.

Seasonality

The Group's performance tends to be weighted toward the fourth quarter.