



# FY2019 1Q Financial Results

July 31, 2019

**TOPCON CORPORATION**

Director and Senior Executive Officer, CFO  
General Manager of Accounting & Finance Div.

**Haruhiko Akiyama**

*Topcon for Human Life*

**TOPCON CORPORATION**

FY2019 1Q Financial Results

July 31, 2019

## Event Summary

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|                             |  |   |
|-----------------------------|--|---|
| <b>[Company Name]</b>       | TOPCON CORPORATION   |   |
| <b>[Event Type]</b>         | Earnings Announcement  |   |
| <b>[Event Name]</b>         | FY2019 1Q Financial Results  |   |
| <b>[Date]</b>               | July 31, 2019  |   |
| <b>[Time]</b>               | 15:30 – 16:15<br>(Total: 45 minutes, Presentation: 25 minutes, Q&A: 20 minutes)  |   |
| <b>[Venue]</b>              | Shin-Marunouchi Building 9F<br>Shin-Marunouchi Building Conference Square Room 901<br>1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6590 |   |
| <b>[Venue Size]</b>         | 240 m <sup>2</sup>   |   |
| <b>[Participants]</b>       | 84   |   |
| <b>[Number of Speakers]</b> | 2  |   |
|                             | Haruhiko Akiyama   | Director, Senior Executive Officer, General<br>Manager of Accounting & Finance Div. |
|                             | Takaaki Hirayama   | Executive Officer, General Manager of<br>Corporate Communication Div.               |

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## **FY2019 1Q Financial Results**

### **I . FY2019 1Q Financial Results**

### **II . FY2019 Full Year Plan**

### **III. Share Buyback**

### **IV. Appendix**

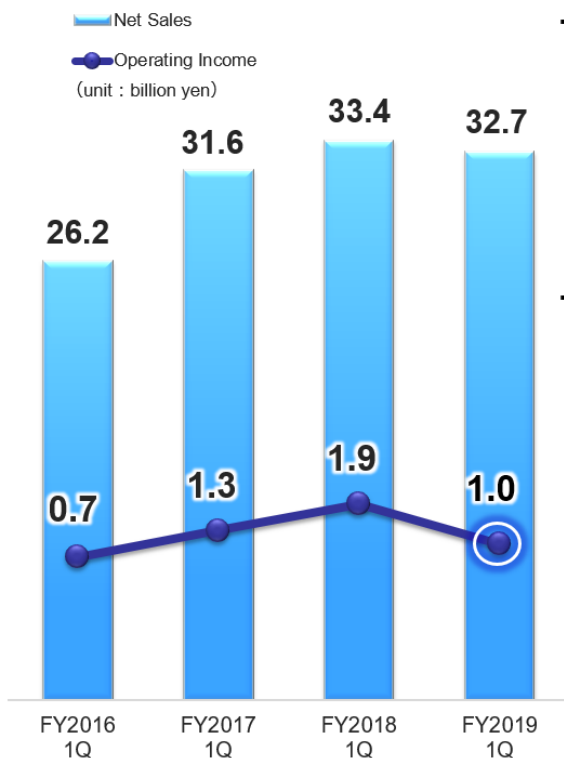


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Good afternoon everyone. Thank you very much for coming to our financial results briefing today during your busy schedule. I will now begin the financial results briefing for the first quarter.

## FY2019 1Q Overview



**- Flat sales, profit falls unable to absorb upfront investment**

|                  | 1Q Actual | YoY  |
|------------------|-----------|------|
| Net Sales        | ¥32.7B    | -2%  |
| Operating Income | ¥1.0B     | -47% |

**- Core businesses are stable despite of uncertainty of outlook**

**Full year forecast remains unchanged**

### Current Conditions

- Positioning : Strong sales of IT Construction  
Sales slowdown of IT Agriculture
- Smart Infrastructure :  
Strong sales of i-Construction in Japan
- Eye Care : Growth of Screening Business



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

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3

Let's look at the financial summary for the first quarter. As the bar graph shows, net sales remained almost the same level as the same period last year. On the other hand, as the line graph shows, unable to absorb upfront investment led to operating income drop to one billion yen for this year as compared to 1.9 billion yen for the previous year.

We will remain the full-year forecast unchanged since our core business is robust despite economic uncertainty. Our business conditions are described by segment: IT construction, which is the mainstay of Positioning, enjoyed strong sales. Also, i-Construction in Japan for Smart Infrastructure as well as Screening Business for Eye Care enjoyed brisk sales. We expect continuing growth in these three segments. Even though Positioning's sales in IT agriculture are slowing down more than expected, we believe that our robust core business will make up for the loss.

## FY2019 1Q Financial Results [Consolidated]

(unit : million yen)

|  | FY2018            | FY2019                   |         |  |
|--|-------------------|--------------------------|---------|--|
|  | 1Q Actual         | 1Q Actual                | YoY     | YoY%                                       |
| <b>Net Sales</b>   | 33,406            | <b>32,747</b>            | -659    | -2%  |
| <b>Gross Profit<br/>(Gross Profit Ratio)</b>                 | 18,077<br>(54.1%) | <b>17,692</b><br>(54.0%) | -385    |  |
| <b>SGA</b>   | 16,171            | <b>16,682</b>            | 511     |  |
| <b>Operating Income<br/>(Operating Income Ratio)</b>         | 1,905<br>(5.7%)   | <b>1,009</b><br>(3.1%)   | -896    | -47%                                       |
| <b>Non-Operating Income<br/>(Expenses)</b>                   | -304              | <b>-442</b>              | -138    |  |
| <b>Ordinary Income</b>                                       | 1,601             | <b>567</b>               | -1,034  | -65%                                       |
| <b>Extraordinary Income<br/>(Loss)</b>                       | -150              | <b>-562*</b>             | -412    | *Loss from stock sales<br>of ifa system AG |
| <b>Income Before Income<br/>Taxes and Minority Interests</b> | 1,451             | <b>4</b>                 | -1,447  |  |
| <b>Net Income</b>  | 492               | <b>-375</b>              | -867    | -%   |
| Exchange Rate<br>(Average)                                   | USD               | ¥108.71                  | ¥110.00 | ¥1.29                                      |
|  | EUR               | ¥129.39                  | ¥123.29 | ¥-6.10                                     |



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4

This is detailed Profit and Loss statement.

Net sales decreased by 659 million yen. Operating income decreased to about one billion yen partly because SG&A expenses rose by about 511 million yen and partly because expenses for upfront investments increased. Non-operating income decreased compared to the last year because of foreign exchange losses as well as exchange rate changes on receivables in foreign currency. Ordinary income was 567 million yen. Extraordinary loss was 562 million yen due to loss from stock sales of ifa systems AG which operates an electronic medical record business in Germany. We acquired about half of ifa's stock four years ago to promote IoT business in Eye Care. However, we established a company for IoT business development in the U.S. which now promotes IoT Eye Care business. Therefore, we no longer admit the business value and synergistic effect with ifa and sold all its stocks. Due to this loss on stock sales, net income for the first quarter was negative 375 million yen.

## FY2019 1Q Financial Results by Business [Consolidated]

(unit : million yen)

|  |                      | FY2018                        | FY2019                        |             |             |
|--|----------------------|-------------------------------|-------------------------------|-------------|-------------|
|  |                      | 1Q Actual                     | 1Q Actual                     | YoY         | YoY%        |
| Net Sales                                    | Positioning          | 18,430                        | <b>18,188</b>                 | -242        | <b>-1%</b>  |
|  | Smart Infrastructure | 8,182                         | <b>7,043</b>                  | -1,139      | <b>-14%</b> |
|  | Eye Care             | 10,047                        | <b>10,321</b>                 | 274         | <b>+3%</b>  |
|  | Others               | 450                           | 316                           | -134        | -30%        |
|  | Elimination          | -3,704                        | -3,121                        | 583         |             |
|  | <b>Total</b>         | <b>33,406</b>                 | <b>32,747</b>                 | <b>-659</b> | <b>-2%</b>  |
| Operating Income<br>(Operating Income Ratio) | Positioning          | 1,823<br>(9.9%)               | <b>1,203</b><br><b>(6.6%)</b> | -620        | <b>-34%</b> |
|  | Smart Infrastructure | 877<br>(10.7%)                | <b>797</b><br><b>(11.3%)</b>  | -80         | <b>-9%</b>  |
|  | Eye Care             | 246<br>(2.4%)                 | <b>114</b><br><b>(1.1%)</b>   | -132        | <b>-54%</b> |
|  | Others               | -19<br>(-4.2%)                | -47<br>(-15.2%)               | -28         | <b>-%</b>   |
|  | Elimination          | -1,023                        | -1,057                        | -34         |             |
|  | <b>Total</b>         | <b>1,905</b><br><b>(5.7%)</b> | <b>1,009</b><br><b>(3.1%)</b> | <b>-896</b> | <b>-47%</b> |



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5

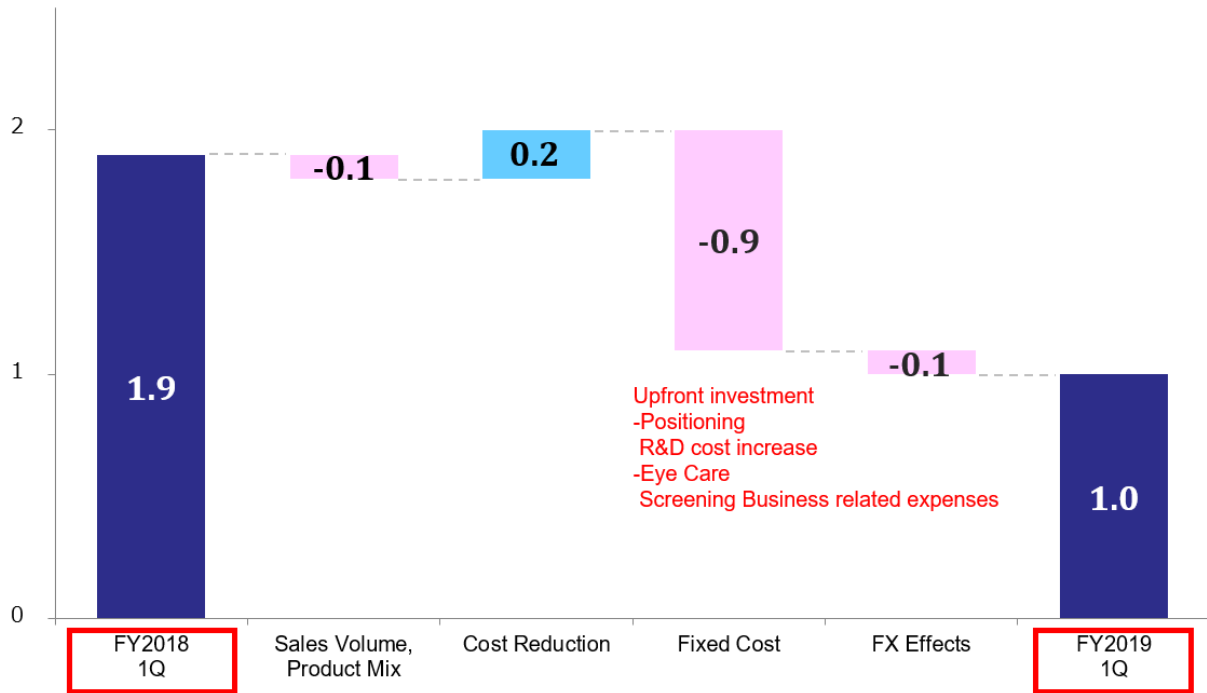
This chart shows net sales and operating income by segment.

While Eye Care sales increased, segments other than Eye Care saw decreased sales and profit.

I will explain in detail later.

## FY2019 1Q Operating Income YoY Breakdown

(unit : billion yen)



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6

This is an analysis of changes in operating income for the first quarter.

There was a difference of negative 0.9 billion yen year-on-year with 1.9 billion yen for the last year and 1.0 billion yen for this year. Breakdown of the changes is as follows: sales changes and sales mix of negative 0.1 billion yen, cost reduction of 0.2 billion yen, and fixed costs of negative 0.9 billion yen. Fixed costs are mainly upfront investments including R&D costs for Positioning and investments into Screening Business for Eye Care. Effect of exchange-rate fluctuations mainly in Eye Care amounted to negative 0.1 billion yen due to slightly stronger yen against euro.



# I . FY2019 1Q Financial Results

I-1. FY2019 1Q Financial Results

**I-2. Overview of Each Business**



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Now, let me explain the details by business.



(unit : million yen)

|   | FY2018          | FY2019                        |      |             |
|---|-----------------|-------------------------------|------|-------------|
|   | 1Q Actual       | 1Q Actual                     | YoY  | %           |
| Net Sales   | 18,430          | <b>18,188</b>                 | -242 | <b>-1%</b>  |
| Operating Income<br><small>(Operating Income Ratio)</small> | 1,823<br>(9.9%) | <b>1,203</b><br><b>(6.6%)</b> | -620 | <b>-34%</b> |

### ■ Review of 1Q Financial Results

- Strong sales of IT Construction
- Growing signs of a slowdown of IT Agriculture globally
- Profit decreases due to unable to absorb R&D cost and one-time exhibition-related expense
- Import cost burden increase by the duty increase to China (Measures has taken)

### ■ Topics

- IT Construction : Sales growth due to increase of OEM partners  
Sales growth by launching new strategic product



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8

First, I will talk about Positioning. While sales remained almost the same level as the previous year, operating income decreased by 620 million yen. In terms of sales, IT construction enjoyed double-digit growth whereas IT agriculture sales suffered more-than-expected double-digit decrease with global slowdown due to the US-China trade war. As a result, the shrinkage of IT agriculture offset the growth of IT construction.

R&D costs and temporary expenses for exhibition reduced operating income. In addition, import costs increased due to tariff hike on Chinese goods. We own factories in China and sell most of our products in China, but we export some products to the U.S. The good news is we have started to transfer production of products destined for the U.S. from factories in China to those in Japan. We are expecting to transfer the production from the second half of this year, so that we think we will be able to substantially reduce costs from then on.

We would like to present two topics regarding IT construction.

## IT Construction : Sales growth due to increase of OEM partners

Positioning

**BAUMA** (Munich, Germany in April 2019)  
the world's largest construction  
machinery trade show (Once every 3 years)

**bauma**

APRIL 8-14, 2019, MUNICH

Visitors : **620,000** (Record)

Participants : 3,700 companies

Major construction machinery  
manufacturers released ICT models



Built partnership with more than  
30 construction machinery manufacturers

-Retrofittable to any manufacturers' machines  
-Showed a strength of the vendor neutral



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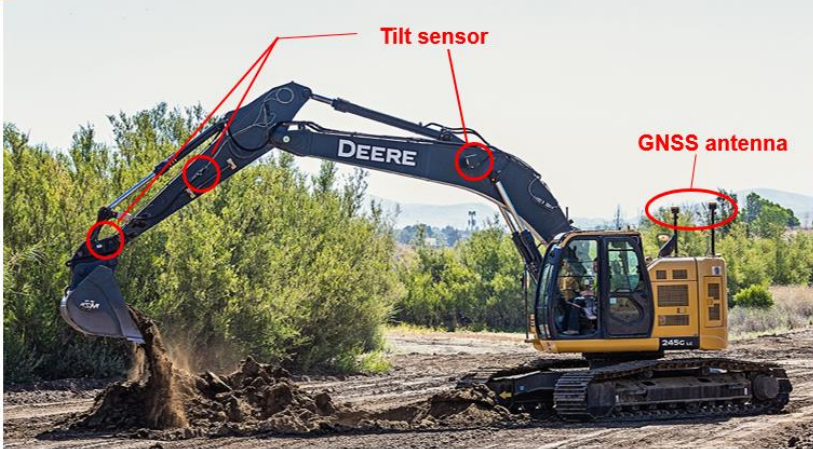
9

The first topic is sales growth by increasing OEM partners. Bauma, the world's largest trade fair of construction machinery, held in this April in Germany, attracted a record 620,000 visitors. At Bauma, major construction machinery manufacturers released many IT-compatible models. We have established partnership with more than 30 such manufacturers, and various manufacturers exhibited models into which our products are installed at Bauma. We supply our products to OEM partners. Our other target is aftermarket where we will install our products into commercial products after the sales. We expect continuing growth in both OEM and aftermarket, leveraging our strength of vendor neutrality.

**IT Construction :  
Sales growth by launching new strategic product**

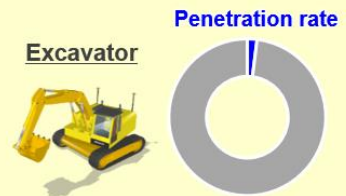
**Positioning**

**New Excavator machine control system sales gets into full swing!**



**Market size and penetration rate of IT Construction**

**-Present penetration rate is low  
-Much room for growth**



\*Expected useful life is 8 years  
(Topcon's estimation)

**Retrofittable to any manufacturers' machinery**



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10

The other topic is strategic new products for IT construction. We have launched excavator machine control system in the first quarter after its delayed release. We will step up its sales from now on. As the pie chart shows, penetration rate of excavators for IT construction is extremely low, and there is a big potential market for them. Even though automated dozer system has preceded automated excavator system so far, we have released long-awaited automated excavator system, which can be installed in any excavator manufactured by various construction machine manufacturers. We have high hope for its sales expansion hereafter.

|   | FY2018         | FY2019                       |        |             |
|---|----------------|------------------------------|--------|-------------|
|   | 1Q Actual      | 1Q Actual                    | YoY    | %           |
| Net Sales   | 8,182          | <b>7,043</b>                 | -1,139 | <b>-14%</b> |
| Operating Income<br><small>(Operating Income Ratio)</small> | 877<br>(10.7%) | <b>797</b><br><b>(11.3%)</b> | -80    | <b>-9%</b>  |

### ■ Review of 1Q Financial Results

- Strong sales of i-Construction in Japan
- Stagnant sales in China due to slowdown of construction economy
- Temporary sales slowdown in Southeast Asian market
- Improvement of profitability thanks to cost reduction

### ■ Topics

- i-Construction in Japan : Market is expanding
- Acceleration of the spread of i-Construction and IT Agriculture by new partnerships in Japan

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



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Next is the Smart Infrastructure.

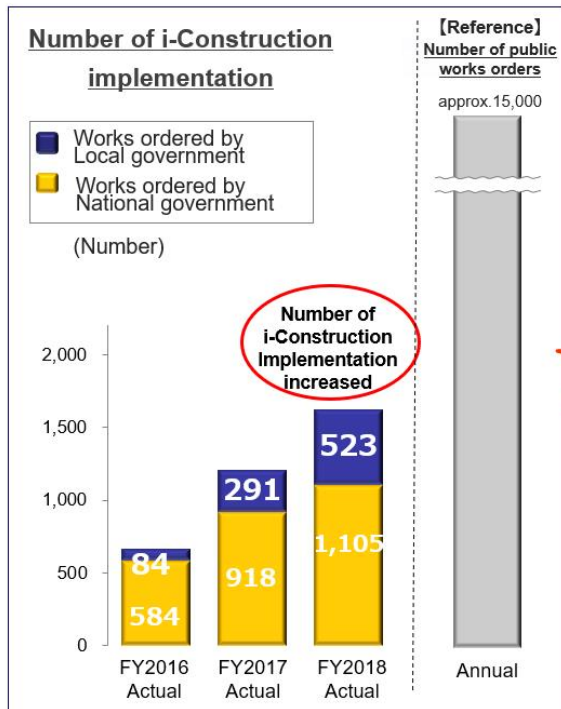
Sales decreased by 1,139 million yen year-on-year while operating income saw a more modest decrease of 80 million yen. Factors behind such decreases are slowdown of China's construction market, and temporary sales slowdown in Southeast Asian market, where we see some suspension of infrastructure investment due to elections in Indonesia and Thailand. On the other hand, i-Construction, our mainstay of Smart Infrastructure, continues to enjoy brisk sales with double-digit growth. We expect that sales in Asia will recover from the second quarter on. Despite China's sluggish economy, the Chinese government announced that it would make a substantial investment in infrastructure. Sales will rebound if such investment goes smoothly.

Smart Infrastructure is a business on which cost reduction has a prominent effect. Operating income ratio is improving even in this quarter. Despite its decreased sales, operating income ratio rose year-on-year.

Now, I will talk about two topics.



## Market trends



## 2<sup>nd</sup> Construction & Survey Productivity Improvement EXPO

(May 2019, in Chiba)



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



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12

The first topic is Japanese i-Construction business, whose market trend shows expansion. The bar graph shows the number of i-Construction works implemented. The yellow part shows i-Construction works directed by the national government. The blue part shows those directed by local government. The number of public i-Construction works grew on the whole, but the number of local government i-Construction works saw more remarkable growth. As the gray bar graph shows, the total number of annual public works are 15,000, out of which only 1,600 i-Construction works were implemented. So we expect high potential for its market expansion. Construction and Survey Productivity Improvement EXPO held in this May in Chiba, Japan was enthusiastically received, where exhibitors and visitors increased by more than 30%. Like Bauma trade fair, various Japanese construction machinery manufacturers exhibited IT-equipped construction machinery.



**Strategic partnership to offer one stop solution for construction, engineering works market**  
(Released in March 12, 2019)



Autodesk Ltd. Japan TOPCON CORPORATION



**Acceleration of IT Agriculture Cooperation with Yamaha Motor Co., Ltd.**  
(Released in March 8, 2019)



Kokusai Kogyo Co., Ltd. TOPCON CORPORATION  
Yamaha Motor Co., Ltd. WaterCell Inc.

**Aim at the acceleration of the spread of i-Construction together**

**Aim at the acceleration of the spread of IT Agriculture together**

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



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The next topic is acceleration of i-Construction and IT agriculture thanks to new partnerships. I will introduce two examples:

One is a strategic partnership with Autodesk, the largest 3D CAD software company. Lack of data linkage between design drawing and construction site remains an obstacle to the spread of i-Construction. With our collaboration with Autodesk, we expect that i-Construction will become more widespread.

The other is collaboration with Yamaha Motor, original manufacturer of unmanned helicopter and drones for agricultural use like spraying agricultural. Combining Yamaha Motor's expertise with our original technology of CropSpec sensor, we aim for popularization of IT agriculture.

(unit : million yen)

|   | FY2018        | FY2019                      |      |             |
|---|---------------|-----------------------------|------|-------------|
|   | 1Q Actual     | 1Q Actual                   | YoY  | %           |
| Net Sales   | 10,047        | <b>10,321</b>               | 274  | <b>+3%</b>  |
| Operating Income<br><small>(Operating Income Ratio)</small> | 246<br>(2.4%) | <b>114</b><br><b>(1.1%)</b> | -132 | <b>-54%</b> |

### ■ Review of 1Q Financial Results

- Growth of Screening Business
- Sales growth in China
- Upfront investment for Screening Business

### ■ Topics

- Maestro2, the strategic new product, released
- Expansion of Screening Business
- Expansion of business in China



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While Eye Care posted a 3% sales increase, operating profit fell slightly. Due to impact of exchange rate fluctuations of about 100 million yen, operating income remained virtually unchanged without FX impact.

Our mainstay Screening Business grew, especially sales to China grew. On the other hand, profit and loss were affected by increased fixed costs due to upfront investment into Screening Business.

Next, I will explain three topics: release of strategic new product Maestro2, expansion of Screening Business, and expansion of business in China.


## Sales expansion by long-awaited new model release

### Expectation of sales expansion for Screening market

#### Features

✓ Followed a **fully automatic function** of bestseller Maestro

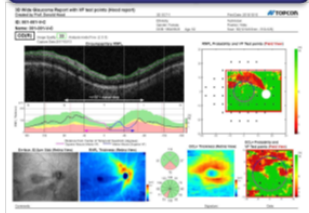
**Fully automatic photography function**



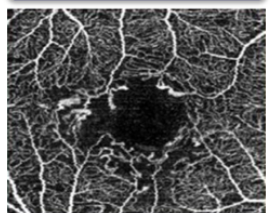
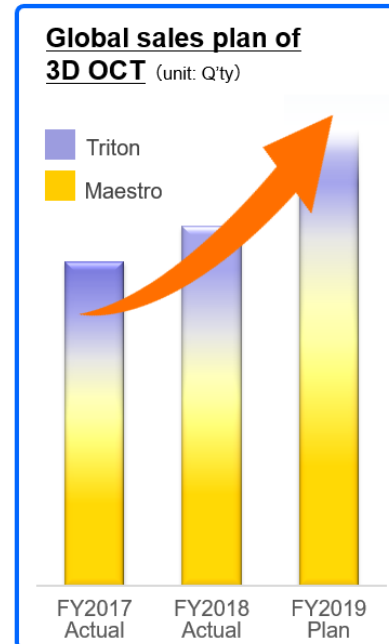
3D OCT-1 Maestro2  
3D OPTICAL COHERENCE TOMOGRAPHY

✓ Add two **new features** equipped with only high-end model

**New** **Glaucoma analysis report**



**New** **Angiography\***

※Angiography : Method for visualize capillary of retina (contrast media injection unnecessary)

The first topic is release of our strategic new product Maestro 2.

Maestro is our bestselling easy-to-use equipment to capture OCT images. This time we have launched its succession model Maestro2 which comes with two new functions reserved for our top-end model: one is glaucoma analysis report function, the other is angiography function which enables visualization of capillary blood vessel of the retina without injecting contrast dye. As the graph shows, we expect that the new product launch and expansion of sales channels explained in the following pages will contribute to further growth of 3D OCT sales globally.



**Start business with the U.S.'s largest optical store franchisor**

Approx. **3,300** stores  
(\$2.8B annual sales)

\*Largest in the US

Expectation for sales expansion of new product "Maestro2"



**3D OCT-1 Maestro2**  
3D OPTICAL COHERENCE TOMOGRAPHY



About "Vision Source Willard"  
- Founded in 1991, Texas, US  
- Houston Kingwood Headquarters  
- The largest optical store franchisor in the US

\* reference The US Eyeglass Store Sales Ranking 2018 (Vision Monday, May 2019)  
[http://www.visionmonday.com/CMSDocuments/2019/05/vmtop50retailers\\_VM0519.pdf](http://www.visionmonday.com/CMSDocuments/2019/05/vmtop50retailers_VM0519.pdf)

**Specsavers\* deployed Maestro to almost all stores in Australia**



Optical chain store with **1,600** stores in 10 countries

Plans to expand to stores in other regions



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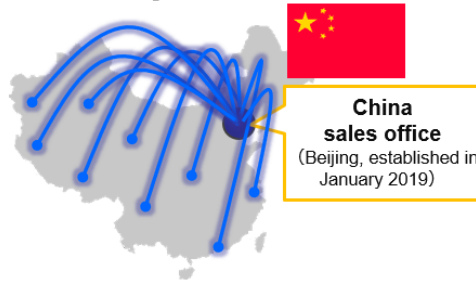
Next, I will cite two examples of expansion in Screening Business.

First, we just started business with Vision Source, the largest optical chain store in the U.S, with 3,300 stores across the U.S. and annual sales of 2.8 billion dollars. We have high hopes for sales of Maestro2 to Vision Source.

Second, Specsavers, a major global optical chain with about 1,600 stores, which already introduced Maestro, has been deploying many more units of Maestro: 200 units in September last year, 250 units this February, and more than 350 units this July cumulatively, expanding introduction of Maestro to nearly all stores across Australia. We plan to launch sales of Maestro to Nordic countries and other regions.

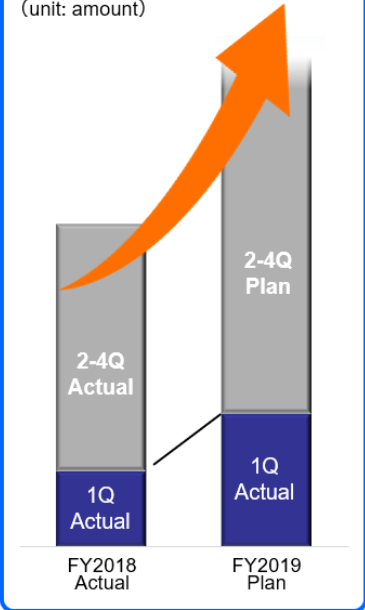
**Sales growth due to expansion of sales network**

Expansion of market coverage by..  
 ✓ Establishment of sales office  
 ✓ Reorganization of sales network



**Sales to China market**

(unit: amount)



**Development of Screening Business**

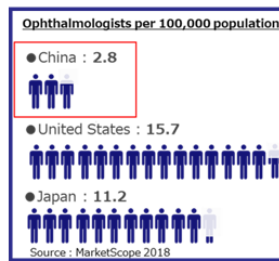
Shortage of ophthalmologists to correspond to rapidly increasing eye diseases



Increasing needs for Screening

**Development of Screening Business by cooperating with..**

- ✓ Major health screening groups
- ✓ AI Development companies



Next, I will talk about the third topic, sales expansion to China. We established sales subsidiary in January this year. We traditionally gave exclusive distributorship to one distributing agent, but we reviewed our policy and changed to multiple distributors and direct sales to major accounts, so that we could expand market coverage. We also expect expansion of Screening Business in China. China has the world's largest population of diabetes. So the patients with eye disease called diabetic retinopathy due to diabetic complication are increasing, while ophthalmologists are extremely scarce. Therefore, screening for diabetic retinopathy is in high demand. Being aware of the needs, China's major group companies for eye checkup has expanded, and AI-assisted screening for diabetic retinopathy began to be used. We are conducting negotiations with these Chinese firms, expecting to contribute to our sales.

As the bar graph shows, we achieved significant sales growth year-on-year as of the first quarter. We also expect substantial sales growth for the full year.



## II. FY2019 Full Year Plan



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Next is the forecast for the full year.

## FY2019 Full Year Plan [Consolidated]

### No change from initial forecasts

(unit : million yen)

|   | FY2018           | FY2019                         |                |
|---|------------------|--------------------------------|----------------|
|   | Full Year Actual | Full Year Plan                 | YoY            |
| <b>Net Sales</b>                                    | 148,688          | <b>154,000</b>                 | <b>+4%</b>     |
| <b>Operating Income</b><br>(Operating Income Ratio) | 13,596<br>(9.1%) | <b>14,500</b><br><b>(9.4%)</b> | <b>+7%</b>     |
| <b>Ordinary Income</b>                              | 11,497           | <b>12,500</b>                  | <b>+9%</b>     |
| <b>Net Income</b>                                   | 6,548            | <b>8,000</b>                   | <b>+22%</b>    |
| <b>ROE</b>  | 9.8%             | <b>11%</b>                     |                |
| <b>Dividends</b>                                    | ¥24              | <b>¥28</b>                     |                |
| <b>Payout Ratio</b>                                 | 39%              | <b>37%</b>                     |                |
| <b>Exchange Rate</b>                                | <b>USD</b>       | <b>¥110.69</b>                 | <b>¥110.00</b> |
| <b>(Average)</b>                                    | <b>EUR</b>       | <b>¥128.43</b>                 | <b>¥125.00</b> |



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There is no change in the initial forecast with net sales of 154 billion yen and operating income of 14.5 billion yen. No changes in dividends, and payout ratio will be 37%.

## FY2019 Full Year Plan by Business [Consolidated]

(unit : million yen)

|  |                             | FY2018                         | FY2019                         |             |
|--|-----------------------------|--------------------------------|--------------------------------|-------------|
|  |                             | Full Year Actual               | Full Year Plan                 | YoY         |
| <b>Net Sales</b>                                 | <b>Positioning</b>          | 77,722                         | <b>79,000</b>                  | <b>+2%</b>  |
|  | <b>Smart Infrastructure</b> | 36,744                         | <b>38,500</b>                  | <b>+5%</b>  |
|  | <b>Eye Care</b>             | 47,713                         | <b>51,000</b>                  | <b>+7%</b>  |
|  | Others                      | 1,698                          | <b>1,500</b>                   | <b>-12%</b> |
|  | Elimination                 | -15,190                        | <b>-16,000</b>                 |             |
|  | <b>Total</b>                | <b>148,688</b>                 | <b>154,000</b>                 | <b>+4%</b>  |
| <b>Operating Income (Operating Income Ratio)</b> | <b>Positioning</b>          | 8,358<br>(10.8%)               | <b>8,500</b><br><b>(10.8%)</b> | <b>+2%</b>  |
|  | <b>Smart Infrastructure</b> | 6,393<br>(17.4%)               | <b>6,600</b><br><b>(17.1%)</b> | <b>+3%</b>  |
|  | <b>Eye Care</b>             | 2,896<br>(6.1%)                | <b>3,400</b><br><b>(6.7%)</b>  | <b>+17%</b> |
|  | Others                      | -65<br>(-3.9%)                 | <b>0</b><br><b>(0.0%)</b>      | <b>-</b>    |
|  | Elimination                 | -3,986                         | <b>-4,000</b>                  |             |
|  | <b>Total</b>                | <b>13,596</b><br><b>(9.1%)</b> | <b>14,500</b><br><b>(9.4%)</b> | <b>+7%</b>  |



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Topcon for Human Life 20

No revisions in either net sales or operating income by segment.

As for Smart Infrastructure, net sales decreased in China and other Asia region, which we think is only temporary. In Positioning, despite more-than-expected slowdown in IT agriculture, we assume that brisk IT construction will make up for it.

## III. Share Buyback



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*Topcon for Human Life* 21

Lastly, I will explain share buybacks.

## Share Buyback

**Buyback company shares, taking the existing market price and the growth potential of our businesses into consideration**

|                  |   |
|------------------|---|
| Number of Shares | Up to <b>2 million</b>                                |
| Total Amount     | Up to <b>¥2.6 billion</b>                             |
| Buyback Period   | From <b>August 1, 2019</b> to <b>October 31, 2019</b> |



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*Topcon for Human Life* 22

We have decided to buy back our shares considering growth potential of our business and current stock price-level. We will buy back up to 2 million shares, which is about 2% of total number of the issued shares, or repurchase up to 2.6 billion yen through market transactions for a period of three months from now.

This concludes my presentation of the results for the first quarter. Thank you very much.

## Questions and Answers

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### < Positioning company >

Q. Could you give us the breakdown of the IT construction's sales growth for OEM as well as Aftermarket for the first quarter?

A. Both OEM and Aftermarket sales posted double-digit growth, but OEM sales particularly saw a strong growth.

Q. We heard IT construction was affected by a slowdown in the market in the latter half of fiscal year 2018. Have you seen any developments or changes after that? Could you also give us update on each region?

A. We cannot say the market has turned around as of the first quarter, but we exhibited our products at Bauma, the world's largest construction machinery trade fair which is held every three years, and also launched some strategic products, both of which helped support our business. If you look at our performance by region, Europe and North America, especially Europe, fared well. We saw a slowdown in the U.S. for the third quarter of fiscal year 2018, but things are steadily picking up after the fourth quarter.

### < Eye Care Business >

Q. When was 3D OCT Maestro 2 released? Did it receive FDA clearance? What is the price?

A. The timing of the release differs as each country has different clearance procedures. It was released in April in Europe. In the U.S., it received FDA clearance at the end of June, and was released in the second quarter. As for pricing, Maestro's price was kept the same level but additional charge was set for new function Angiography as an option.



Q. What is the trade volume with Vision Source? We understand that 350 units of 3D OCT Maestro were sold to Specsavers, but is there a possibility that there will be more orders to exceed that number?

A. We are negotiating with multiple optical chain stores, but Vision Source has the biggest sales in the U.S. and offers the best opportunity for us. Expectations are also high that sales of Maestro to Vision Source will lead to bigger business than Specsavers.

Q. Judging from the sales growth in 3D OCT for Screening Business, can we expect further growth in the annual unit sales?

A. So far, retinal camera has been the main driver for our Screening Business, but we are expecting 3D OCT sales to grow. We will aggressively roll out various measures such as partnerships with Chinese AI development companies to promote Maestro sales.

Q. Is it correct to say that for the Screening Business, your company will push for sales of not only hardware but also software by utilizing application released by THS, U.S. software development base.

A. That is correct. We plan to aggressively sell software bundled with hardware to promote sales.

Q. As for the strong sales in China, what kind of products are contributing to the sales? And how is that affecting profit margin?

A. Sales of fundus camera is the biggest contributor. We expect 3D OCT sales to expand going forward. In order to win a contract for a large number of units for Screening, we may have to offer a volume discount which could potentially push down our profit margin, but its sheer volume size should allow us to make enough profit in value terms.

Q. As for research and development cost for Eye Care which accounted for about half of a 900-million-yen increase in the first quarter's fixed cost, could you tell us at what pace more expenses would be incurred going forward and when do you expect the costs to be recovered?

A. Investments for Screening Business, and research and development cost for new products will constantly arise. We will not be able to recover the investment cost this fiscal year, but we should be able to get the return on the investment in the fiscal year 2020.

Q. How do you manage the research and development cost? Do you look at it in terms of sales ratio, or do you manage it on an actual cost basis?

A. Basically, we manage it on an actual cost basis. We used to work on device approval such as FDA after products were released, but we now take more advance action for device approval while we are still developing the products. Therefore, such advanced costs are included in the research and development cost.

### < General Questions >

Q. My impression was that the first quarter earnings were not as strong as your planned numbers. Under such circumstances, some companies may decide to take measures such as cost cuts, but your company will continue to make upfront investment and aim to recover earnings through sales growth in your core business. Is that correct?

A. That is correct. We will keep our upfront investment for our mid- to long- term growth. Meanwhile, we will cut spending on items that do not directly lead to our business growth.

Q. Analysis of changes in operating income: fixed cost for the first quarter was negative 900 million yen against full-year forecast of negative 4 to 5 billion yen. I assume it is on its way to the target on a good pace, but can you give us the breakdown of the 900 million yen by segment?

A. Costs for Positioning and Eye Care are about the same, although Positioning is slightly higher. For Positioning, research and development cost including labor cost, tariff hike on

imports from China, and expenditure for large exhibition are the main outlays. For Eye Care, they include development cost and labor cost to start up the Screening Business, and cost to set up a sales subsidiary in China.

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[END]