

FY2019 Financial Results

May 21, 2020
TOPCON CORPORATION



FY2019 Financial Results

I . FY2019 Financial Results

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for Each Business**

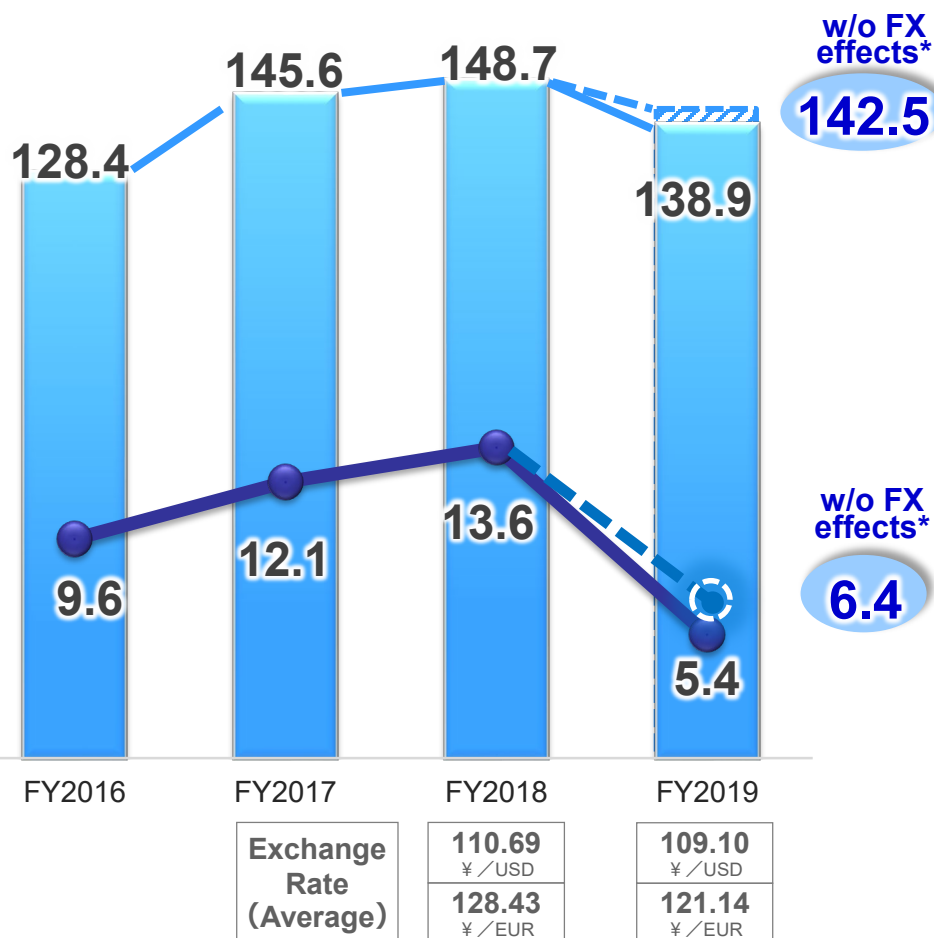
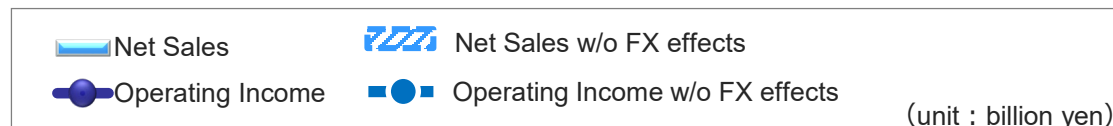
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I . FY2019 Financial Results

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FY2019 Overview



- Decline in sales and profit

Actual (YoY)

Net Sales ¥ 138.9B (-7%)

Operating Income ¥ 5.4B (-60%)

- Extraordinary impact of COVID-19 in 4Q

	4Q Actual	COVID-19 impact	w/o COVID-19 impact	Announced on Jan. 31
Net Sales	38.1	-8.1	46.2	46.3
Operating Income (Operating come Ratio)	2.3 (6.1%)	-4.5	6.8	6.9 (15.0%)

(unit : billion yen)

*w/o FX effects : Converted figures for FY2019 using exchange rates in the same period of FY2018

FY2019 Financial Results [Consolidated]

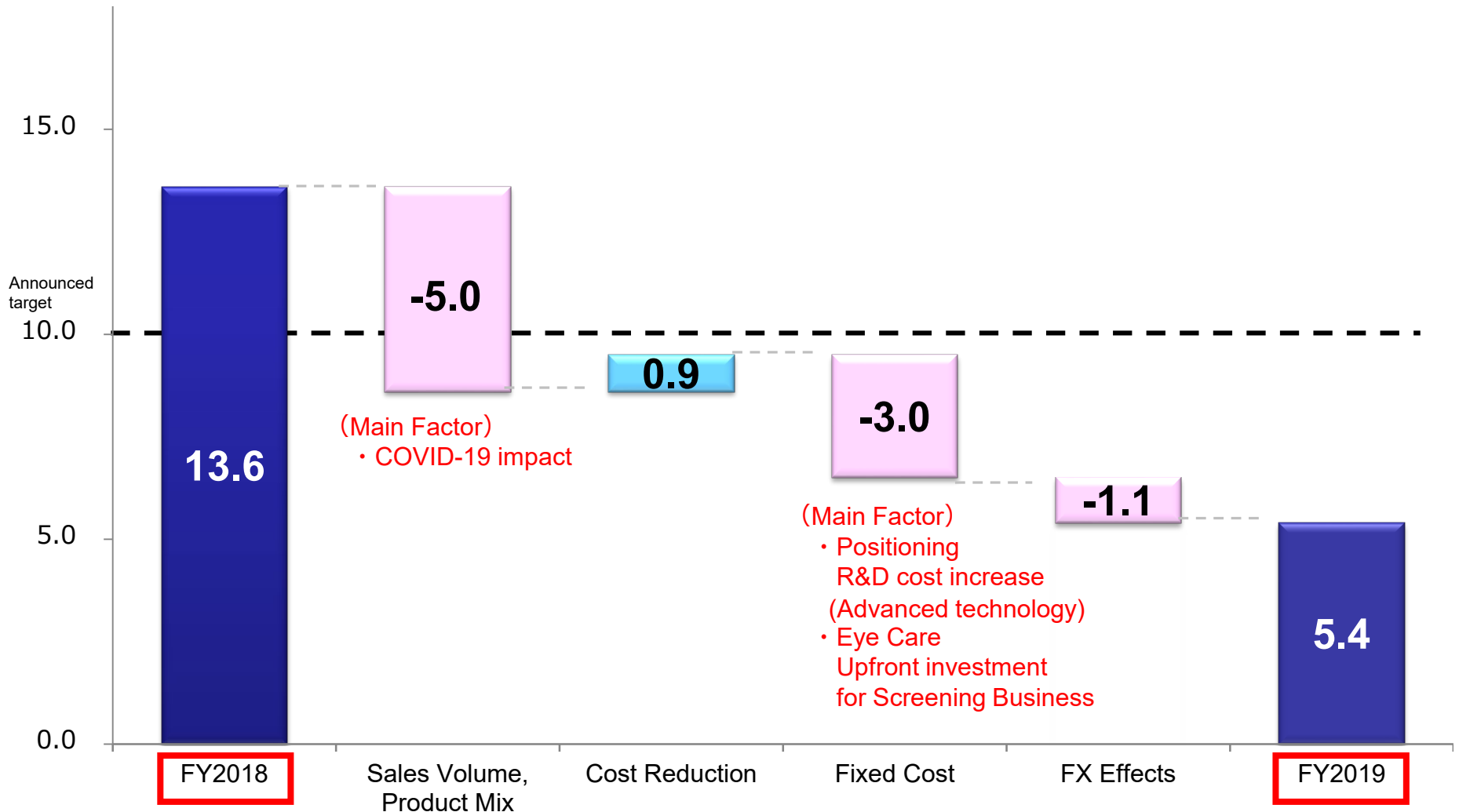
	FY2018	FY2019					(unit : million yen)
	Actual	Actual	YoY	YoY%	w/o FX effects	YoY%	Announced on Jan. 31
Net Sales	148,688	138,916	-9,772	-7%	142,505	-4%	147,000
Gross Profit (Gross Profit Ratio)	78,515 (52.8%)	72,632 (52.3%)	-5,883				
SGA	64,918	67,251	2,333				
Operating Income (Operating Income Ratio)	13,596 (9.1%)	5,381 (3.9%)	-8,215	-60%	6,449	-53%	10,000 (6.8%)
Non-Operating Income (Expenses)	-2,099	-2,486	-387				
Ordinary Income	11,497	2,895	-8,602	-75%	3,984	-65%	8,000
Extraordinary Income (Loss)	-5,019	17	5,036				
Income Before Income Taxes and Minority Interests	6,478	2,912	-3,566				
Net Income	6,548	935	-5,613	-86%	1,627	-75%	4,300
ROE	9.8%	1.4%					6.5%
Dividends	¥24	¥24					¥28
Payout Ratio	39%	271%					
Exchange Rate (Average)	USD EUR	¥110.69 ¥128.43	¥109.10 ¥121.14	-¥1.59 -¥7.29			
						(Assumed FX rate for 4Q)	¥110 ¥120

FY2019 Financial Results by Business [Consolidated]

		FY2018	FY2019					(unit : million yen)
		Actual	Actual	YoY	YoY%	w/o FX effects	YoY%	Announced on Jan. 31
Net Sales	Positioning	77,722	73,989	-3,733	-5%	76,072	-2%	76,000
	Smart Infrastructure	36,744	33,398	-3,346	-9%	33,807	-8%	34,500
	Eye Care	47,713	44,758	-2,955	-6%	46,163	-3%	50,000
	Others	1,698	1,319	-379	-22%			1,500
	Elimination	-15,190	-14,549	641				-15,000
	Total	148,688	138,916	-9,772	-7%	142,505	-4%	147,000
Operating Income (Operating Income Ratio)	Positioning	8,358 (10.8%)	4,537 (6.1%)	-3,821	-46%	4,683	-44%	6,000 (7.9%)
	Smart Infrastructure	6,393 (17.4%)	5,027 (15.1%)	-1,366	-21%	5,245	-18%	5,100 (14.8%)
	Eye Care	2,896 (6.1%)	136 (0.3%)	-2,760	-95%	872	-70%	3,000 (6.0%)
	Others	-65	-144	-79	-			0
	Elimination	-3,986	-4,175	-189				-4,100
	Total	13,596 (9.1%)	5,381 (3.9%)	-8,215	-60%	6,515 (4.6%)	-52%	10,000 (6.8%)

FY2019 Operating Income YoY Breakdown

(unit : billion yen)



I . FY2019 Financial Results

I - 1 . FY2019 Financial Results

I - 2 . Overview of Each Business

Overview of Each Business (FY2019 full year)

Positioning

(unit : million yen)

		FY2018	FY2019				
		Actual	Actual	YoY	%	w/o FX effects	% Announced on Jan. 31
Net Sales		77,722	73,989	-3,733	-5%	76,072	-2%
Operating Income (Operating Income Ratio)		8,358 (10.8%)	4,537 (6.2%)	-3,821	-46%	4,683 (6.2%)	6,000 (7.9%)
Exchange Rate	U S D	¥110.69	¥109.10	-¥1.59			
	E U R	¥128.43	¥121.14	-¥7.29			

Review of FY 2019 Financial Results

- IT Construction:
OEM: steep sales decline in the 2nd half
After market: solid sales in Europe and the U.S
- IT Agriculture:
Stagnant sales for full year
OEM business showing some signs of having bottomed out

COVID-19 Impact

(unit : billion yen)

	4Q Actual	COVID-19 impact	w/o COVID-19 impact	Announced on Jan. 31
Net Sales	21.4	-2.2	23.6	23.5
Operating Income (Operating Income Ratio)	2.1 (9.9%)	-1.3	3.4	3.6 (15.3%)
<ul style="list-style-type: none"> - Severe impact from lockdowns in Europe and the U.S on the peak selling period - Continued business as an “Essential business” under certain restrictions due to lockdown 				

Overview of Each Business (FY2019 full year)

Smart Infrastructure

(unit : million yen)

		FY2018	FY2019				
		Actual	Actual	YoY	%	w/o FX effects	% Announced on Jan. 31
Net Sales		36,744	33,398	-3,346	-9%	33,807	-8%
Operating Income (Operating Income Ratio)		6,393 (17.4%)	5,027 (15.1%)	-1,366	-21%	5,245 (15.5%)	5,100 (14.8%)
Exchange Rate	U S D	¥110.69	¥109.10	-¥1.59			
	E U R	¥128.43	¥121.14	-¥7.29			

Review of FY 2019 Financial Results

- Japan:

Continuing strong sales thanks to tailwind from National Resilience, restoration from natural disasters and i-Construction spread

- China / Asia:

Weak demand and sales throughout the year due to U.S-China trade friction and general elections

COVID-19 Impact

(unit : billion yen)

	4Q Actual	COVID-19 impact	w/o COVID-19 impact	Announced on Jan. 31
Net Sales	9.7	-1.2	10.9	10.8
Operating Income (Operating Income Ratio)	2.0 (21.1%)	-0.6	2.6	2.1 (19.6%)

- Japan: Less negative impact on sales as construction works are continuing despite some restrictions on sales activities
- China: Recovery trend from late March after the stagnation of business activities since the Chinese new year

Overview of Each Business (FY2019 full year)

Eye Care

(unit : million yen)

		FY2018	FY2019				
		Actual	Actual	YoY	%	w/o FX effects	% Announced on Jan. 31
Net Sales		47,713	44,758	-2,955	-6%	46,163	-3%
Operating Income (Operating Income Ratio)		2,896 (6.1%)	136 (0.3%)	-2,760	-95%	872 (1.9%)	3,000 (6.0%)
Exchange Rate	U S D	¥110.69	¥109.10	-¥1.59			
	E U R	¥128.43	¥121.14	-¥7.29			

Review of FY 2019 Financial Results

COVID-19 Impact

- Screening Business:
Good progress in new large optical chain stores
- Sales increase in China
- Continuing growth investment for the future

(unit : billion yen)

	4Q Actual	COVID-19 impact	w/o COVID-19 impact	Announced on Jan. 31
Net Sales	10.8	-5.2	16.0	16.1
Operating Income (Operating Income Ratio)	-0.7	-2.7	2.0	2.1 (13.3%)

- Sharp decline in sales in China, the U.S and Europe due to lockdowns
Halt the sales activities and stop delivery to medical institutions
Postponement of demand due to optical chains' store closure
- Japan: Limited impact on sales in March

Ⅱ . Future Prospects

Ⅱ - 1 . FY2020 Business Outlook

Ⅱ - 2 . Effect on the Third Mid-term Business Plan

FY2020 full year plan

- No disclosure of FY2020 full year plan since the reasonable calculation for the outlook is very difficult due to COVID-19 pandemic and also to predict when it will end
- Plan to announce the full year guidance as we report the FY 2020 1Q financial results in late July
(may change according to circumstance)

Basic policy for COVID-19

Emphasize maintaining employment from a perspective of corporate's sustainability

Emphasize keeping employees healthy, safe and prevented from the infection

- Facilitate a telework environment in conformity with regulations of each country (80% or more of the employees)

Situations in April by business segment

Business	Situations in April and outlook
Positioning	<p>April sales was down approximately 25% YoY. The performance was relatively good despite lockdown in major cities in the US while there was much more significant negative impact in Europe. We expect some recovery along with lift of restriction as construction operation is considered essential business in both regions. Sales in China is up YoY (the sales ratio is relatively small, though). In terms of IT Agriculture, it is stable driven by OEM.</p>
Smart Infrastructure	<p>April sales was down approximately 10% YoY. There is limited impact from COVID-19 in Japan because our main field is in public works which continue to operate. Major construction companies stopped some sites but resumed after Golden Week Holidays.</p> <p>There is Significant negative impact from lockdown on countries in Southeast Asia and India. Business in China is back to normal. Sales negotiation is in progress in South Korea.</p> <p>Similar to Positioning Business, we expect some recovery along with lift of restriction. In addition, there would be economic restoration demand for post-COVID-19.</p>
Eye Care	<p>April sales was down by half YoY. There was extraordinary negative impact from closing of medical chain stores due to lockdown in the U.S. and Europe. Sales and delivery to medical institutions were stopped in many regions. On the other hand, we won a large contract for remote vision testers satisfying needs for “social distancing” in Europe, and business in China is on its way to recovery. In terms of weekly sales in total, it hit the bottom in the first week of April. Although we should still take a cautious stance, it will possibility to recover after 3 to 6 months from now.</p>

■ Measures for Profit improvement

- Cost reductions in light of short-term sales deterioration
Reduction of SG&A and director's compensation, and furlough
- Reduction of R&D expenses by thorough evaluation of priority based on the outlook of post-COVID-19
- Restraint of capital expenditure

■ Reinforcement of financing capacity

- In light of post-COVID-19, enhancing financing capacity to secure working capital and growth capital

Commitment Line	Doubling to ¥42B from ¥22B
Commercial Paper	New assignment of CP Rating (R&I: a-1)
Corporate Bond	¥30B registered (*Besides ¥20B which had been already registered)

■ Policy of Shareholder Return

- Maintain payout ratio over 35%

Ⅱ . Future Prospects

Ⅱ - 1 . FY2020 Business Outlook

**Ⅱ - 2 . Effect on the Third
Mid-term Business Plan**

■ The Third Mid-term Business Plan (FY2019 - FY2021)

Vision

Expand our businesses and **solve the societal challenges** within the growing market of Healthcare, Agriculture and Infrastructure

- **Vision is intact**, whilst the timeline is inevitable to change
- **Tailwind** for our growth scenario

New Keywords

Corresponding to
Social Distancing

Essential
Business

Economic
Restoration

Effect on the Third Mid-term Business Plan



Positioning

Smart Infrastructure

Societal challenges are unchanged, tailwind for mid-term growth scenario

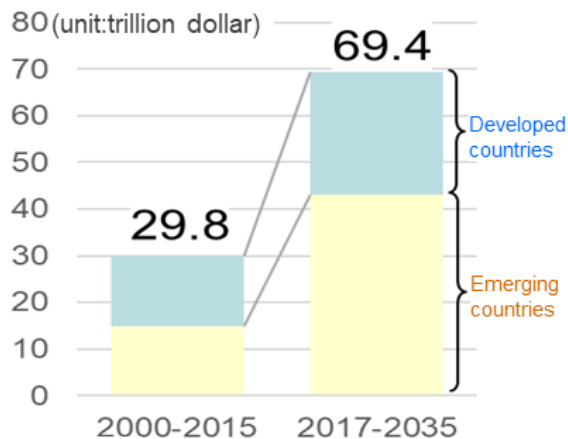
- Limited COVID-19 impact on construction industries
- Increase in infrastructure investment essential for **economic restoration**
 - ➡ Severe labor shortage ➡ Tailwind for automation

Societal challenge

- ✓ Shortage of skilled workers



- ✓ Increasing demand for Infrastructure



Growth scenario

Automation of construction

by robotization of construction machinery and unification of work flow

-Productivity improvement

-Elimination of labor shortage



Realization

Topcon's unique technology

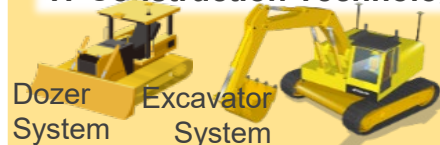
① IT Construction technology

- ▶ Machine Control System utilizing precision GNSS technology

② 3D Measurement technology

- ▶ Sensor digitization which realize unification of work flow

IT Construction Technology



3D Measurement Technology



3 D printer robot

Terrastral Surveying Instruments

Aerial photogrammetry

Societal challenges are unchanged, tailwind for mid-term growth scenario

- Steady demands as an **Essential Business**
- Labor shortage is a tailwind for automation caused by travel restrictions across the borders

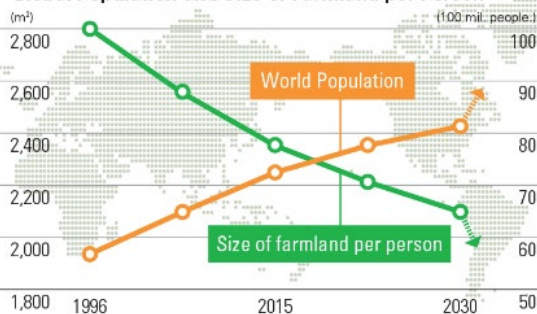
Societal challenge

- ✓ Food shortage
- ✓ Population aging/
Decreasing of skilled workers



- ✓ Global population increase
- ✓ Decreasing size of farmland per person

Global Population and Size of Farmland per Person



Source: Topcon's estimates based on Food and Agriculture Organization of the United Nations (FAO)

Growth scenario

Automation of Agriculture

by automation of steering and unification of data management

Improvement of productivity and quality



Realization

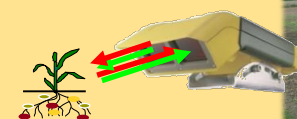
Tocon's unique technology

- ① IT Agriculture machinery
 - ▶ Auto-steering system utilizing precision GNSS technology
- ② Optical Sensor technology
 - ▶ Digitization by crop monitoring sensor and yield sensor

IT
Agriculture
system



Optical sensor technology



Auto-Steering system for farm machinery

Laser-type crop sensor

- Significant negative impact on short-term, however it is unchanged that patients with eye diseases is increasing
- Our proprietary full automation functions completely coincide with new needs for **social distancing**

- ✓ **Shortage of ophthalmologists**

0

Shortage of ophthalmologists to correspond to rapidly increasing diseases

- ✓ **Rising medical cost**

► 3 major diseases: **351 million people**
(year 2020)



by Primary care physicians, Eyeglasses stores, Drug stores, etc.



► **Easy operation with less expertise**



- Fully automatic OCT and color fundus photography
- Reporting function indicating possibility of 3 major eye disease

- Fully automatic color fundus photography
- Early detection of 3 major eye diseases



* Screening: Checking the existence of disease by examination

Ⅲ. Post-COVID-19 Focused Area for Each Business

Post-COVID-19 Focused Area for Each Business

Positioning

- IT Construction: Increase in infrastructure investment essential for economic restoration
- IT Agriculture: Labor shortage is a tailwind for automation caused by travel restrictions



Expansion of business opportunities

Topics

CONEXPO 2020 ended successfully



The largest construction exhibition in the U.S (every 3 years)

- Schedule : March 2020
- Visitors : **130,000**
- Participants : **2,200 companies**

Larger orders than last time despite shortened show period by one day due to COVID-19



Outside View



Exhibition Hall

New Product Release



Topcon's booth

Launched more than 15 models



Excavator System



Tilt Bucket



Mobile MC Application for Tablets

Construction market in Japan

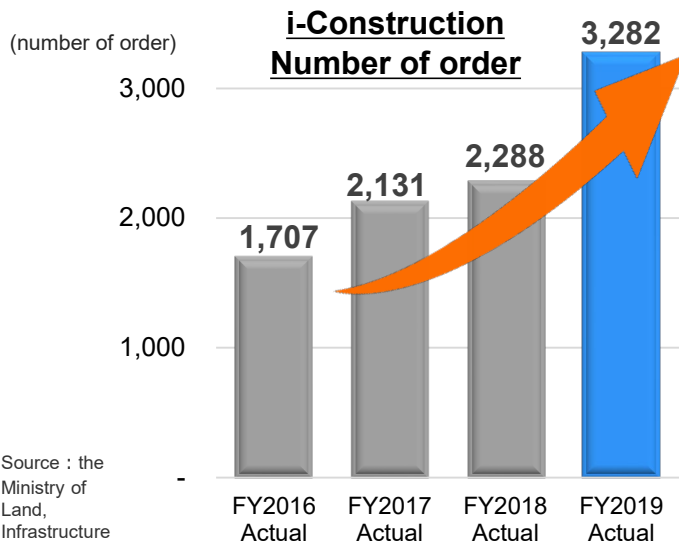
National resilience and restoration from natural disasters make public works demand continuously robust

- Capture demand that has been postponed due to state of emergency declaration
- Acceleration of IT Construction (i-Construction) helping labor shortage

i-Construction expansion

- ✓ Reached 5th year
- ✓ Number of i-Construction work contracts has been significantly increasing

➔ **Continuously expanding IT Construction market**



Source : the Ministry of Land, Infrastructure and Transport

National resilience

(Three-years emergency measures:

Cabinet decision on December 14, 2018)

- ✓ The scale of the project is approx. **¥7 trillion** in 3 years

➔ **Contribute to the expansion of infrastructure market in Japan**

Strong public works demand continues



Emergency measures such as reinforcement of river banks

Source : the Ministry of Land, Infrastructure and Transport



Emergency measures such as reinforcement of road slope protection

*"i-Construction" is a registered trademark of National Institute for Land and Infrastructure Management, MLIT, Japan.

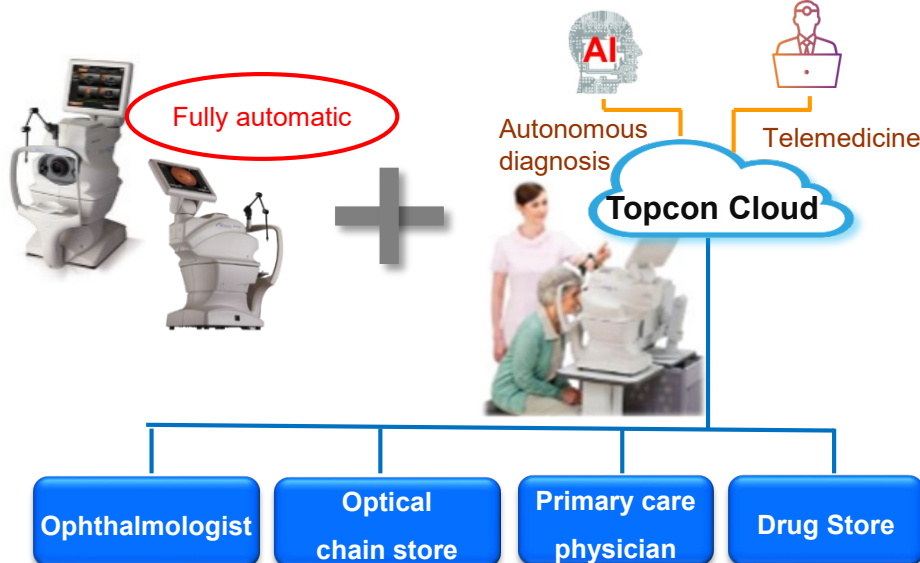
- Significant negative impact on short-term, however it is unchanged that patients with eye diseases are increasing → Tailwind for expanding Screening Business
- **Our proprietary full automation functions completely coincide with new needs for social distancing**

Expansion of Screening Business

Mid-term
Business
Plan

Full automation technology

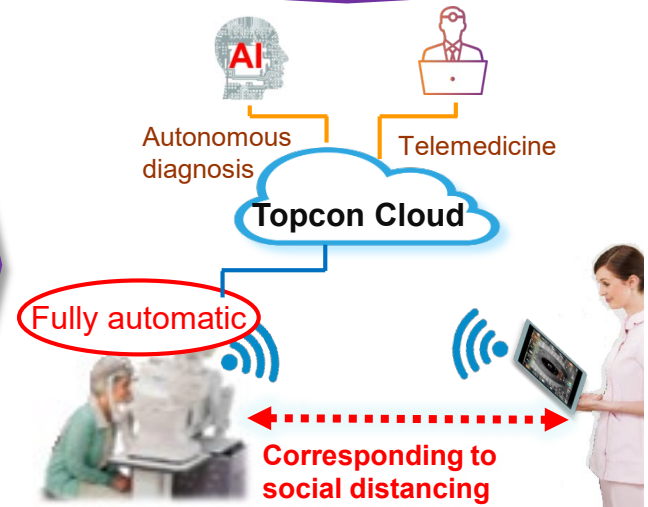
Digital technology



Correspond to
Post-COVID-19

Remote technology

Emerging
needs



- Remotely handle fully automatic equipment using a tablet
- New guidance by FDA supports it

Capture new demand by acceleration of development of remote functions based on proprietary full automation products

【Topcon Way】

We aim to contribute to the creation of a prosperous society by solving societal challenges on healthcare, agriculture, and infrastructure

住

Infrastructure

医

Healthcare

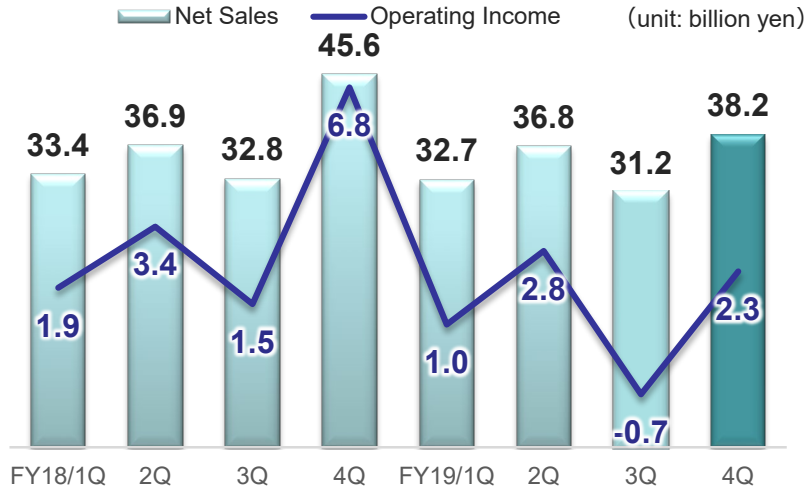
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Agriculture

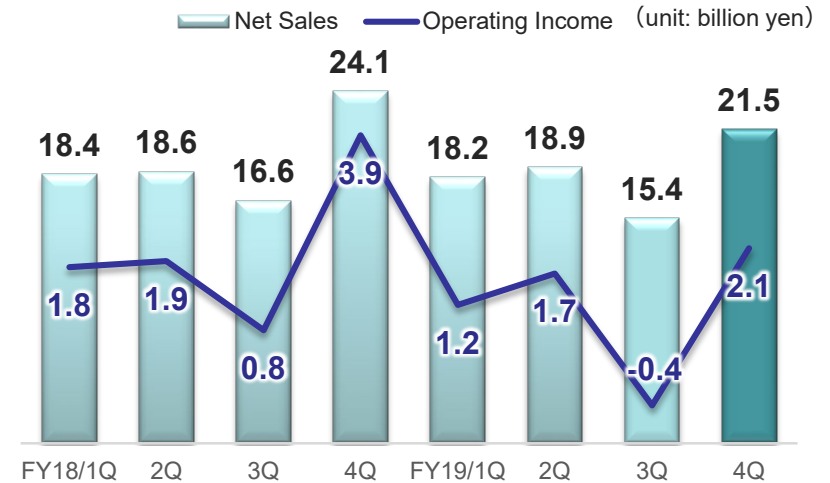
IV. Appendix

Financial Results (Quarterly)

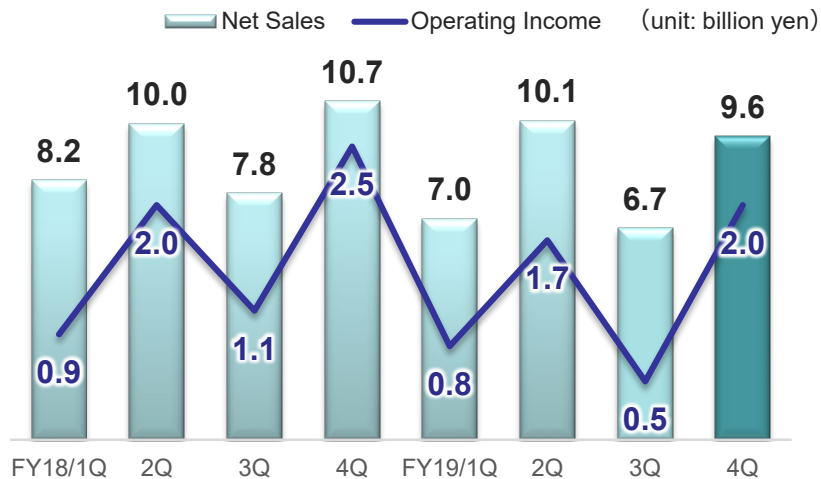
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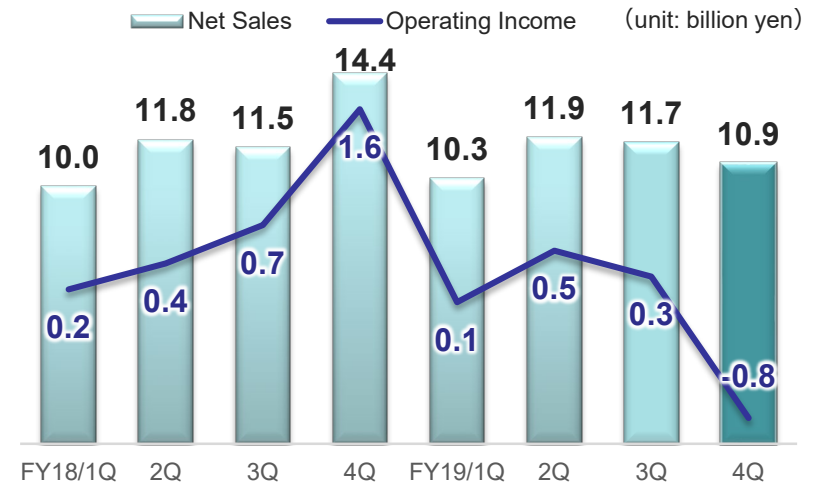
Positioning



Smart Infrastructure

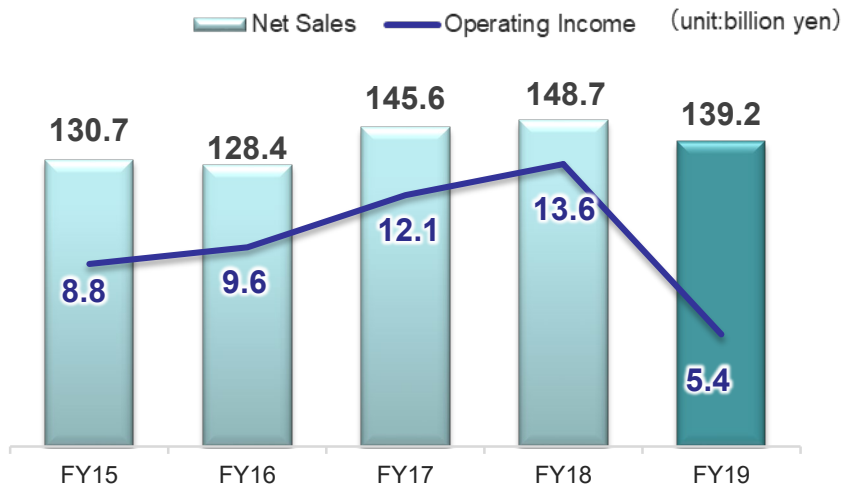


Eye Care

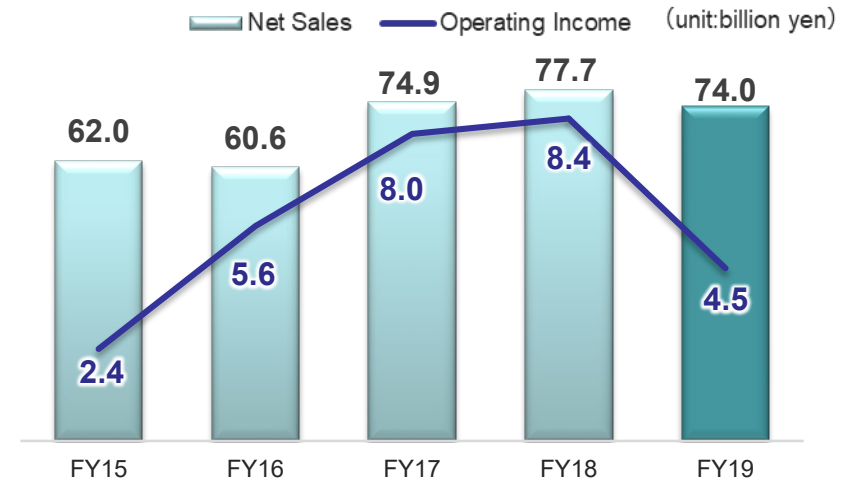


Financial Results and Plan (Annually)

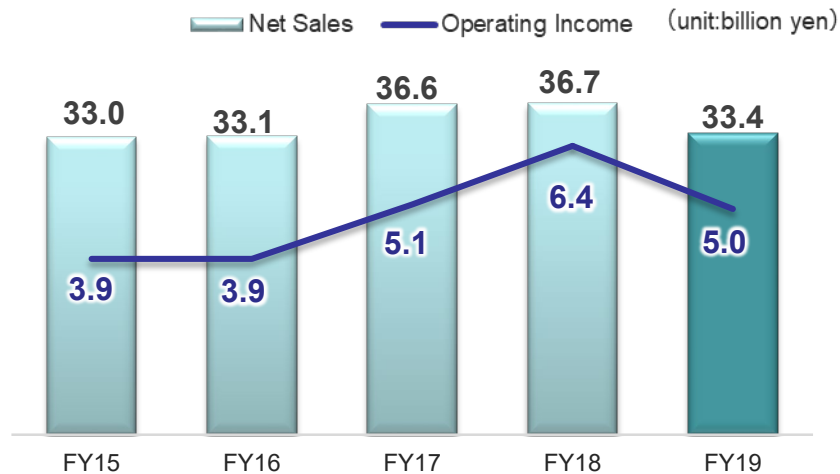
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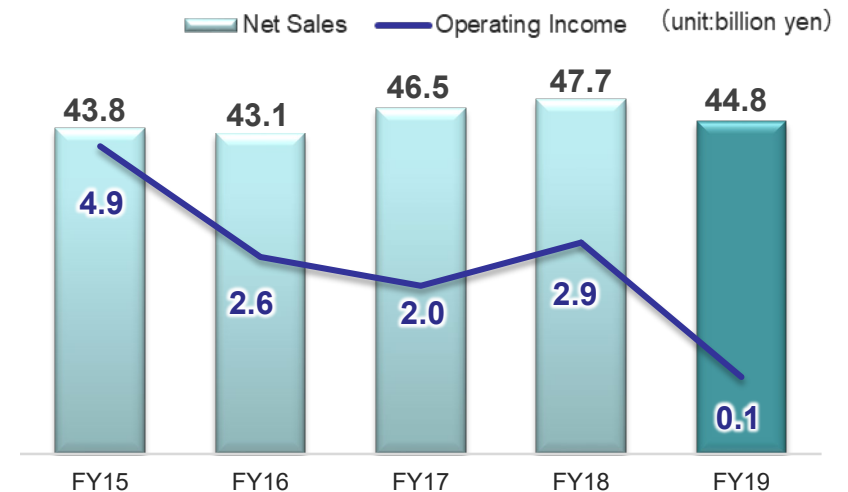
Positioning



Smart Infrastructure



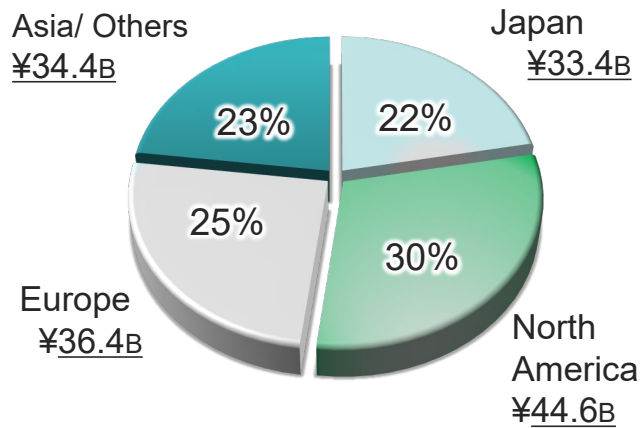
Eye Care



Sales by region

FY2018

¥148.7B

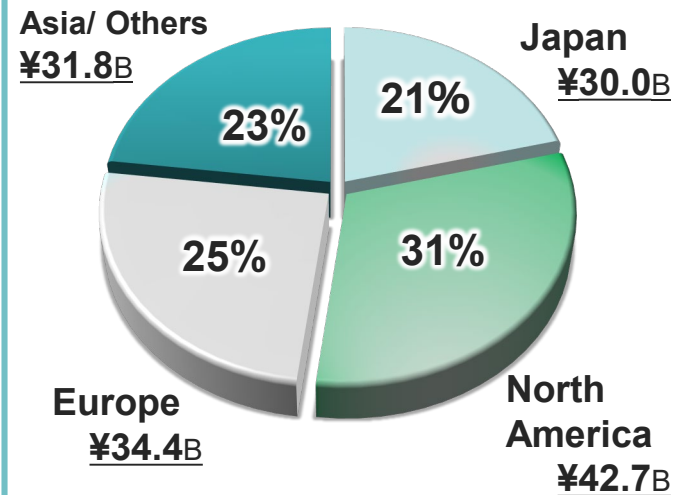


YoY
-7%



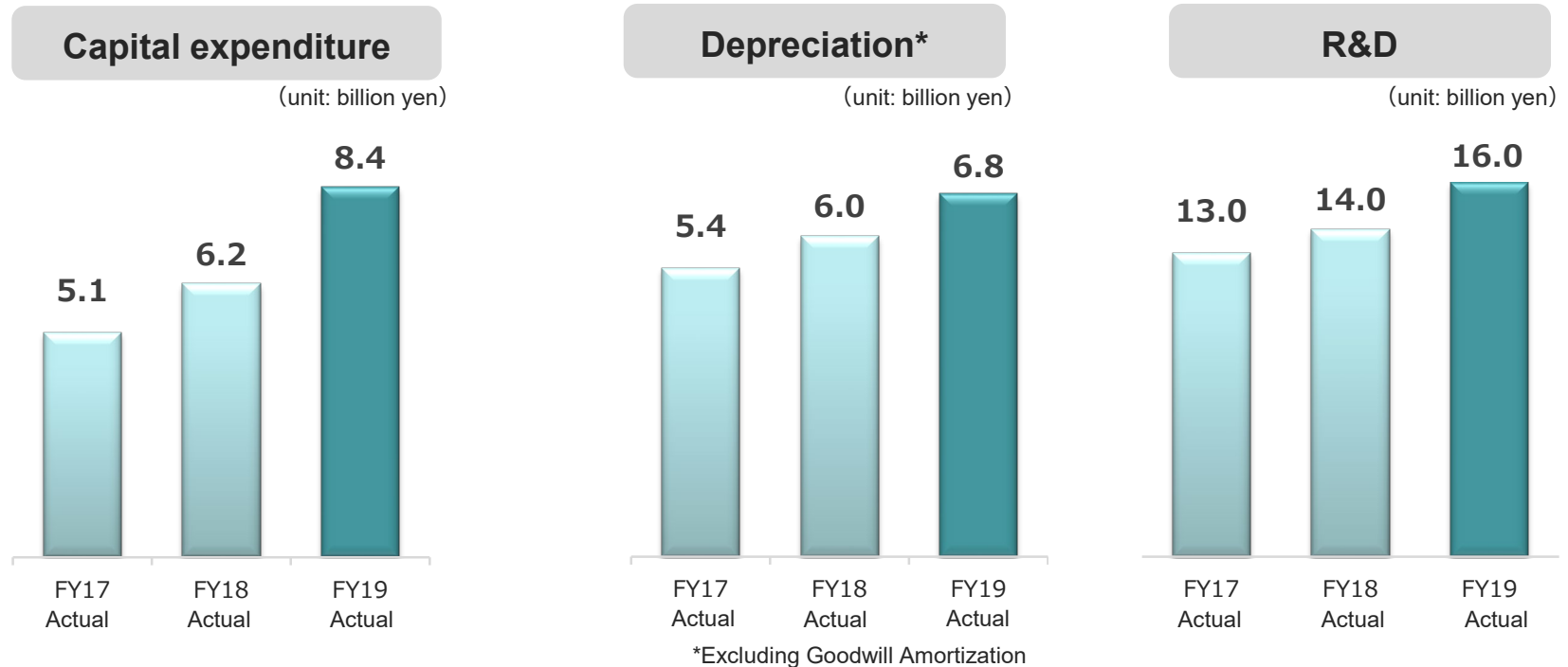
FY2019

¥138.9B



Capital Expenditure and R&D / Forex Sensitivity

■ Projections



■ Forex Sensitivity (impact by ¥1 change)

USD : Operating income ¥0.15B~¥0.2B

EUR : Operating income ¥0.07B~¥0.1B

Cautionary Note regarding Forward-Looking Statements

These materials contain forward-looking statements, including projections of future operating performance. Such statements are based on management's best judgment, given the materials available to them at the time these statements are made.

However, please be aware that actual performance may differ from projected figures owing to unexpected changes in the economic environment in which we operate, as well as to market fluctuations.

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