



FY2019 2Q Financial Results

October 31, 2019
TOPCON CORPORATION
President & CEO
Satoshi Hirano

Topcon for Human Life

TOPCON CORPORATION

FY2019 2Q Financial Results

October 31, 2019

Event Summary

[Company Name]	TOPCON CORPORATION	
[Event Type]	Earnings Announcement	
[Event Name]	FY2019 2Q Financial Results	
[Date]	October 31, 2019	
[Time]	15:30 – 16:20 (Total: 50 minutes, Presentation: 40 minutes, Q&A: 10 minutes)	
[Venue]	Shin-Marunouchi Building 9F Shin-Marunouchi Building Conference Square Room 901 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6590	
[Venue Size]	240 m ²	
[Participants]	76	
[Number of Speakers]	3	
	Satoshi Hirano	Representative Director, President & CEO
	Haruhiko Akiyama	Director, Senior Executive Officer, General Manager of Accounting & Finance Div.
	Takaaki Hirayama	Executive Officer, General Manager of Corporate Communication Div.

FY2019 2Q Financial Results

I . FY2019 2Q Financial Results

II . FY2019 Full Year Plan

III . Appendix

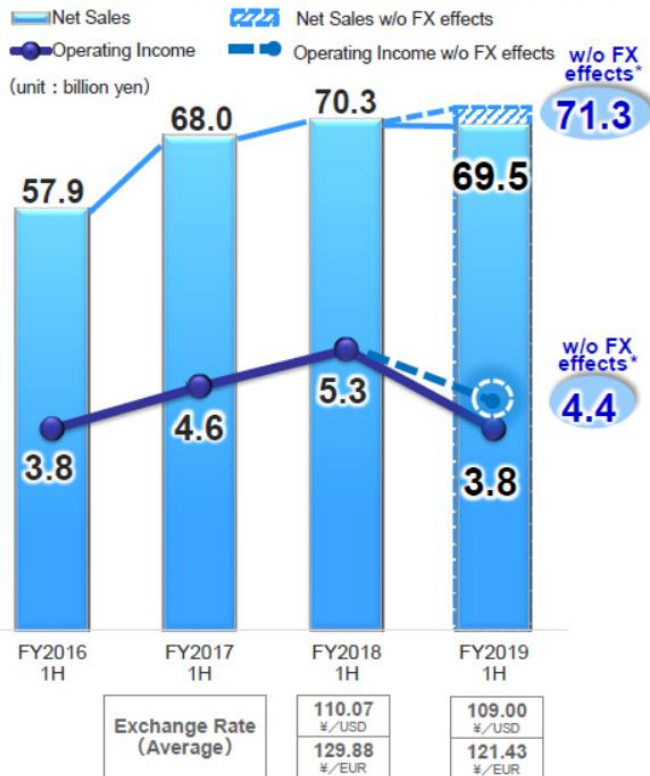


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Hirano: Thank you very much for coming to our financial results briefing today. I will now begin the financial results briefing for the second quarter for FY 2019.

FY2019 1H Overview



- Flat sales, decrease in profit

Due to the macro environment and the FX effects

		YoY
Net Sales	¥69.5B	(-1%)
Operating Income	¥3.8B	(-28%)

- Recovery trend in 2Q

Sales increase and flat Operating Income w/o FX effects

		(unit : billion yen)		
*w/o FX effects		FY2018	FY2019	YoY (%)
Net Sales	1Q	33.4	33.1	-0.3 (-1%)
	2Q	36.9	38.2	+1.3 (+4%)
Operating Income	1Q	1.9	1.2	-0.7 (-39%)
	2Q	3.4	3.2	-0.2 (-5%)



*w/o FX effects : Converted figures for FY2019 using exchange rates in the same period of FY2018
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This is the overview of the financial results for the first half of FY 2019. The bar graph shows net sales while the line graph shows operating income for the first half. Affected by the macro environment and unfavorable exchange rate fluctuations, net sales remained flat with 69.5 billion yen and operating profit decreased to 3.8 billion yen.

As a reference, this slide shows the figures after excluding exchange effect for the first half of FY 2019. These are hypothetical figures that 1H results are converted using the exchange rate in the same period of FY 2018.

Both revenues and profits decreased in the first quarter, but improved considerably in the second quarter. However, sales remained flat and profits decreased in the cumulative first half.

The table in the lower right shows net sales and operating income by quarter.

FY2019 1H Financial Results [Consolidated]

(unit : million yen)

	FY2018 1H Actual	FY2019				
		1H Actual	YoY	%	w/o FX effects	%
Net Sales	70,271	69,527	-744	-1%	71,289	+1%
Gross Profit (Gross Profit Ratio)	37,034 (52.7%)	36,972 (53.2%)	-62			
SGA	31,765	33,161	1,396			
Operating Income (Operating Income Ratio)	5,268 (7.5%)	3,810 (5.5%)	-1,458	-28%	4,355 (6.1%)	-17%
Non-Operating Income (Expenses)	-526	-1,049	-523			
Ordinary Income	4,742	2,761	-1,981	-42%	3,738	-21%
Extraordinary Income (Loss)	-730	-555	175			
Income Before Income Taxes and Minority Interests	4,012	2,205	-1,807			
Net Income	2,146	895	-1,251	-58%		
Interim Dividends	¥12	¥14				
Exchange Rate						
USD	¥110.07	¥109.00	-¥1.07			
EUR	¥129.88	¥121.43	-¥8.45			



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This table shows consolidated financial results for the first half of FY 2019. Unfortunately, both revenue and profits decreased as explained in the previous slide, but we raised interim dividend from 12 yen per share for the same period last year to 14 yen per share as planned.

FY2019 1H Financial Results by Business [Consolidated]

(unit : million yen)

		FY2018	FY2019				
		1H Actual	1H Actual	YoY	YoY%	w/o FX effects	%
Net Sales	Positioning	37,018	37,116	98	+0%	38,150	+3%
	Smart Infrastructure	18,207	17,057	-1,150	-6%	17,268	-5%
	Eye Care	21,828	22,202	374	+2%	22,733	+4%
	Others	934	686	-248	-27%		
	Elimination	-7,716	-7,535	181			
	Total	70,271	69,527	-744	-1%	71,289	+1%
Operating Income (Operating Income Ratio)	Positioning	3,740 (10.1%)	2,850 (7.7%)	-890	-24%	2,924 (7.7%)	-22%
	Smart Infrastructure	2,856 (15.7%)	2,492 (14.6%)	-364	-13%	2,621 (15.2%)	-8%
	Eye Care	636 (2.9%)	616 (2.8%)	-20	-3%	980 (4.3%)	+54%
	Others	-17 (-1.8%)	-62 (-9.0%)	-45	-		
	Elimination	-1,947	-2,086	-139			
	Total	5,268 (7.5%)	3,810 (5.5%)	-1,458	-28%	4,355 (6.1%)	-17%



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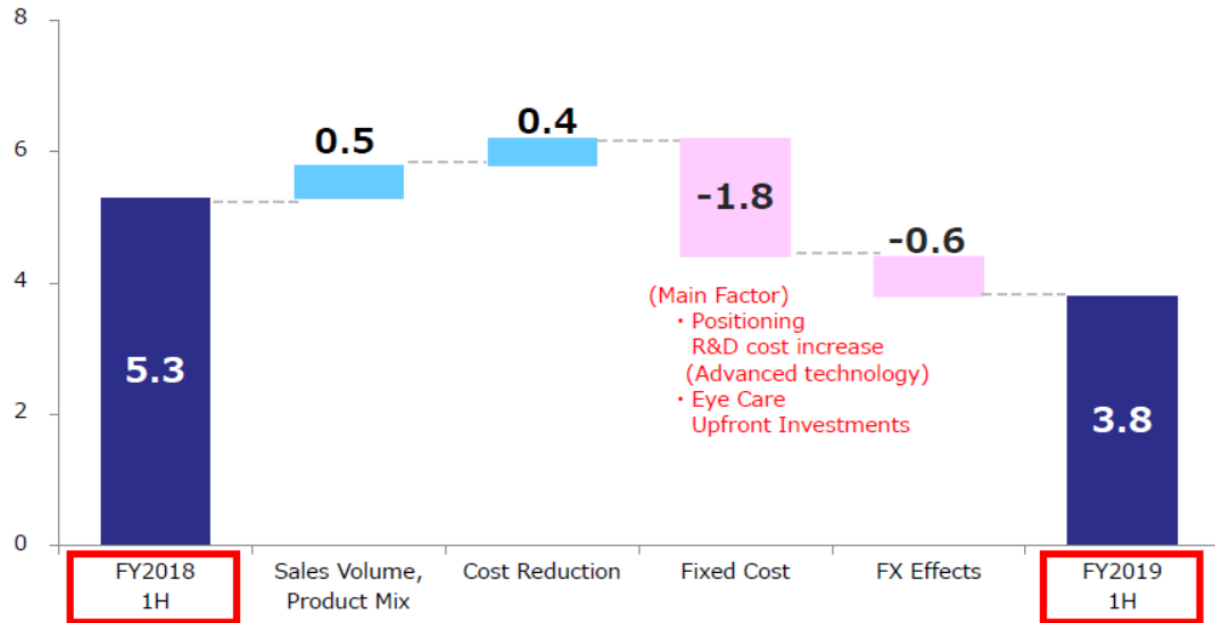
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As for net sales and operating income by business segment, Smart Infrastructure business posted substantial decrease. On the other hand, Eye Care business enjoyed a sharp increase of 54% in operating income.

I will talk about the details by segment later.

FY2019 1H Operating Income YoY Breakdown

(unit : billion yen)



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This is an analysis of changes in operating income for the first half of FY 2019. The difference between operating income of 5.3 billion yen for the same period last year and that of 3.8 billion yen for the first half of this year is minus 1.5 billion yen. I will break down the difference of minus 1.5 billion yen into four elements.

First, sales increase and product mix account for positive 0.5 billion yen. Second, cost reduction accounts for positive 0.4 billion yen. Third, upfront investments and R&D cost increase in advanced technology in Positioning and Eye Care businesses account for fixed costs of minus 1.8 billion yen. Upfront investments in Eye Care include business development in China. Last, exchange losses was minus 0.6 billion yen.



I . FY2019 2Q Financial Results

I - 1 . FY2019 2Q Financial Results

I - 2 . Overview of Each Business



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Now, I will talk about net sales and operating income by segment.

**Sales increase
Profit decrease in spite of recovery trend in 2Q**

(unit: million yen)

	FY2018	FY2019				
	1H Actual	1H Actual	YoY	%	w/o FX effects	%
Net Sales	37,018	37,116	98	+0%	38,150	+3%
Operating Income (Operating Income Ratio)	3,740 (10.1%)	2,850 (7.7%)	-890	-24%	2,924 (7.7%)	-22%
Exchange Rate	USD EUR	¥110.07 ¥129.88	¥109.00 ¥121.43	-¥1.07 -¥8.45		

■ Review of 1H Financial Results

- IT Construction : Solid sales in major markets (US, Europe and Japan)
- IT Agriculture : Flat sales of OEM and continuous sluggish trend in after market
- Continue upfront investments



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Positioning business saw increased revenue but decreased profits despite recovery in the second quarter.

To review the first-half results, IT Construction enjoyed robust sales in the US, Europe, and Japan. In IT agriculture, OEM sales remained flat and sluggish sales continued in aftermarket. Recovery in aftermarket seems unlikely for now.

We will continue upfront investments in R&D, allocating as much investment costs as those for last year. The results were decreased profits despite increased revenue.

Sales and profit decrease in spite of recovery trend in 2Q

(unit: million yen)

	FY2018	FY2019				
	1H Actual	1H Actual	YoY	%	w/o FX effects	%
Net Sales	18,207	17,057	-1,150	-6%	17,268	-5%
Operating Income (Operating Income Ratio)	2,856 (15.7%)	2,492 (14.6%)	-364	-13%	2,621 (15.2%)	-8%
Exchange Rate	USD	¥110.07	¥109.00	-¥1.07		
	EUR	¥129.88	¥121.43	-¥8.45		

■ Review of 1H Financial Results

- Sales growth thanks to favorable Construction market in Japan including i-Construction
- Sales growth of IT Agriculture
- Prolonged decreasing demand in China and Southeast Asian market



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

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Smart Infrastructure business saw decreased revenue and profits despite recovery in the second quarter. Still, operating income ratio is the highest among our three business segments.

To review the first-half results, domestic construction markets and i-Construction enjoyed brisk sales. IT agriculture saw sales growth but prolonged sluggish demand in China and South Asian markets as we noted in our financial results briefing for the first quarter.

Sales growth and strong profit in spite of negative FX effect

(unit: million yen)

	FY2018		FY2019				
	1H Actual		1H Actual	YoY	%	w/o FX effects	%
Net Sales	21,828		22,202	374	+2%	22,733	+4%
Operating Income <small>(Operating Income Ratio)</small>	636 (2.9%)		616 (2.8%)	-20	-3%	980 (4.3%)	+54%
Exchange Rate	USD	¥110.07	¥109.00	-¥1.07			
	EUR	¥129.88	¥121.43	-¥8.45			

Review of 1H Financial Results

- Sales growth of Screening Business
- Sales growth in China
- Significant profit growth w/o FX effects
- Expand upfront investments



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As for Eye Care business, upfront investments have pushed down profit margin over the past three years. Yet, the business gradually began generating a return on investment.

The business saw sales growth despite exchange loss and posted operating income of 616 million yen, which is comparable profit year-on-year. After excluding exchange effect, the business enjoyed a sharp profit rise of 54 per cent in apples-to-apples comparison.

Screening business saw significant sales growth, becoming a big business. Sales to China are expanding as well.

To expand Eye Care business, we are boosting upfront investments further. With that background, we see these solid results as a good sign.

Ⅱ . FY2019 Full Year Plan

Ⅱ -1. FY2019 Full Year Plan

Ⅱ -2. Strategic Plans

Ⅱ -3. Summary



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Next, I will talk about full year forecast.

Revised Full Year Plan

Full Year Forecast

Revision of Full Year Plan taking into account the following factors comprehensively

- ① Review of exchange rate assumptions (from 3Q ¥120/EUR)
- ② Concern about slowdown of sales due to prolonged trade friction between US and China (Positioning / Smart Infrastructure)
- ③ Expanding Screening Business (Eye Care)
- ④ Improvement of management efficiency by reducing SG&A expenses
- ⑤ Investment effect (new product release and OEM expansion)

Revised Plan

		Before (Announced on July 31th)	New (Announced on October 31th)	Change	Change%
Net Sales		¥154.0B	¥150.0B	-¥4.0B	-3%
Operating Income		¥14.5B	¥12.5B	-¥2.0B	-14%
Net Income		¥8.0B	¥6.0B	-¥2.0B	-25%
Dividends		¥28	¥28	No change	
Exchange Rate	USD	¥110	¥110	-	
	EUR	¥125	¥120	↘ ¥5	



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Now, I will explain revised full year plan based on the first and the second quarter results.

There are two negative factors. First, as for exchange rates, assumed FX rates at the beginning of the FY were 110 yen to the dollar and 125 yen to the euro. We will revise the assumed FX rate to 120 yen to the euro while that of 110 yen to the dollar is unchanged. Second, our concern persists about slowdown in sales due to prolonged trade friction between the US and China. On the other hand, there are three positive factors: expanding screening business in Eye Care, improvement of management efficiency through reducing SG&A expenses, and investment effects by planned release of new products and OEM expansion. Taking into account all these factors, we have revised downward our full-year forecast.

Let's look at the table below. In our revised plan, change in net sales in Positioning and Smart Infrastructure business is minus 2.5 billion yen, respectively, totaling minus 5 billion yen. Net sales in Eye Care business remain unchanged. Decrease in elimination of net sales comes to positive 1 billion yen. Thus, total change comes to minus 4 billion yen. Change in operating income in Positioning and Smart Infrastructure business is minus 2 billion yen. We have revised net income to 6 billion yen from published value of 8 billion yen.

Our dividend policy of paying a dividend of 28 yen remain unchanged.

FY2019 Full Year Plan [Consolidated]

(unit : million yen)

	FY2018		FY2019			
	1H Actual	Full Year Actual	1H Actual	Full Year Plan	YoY (%)	Announced on July 31 st
Net Sales	70,271	148,688	69,527	150,000	+1%	154,000
Operating Income (Operating Income Ratio)	5,268 (7.5%)	13,596 (9.1%)	3,810 (5.5%)	12,500 (8.3%)	-8%	14,500 (9.4%)
Ordinary Income	4,742	11,497	2,761	10,500	-9%	12,500
Net Income	2,146	6,548	895	6,000	-8%	8,000
ROE		9.8%		9%		11%
Dividends	¥12	¥24	¥14	¥28		28円
Payout Ratio		39%		49%		37%
Exchange Rate	USD	¥110.07	¥110.69	¥109.00	(Assumed FX rate)	¥110
(Average)	EUR	¥129.88	¥128.43	¥121.43		¥120



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This table shows full year plan for FY 2019. The forecast figures in the table are almost the same as those I mentioned earlier, but we have revised ordinary income forecast from 12.5 billion yen to 10.5 billion yen.

We have also revised the forecast of dividend payout ratio from 37% to 49%.

FY2019 Full Year Plan by Business [Consolidated]

(unit : million yen)

		FY2018		FY2019			
		1H Actual	Full Year Actual	1H Actual	Full Year Plan	YoY (%)	Announced on July 31 st
Net Sales	Positioning	37,018	77,722	37,116	76,500	-2%	79,000
	Smart Infrastructure	18,207	36,744	17,057	36,000	-2%	38,500
	Eye Care	21,828	47,713	22,202	51,000	+7%	51,000
	Others	934	1,698	686	1,500	-12%	1,500
	Elimination	-7,716	-15,190	-7,535	-15,000		-16,000
	Total	70,271	148,688	69,527	150,000	+1%	154,000
Operating Income (Operating Income Ratio)	Positioning	3,740 (10.1%)	8,358 (10.8%)	2,850 (7.7%)	7,500 (9.8%)	-10%	8,500 (10.8%)
	Smart Infrastructure	2,856 (15.7%)	6,393 (17.4%)	2,492 (14.6%)	5,600 (15.6%)	-12%	6,600 (17.1%)
	Eye Care	636 (2.9%)	2,896 (6.1%)	616 (2.8%)	3,400 (6.7%)	+17%	3,400 (6.7%)
	Others	-17 (-1.8%)	-65 (-3.8%)	-62 (-9.0%)	0 (0.0%)	-	0 (0.0%)
	Elimination	-1,947	-3,986	-2,086	-4,000		-4,000
	Total	5,268 (7.5%)	13,596 (9.1%)	3,810 (5.5%)	12,500 (8.3%)	-8%	14,500 (9.4%)



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This is full year plan by segment. As I mentioned earlier, we have revised down sales forecast for Positioning and Smart Infrastructure business by 2.5 billion yen each from published values at the beginning of FY 2019. Also, we have revised sales elimination amount from minus 16 billion yen to minus 15 billion yen, which comes to positive 1 billion yen. Total amount of revised sales forecast is minus 4 billion yen. Revised company-wide sales forecast is 150 billion yen. Note that sales forecast of Eye Care business remains unchanged.

We have revised down operating income forecast for Positioning and Smart Infrastructure business by 1 billion yen each: from 8.5 billion yen to 7.5 billion yen for Positioning business; from 6.6 billion yen to 5.6 billion yen for Smart Infrastructure. Eye Care business is affected by exchange loss, but its operating income forecast remains unchanged at 3.4 billion yen. Total amount of revised operating income forecast is minus 2 billion yen. Revised company-wide operating income forecast is 12.5 billion yen.

Ⅱ . FY2019 Full Year Plan

Ⅱ -1. FY2019 Full Year Plan

Ⅱ -2. Strategic Plans

Ⅱ -3. Summary

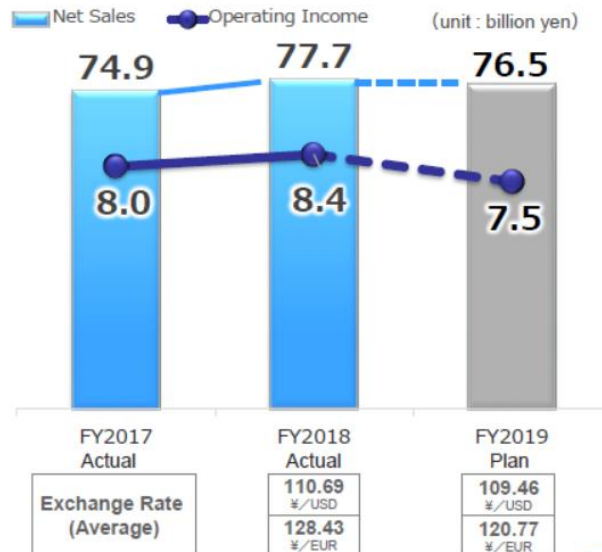


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Next, I will explain what we will focus on including business environment to achieve our plan by segment. I will talk about by segment how we strive to achieve our operating income target which we have revised downward.

- IT Construction : Sales growth by new products launch
- IT Agriculture : Rush of new products launch even under the market headwinds
- Improving management efficiency
- Established new JV with Bentley Systems Inc. in the US



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First, I will talk about Positioning business.

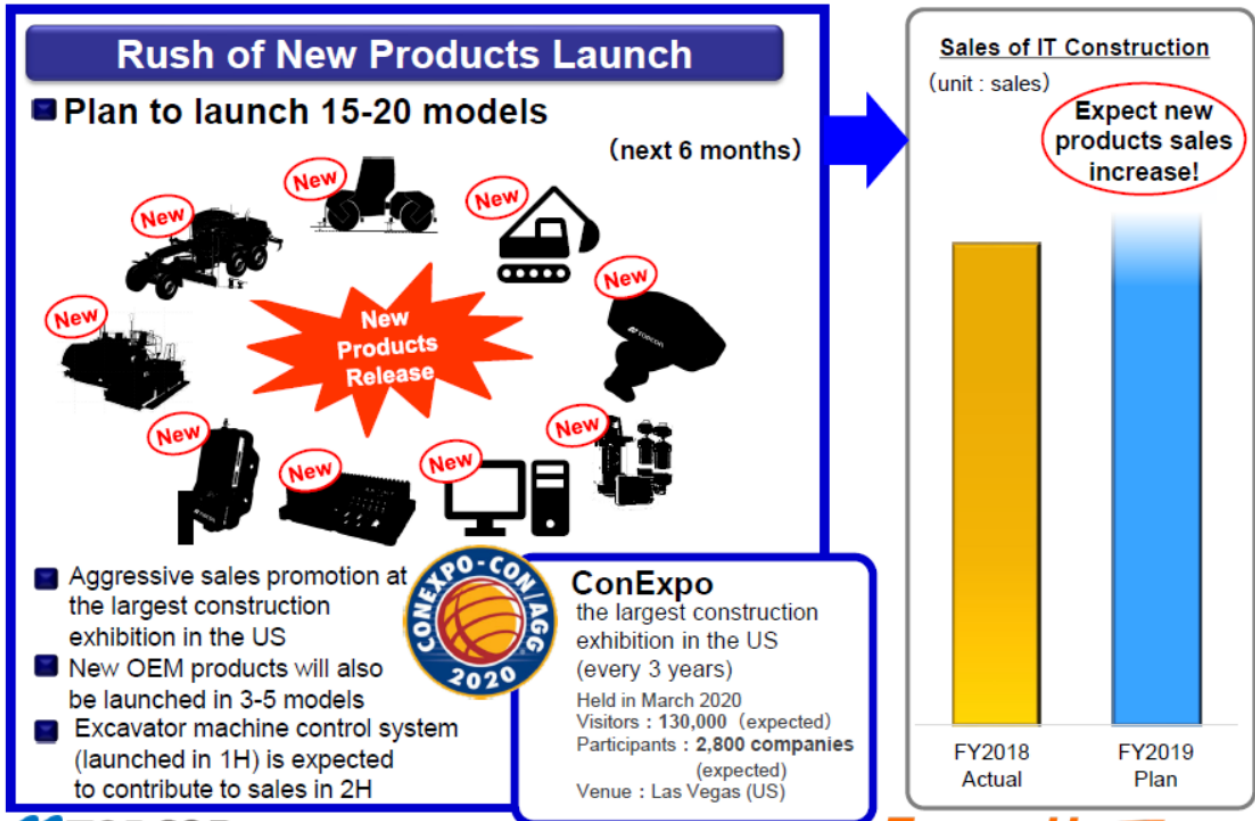
We will launch new products to boost brisk IT construction business.

Despite unfavorable market condition for IT agriculture, we expect some recovery through rush of new product launch.

Then, I will explain about improvement of management efficiency, and then, establishment of a new JV with Bentley Systems Inc. in the US as a special topic.

IT Construction : Sales growth by new products launch

Positioning



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First, as I mentioned earlier, IT construction business is pretty solid despite market uncertainty. Our continued upfront investment and R&D investment over the past three years have begun to bear fruit. We expect new sales through release of 15 to 20 new products in the next six months. Moreover, we expect new OEM products will contribute to our sales in the second half of FY 2019 as well.

IT Agriculture : Rush of new products launch even under the market headwinds

Positioning

Rush of New Products Launch

- Plan to launch 10 models
- Presented at the world's largest agricultural machinery exhibition

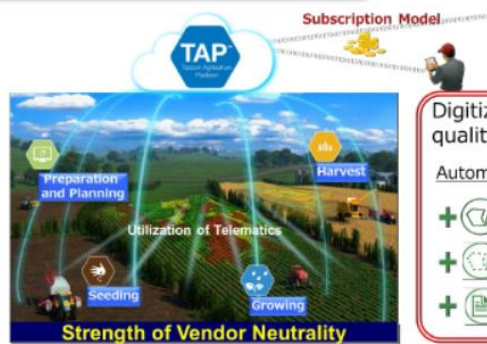


Agritechnica

The world's largest agricultural machinery exhibition (every 2 years)
 Held in November, 2019
 Visitors : 500,000 (expected)
 Participants : 3,000 companies (expected)
 Venue : Hannover, Germany

IoT Platform business Full-scale launch

Cloud-based Agricultural management IoT solution started a full-scale!



Digitize all farm data, improve quality and maximize efficiency
 Automation of agricultural machinery
 + Diagnose
 + Predict
 + Prescribe + Progress Management



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Let's move on to IT agriculture. Amid the market headwinds, we are launching 10 new models in this November at Agritechnica, the world's largest agricultural machinery exhibition held every two years in Hanover, Germany. The exhibition is expected to attract about 500,000 visitors. We aim for some recovery amid this market headwinds through striving for sales growth in aftermarket and new OEM acquisition.

We have launched an IoT platform business in full swing. We released TAP, or our cloud-based IoT solution for agricultural management, at the end of last year. We are developing new customers for TAP, and have high hopes for its sales growth even though it is yet to contribute much.

Strategy

Under the uncertain business environment, while making efforts to expand sales by utilizing our unique technology, we aim to improve management efficiency by focusing on the following measures

- ① Strengthen SG&A expenses control
- ② Reduction in production cost

Aim to further improvement of management efficiency!

Reference : macro environment



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Positioning business is under tough market condition. While IT Construction market is generally firm, IT agriculture market continues to be sluggish and its immediate recovery is unlikely.

IT Construction market is relatively strong for now, but uncertainty remains, so we will drastically cut down SG&A expenses even though we have promoted upfront investments including R&D investment.

To improve management efficiency, we will further reduce production costs. Refer to the indices in the slides for macro environment. In particular, agricultural market is under tough conditions.

Accelerating the spread of IT Construction!

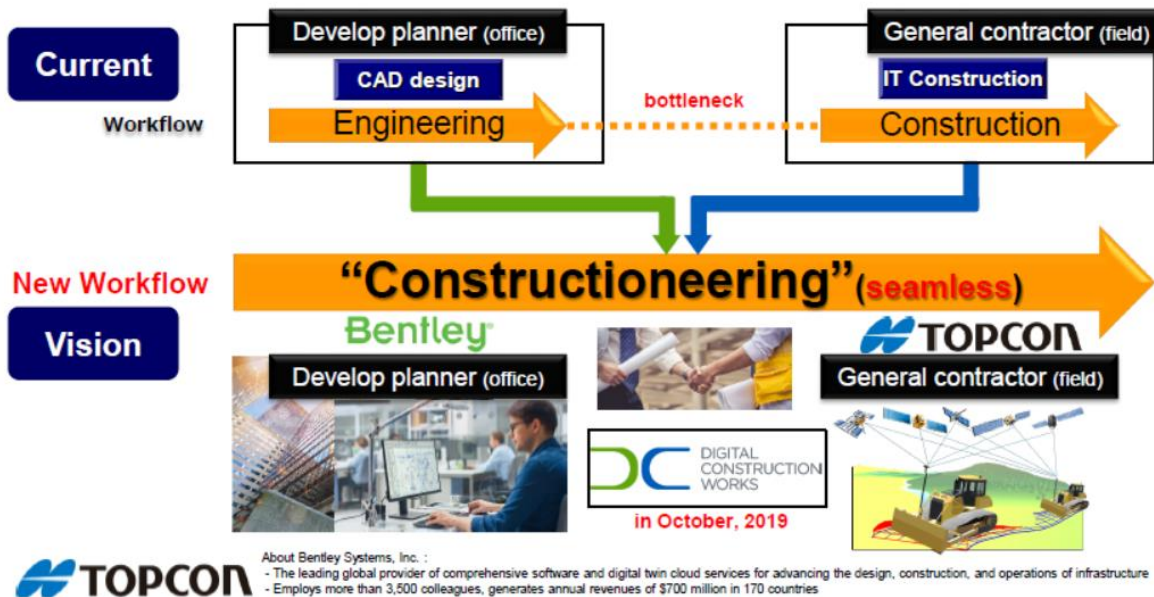
JV Overview

- Company name : **Digital Construction Works Inc.**
- Business Activity : Consulting service and software sales

Aim of incorporation

Promotion of the spread of IT construction under a new workflow "Constructioneering" that **seamlessly** connects Engineering flow and Construction flow

Reference URL



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Next, I would like to talk about establishment of joint venture with Bentley Systems, Inc. in the US. Established in 1984, Bentley is a leading software company selling 3D CAD for construction, plant, and engineering applications with more than 3,500 employees and annual sales of 700 million dollars. We announced the establishment of a joint venture named Digital Construction Works Inc. with Bentley on October 21.

Under current construction workflow called engineering flow, a design department in government body or a private company placing an order of construction project designed with CAD. Construction is outsourced to a general contractor or a subcontractor, who assumes construction flow. However, in reality, CAD data do not flow smoothly. In today's industries including car and machine industries, design and manufacturing are commonly done in a seamless process. But, unfortunately, that is not the case with construction sites.

We have been aggressively promoting IT Construction so that design drawings would smoothly flow to construction sites. In reality, however, design drawings created by those contractees such as national and local governments, developers, and realty companies do not flow to construction sites. Design drawings needs re-handling, which means creating design drawings again for construction work. We think this is a bottleneck to the spread of IT Construction. To eliminate this bottleneck, we established the joint venture mentioned above.

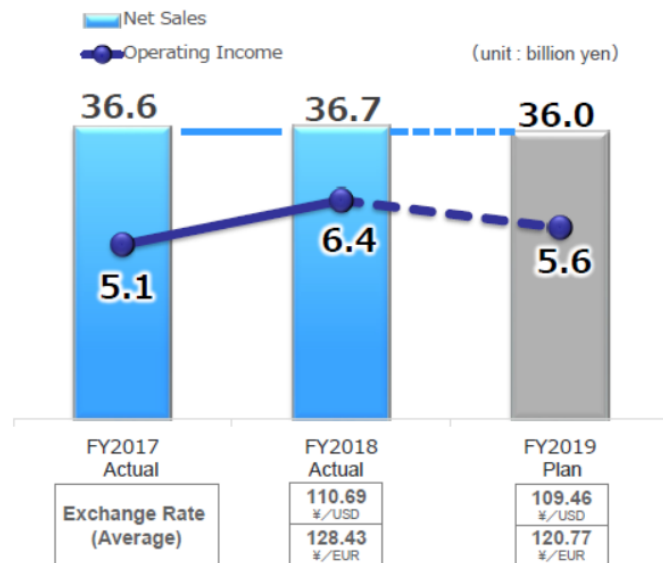
We aim to connect engineering flow by contractees and developers with construction flow by general contractors seamlessly. This new workflow is what we call “Constructioneeing”, our coined word. We will promote the spread of IT Construction with this new concept. Bentley Systems, Inc. specializes in CAD software used by contractees and developers while Topcon has all hardware and software used in construction work. Now, Bentley and Topcon joined hands.

This joint venture offers consulting service to sell each other’s products since neither contractees nor contractors know the others’ business field.

As CAD and CAM software is widely used in car and machine plants, similar smooth workflow is needed in the construction industry to promote IT Construction. To introduce new “Constructioneeing” workflow, we established the joint venture.

We don’t expect these moves will contribute to sales in the second half immediately, but we expect IT Construction will be used more widely.

- Acceleration of i-Construction sales
 - Significant increase of small-scale i-Construction works
 - Supporting the spread of i-Construction through the launch of innovative new products
- Strategic move for IT Agriculture business in Asia



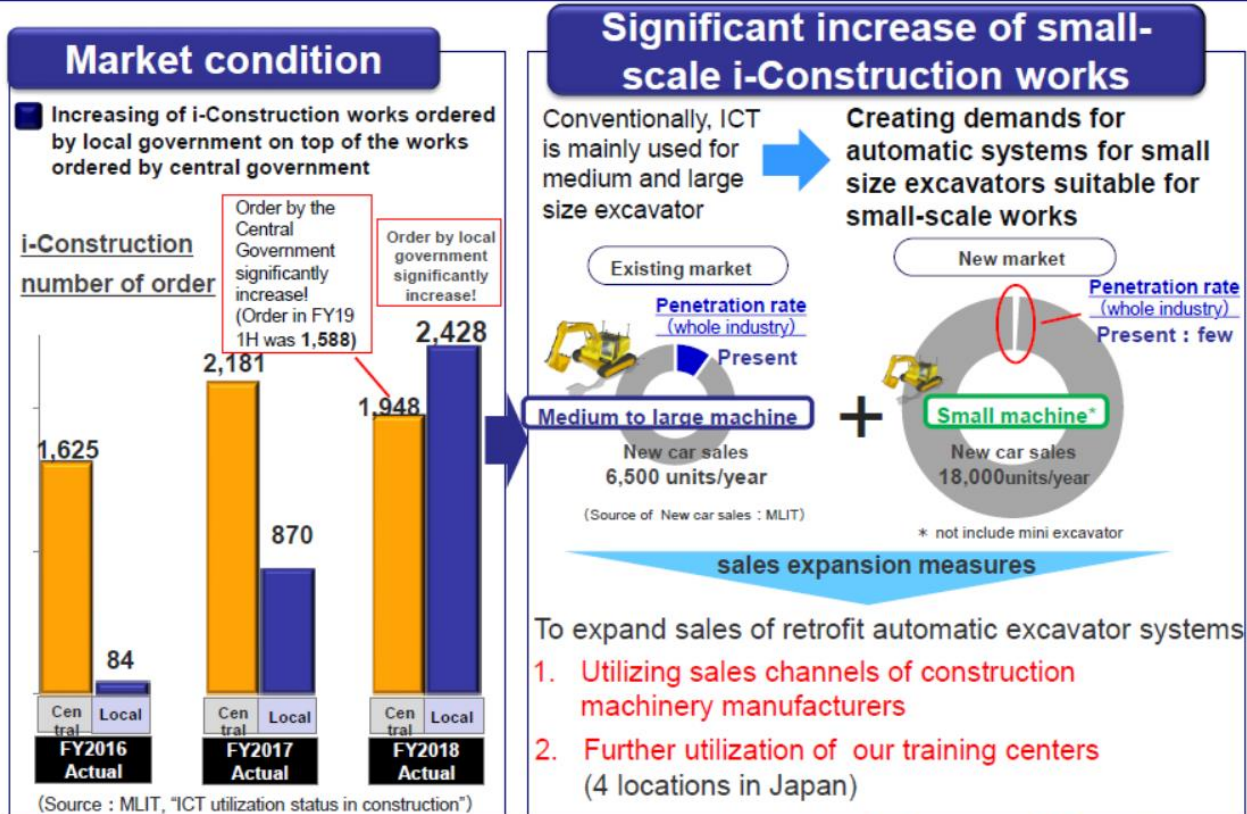
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Now, let's move on to Smart Infrastructure business. We have revised downward our revenue and profit forecasts for Smart Infrastructure business. Our net sales forecast is 36 billion yen, and operating income forecast is 5.6 billion yen. I will explain the grounds for such estimates: measures to further accelerate brisk domestic sales for i-Construction and strategic move for IT agriculture business in Asia.



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First, the bar graph on the left shows market trends of i-Construction and the number of orders placed. Yellow bar graph shows orders placed by the central government, which has been increasing every year. Despite a slight decrease in FY 2018, the number of orders in the first half of FY 2019 is 1,588, significantly surpassing the pace of increase in FY 2018.

As for local governments, the number of orders has been growing exponentially. Increased orders for public work project by local governments have led to increase in small-scale construction work. ICT has been conventionally used for medium- to large-size excavators. Out of 6,500 units of new excavators sold by all machine manufacturer, only about 10% uses ICT. On the other hand, increased orders for small-scale construction projects means more use of small-size excavators. Note that mini-excavators are not included.

As for the market size of these small-size excavators, out of 18,000 units sold annually, only a few use ICT. So we expect this new market will grow big.

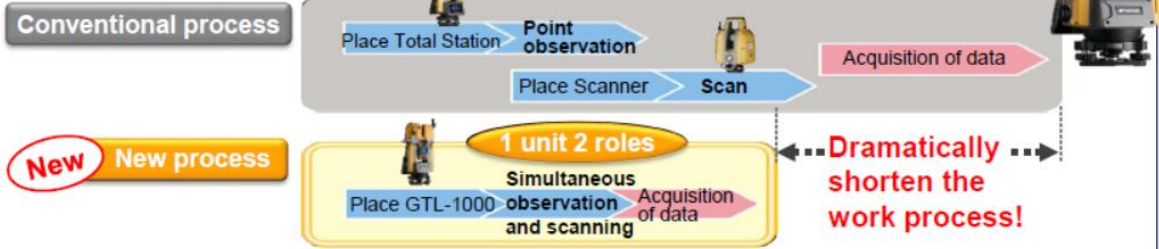
To create demand for automated system for small-size excavators, we will utilize sales channels of construction machinery manufacturer as well as our existing sales network.

Also, to expand sales of retrofit automated excavator systems, we will utilize our training centers at four locations in Japan.

Supporting the spread of i-Construction through the launch of innovative new products

Realization of efficiency by quick 3D data acquisition

Total Station + 3D Laser Scanner 1 unit 2 roles!



Contributes to improve construction productivity!

3D point navigator LN150 will be released! **New**



Successor to the best-selling LN-100



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

To accelerate i-Construction sales, we have released innovative new products which enable quick acquisition of 3D data and streamlining the process. As i-Construction is intended to boost productivity, we need to obtain relevant data more quickly. While conventional process takes much time to acquire data, the new process using our new product can shorten the work process dramatically, boosting productivity.

In addition, we use conventional surveying technique in ways quite different from conventional work process. We will release all-new 3D point navigator LN-150 that enhances construction productivity for i-Construction. As the graph in the bottom right shows, sales of our best-selling 3D point navigator LN-100 had significantly increased every year from FY 2015 to FY 2018. Combined sales of LN-100 and its successor LN-150 are expected to increase in FY 2019 as well. We will continue to focus our efforts on the sales of these products.

Concluded MOU with Thai Ministry of Agriculture and Cooperatives for smart agriculture demonstration experiment

Supporting national agricultural policy

Participated in the smart agriculture promotion plan based on the national project "Thailand 4.0" *

Ministry of Agriculture And Cooperatives in Thailand



Left: Mr. Anan Suwannarat Permanent Secretary of the Ministry of Agriculture and Cooperatives Right : Mr. Arata Kimura Deputy General Manager of Smart Infrastructure Business Div.



Purpose of demonstration experiment

<Challenges of the Ministry of Agriculture> Productivity and quality are lower than other ASEAN countries, though agriculture is a major industry.

Verification of the effect of introducing our IT Agriculture solution through demonstration experiments

*Thailand 4.0: Vision to shift Thailand to an added value creation society by accelerating the digitization of economic society Name of long-term economic development plan

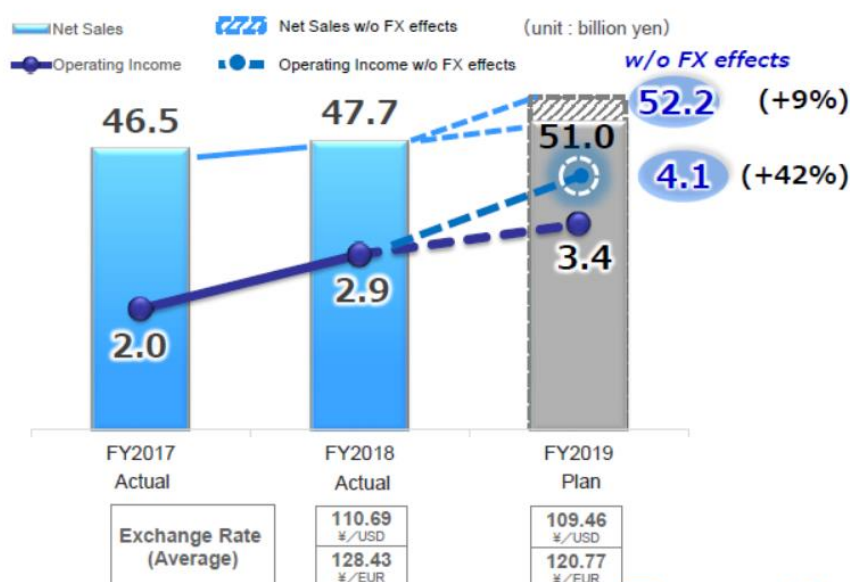


I just want to introduce a topic of our strategic move for IT agriculture business in Asia.

We have concluded a MOU with Thai Ministry of Agriculture and Cooperatives on demonstration experiment in smart agriculture. This photo was taken when we concluded the MOU with the Thai Ministry.

Even though agriculture is a major industry in Thailand, its productivity and quality are lower than those in other ASEAN countries. Therefore, we want to help them through utilizing our IT agriculture solution to conduct demonstration experiments. If the effectiveness of the demonstration experiments is verified, we expect the Thai Ministry will adopt our IT agriculture solution.

- Expansion of Screening Business
- Expansion of business in China
- 3D OCT : Strong sales in the world's largest US market



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Last but not least, I will talk about Eye Care business which is performing well.

I will also touch on what we will put more focus in the second half of the year. We aim for growth acceleration in the businesses which performed well in the first half of the year, namely the expansion of Screening business, sales expansion in China, and strong sales of 3D OCT in the US market.

This shows how much impact the foreign exchange had on our revenue and profit. We have maintained the forecasts announced at the beginning of the year with sales and operating income expected to be at 51 billion yen and 3.4 billion yen, both up from 47.7 billion yen and 2.9 billion yen respectively in the previous fiscal year. After excluding the exchange effect, sales are expected to post a 9% year-on-year increase to 52.2 billion yen, and operating income is projected to come in at 4.1 billion yen, surging 42% from a year earlier.

Now, I would like to explain how we would achieve the earnings targets even when the yen is likely to remain strong.

OCT deployed in the US Optical chain store

Received a large order of Maestro2!

Following Specsavers (Australia),
a large order from major US optical chain store!

Fully automatic

Easy operation with less expertise

3DOCT-1 Maestro2
3D OPTICAL COHERENCE TOMOGRAPHY



Golden Maestro
Commemorative model for sales of 10,000 units

The US Eyeglass Store Sales Ranking 2018

Rank	Retailer	Sales (\$ Millions)	Stores
1	Vision Source L.P.	2,840	3,279
2	Luxottica Retail	2,470	2,187
3	Walmart Inc.	1,762	3,403
4	National Vision Holdings, Inc	1,537	1,082
5	Costco Wholesale	1,130	509
6	Visionworks of America, Inc.	947	727
:	:	:	:
:	:	:	:
50	:	:	:
Total		\$14,361 Millions	14,690 Stores

(Source: Vision Monday, May 2019)

http://www.visionmonday.com/CMSDocuments/2019/05/vmtop50retailers_VM0519.pdf

Specsavers' case :



(Optical chain store with 1,600 stores in 10 countries)

Year 2017 - 2019 Specsavers deployed 350 units of Maestro

Effect Early detection

Glaucoma Detection Rate : 8%

Approximately 10,000 people were detected as suspicious patient of Glaucoma out from 125,000 people screening (yearly)



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Here, I am listing some topics regarding Screening business.

As I have already said, optical chain store Specsavers deployed 350 units of our OCT in almost all of their stores in ANZ. We believe this trend will spread throughout the world.

The US market is very big, and we finally won huge orders there, although we cannot disclose the name of the company. The table on the right cited from the industry magazine called "Vision Monday" shows top 50 optical retailers in the US. The overall sales combined from the top to 50th placed stores amount to US\$14.3 billion. The number of stores is over 14,000 in total, and there are quite a lot of chain stores in the market. I said at the first-quarter earnings briefing that the contract with Vision Source had commenced, but this time, large orders were placed by a different chain store.

At any rate, this proves that the move to target chain stores was successful for Screening business. Screening business is an area we are putting more focus on.

Demand for Eye Screening is increasing in China

Major search engine Baidu deployed NW400 for their AI automatic diagnosis system

(Providing ophthalmic screening services in poor areas through the Red Cross)

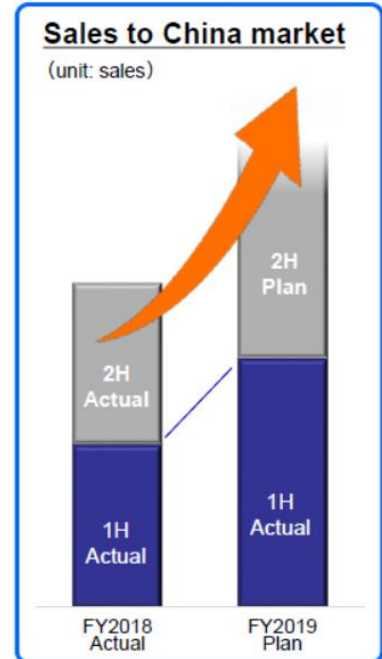


Expectation of sales expansion for Screening business



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Next, I would like to talk about sales expansion in China. As I mentioned in the first quarter, sales in China are growing exponentially on a year-on-year basis, and we expect a large increase in sales for the whole fiscal year.

Demand for Screening business is rising in China, and I would like to highlight the news where Chinese major Internet search engine Baidu has deployed our retinal(fundus) camera NW400. Baidu offers their AI automated diagnosis system as part of its ophthalmic screening service in poor neighborhoods in China through Red Cross.

3D OCT : Strong sales in the world's largest US market Eye Care

- **Sales Record** in the World largest optical exhibition

YoY1.6 times (Maestro)

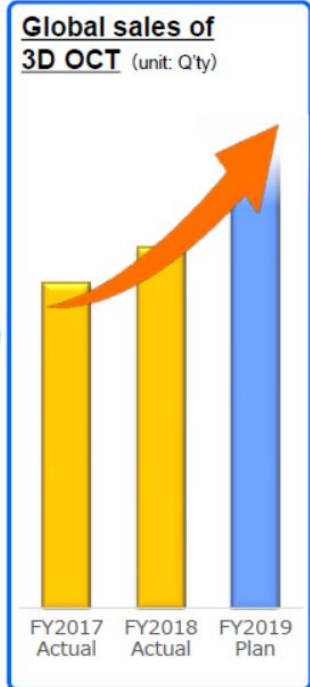
Vision Expo West
September, Las Vegas



- **Strong Sales** in the World largest academic conference of Ophthalmology

YoY1.3 times (Triton)

American Academy of Ophthalmology
October, San Francisco



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3D OCT is a key product for our Eye Care business. The world's largest optical exhibition, Vision Expo West, was held in Las Vegas in the US state of Nevada, and the sales of Maestro grew 1.6 times year on year, renewing sales record. Furthermore, the world's largest academic conference of Ophthalmology was held in San Francisco in the US state of California. There, our Triton's sales increased by 1.3 times from a year earlier, posting a strong sales.

The graph on the right shows how global sales of 3D OCT are performing. We expect the sales to keep growing this fiscal year as well.

Ⅱ . FY2019 Full Year Plan

Ⅱ -1. FY2019 Full Year Plan

Ⅱ -2. Strategic Plans

Ⅱ -3. Summary



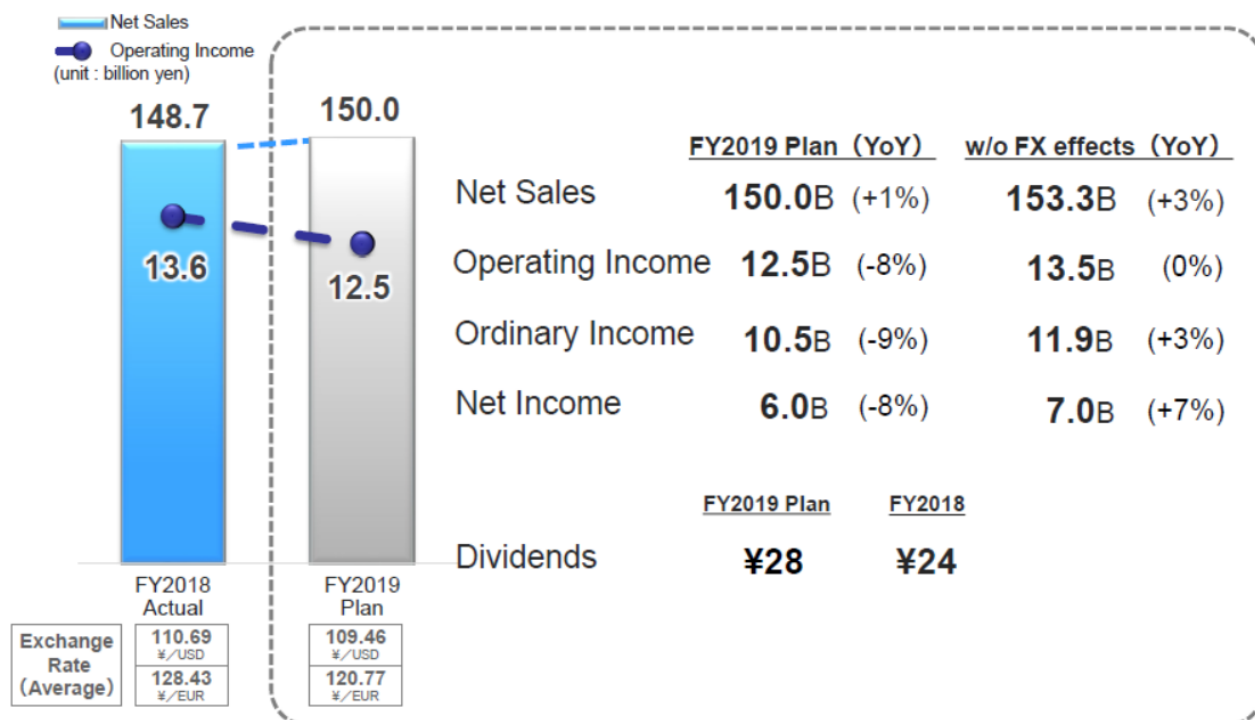
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I will now wrap up the presentation.

Summary

Full Year Plan : Sales growth and Profit decrease



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We expect revenue to increase for the full year but operating income is unfortunately projected to decline from 13.6 billion yen to 12.5 billion yen. In the right column are the forecast numbers excluding foreign exchange effect, meaning that the numbers are converted by using the last year's foreign exchange rate.

Therefore, this is an assumption, but even though we revised down our forecast, practically it is an increase in revenue and profit. Particularly, we would like to emphasize that Eye Care business is projected to book increases in revenue and profit even with the impact of foreign exchange effect.

Our full-year dividend forecast is set at 28 yen per share compared with 24 yen per share from a year ago, and we plan to continue to raise the dividend payout.

This concludes my presentation on the second quarter earnings results and full-year outlook. Thank you for your attention.

Questions and Answers

<Common questions for the overall company>

Q: On the analysis of changes in profit, could you give us the full-year outlook for items besides fixed costs?

A: The breakdown of a year-on-year decline of 1.1 billion yen in operating profit is as follows: an increase of 2 billion yen in sales (compared with an increase of 4 to 5 billion yen projected at the beginning of the year); a rise of 1 billion yen in cost reduction (unchanged from the initial projection); a drop of 3 to 3.5 billion yen in fixed cost (compared with an initial forecast of minus 4 to 5 billion yen); and 1 billion yen exchange loss (no loss/gain was initially expected).

<Positioning Company>

Q: You have kept sales and profit outlook unchanged for the second half of the fiscal year from a year ago although the market environment is getting worse. I understand this is because of the effect of the rollout of new products, which was mentioned in the page 17-18, but I would like to confirm that again.

A: We revised down our full-year earnings forecast to reflect the worse-than-expected macro environment for IT Agriculture. While concerns remain for IT Agriculture in the second half of the fiscal year, IT Construction is performing solidly and i-Construction in the Japanese market is growing. The outlook figures reflect those factors.

Q: Regarding the establishment of a joint venture with Bentley Systems, what kind of business model do you have in mind? Is it correct to think that it is not simply to make it easier to connect Bentley's CAD and Topcon systems?

A: It's not just that. We will offer consulting service as well as solutions to the issue where designing department and construction department do not understand each other. For instance, Keyence is a good example of providing solutions with a bird's eye view to improve productivity at the factory site.

<Eye Care Business>

Q: Regarding the number of annual OCT sales, I understand about 3,000 units were sold in the last fiscal year. As for this fiscal year, is it correct to assume that the sales would increase by 20 to 30%?

A: I think you can assume that.

Q: You have talked about large orders of OCT placed by a US optical chain store, but is it correct to understand that this would contribute to the sales in the second half of the year? Can I also assume that there are more than 10,000 stores in the US, which could be identified as potential markets?

A: You are correct to say the large orders are not included in the sales for the first half and will be reflected on the second-half earnings and afterwards. As for future prospects, we do not expect all the stores to deploy our products, but if we assume 10% of them would decide to do so, that would be big number of stores. Given the example of Specsavers where almost all 380 stores in Australia deployed Maestro, I believe our strategy has been right and proven.

Q: Do you think software will be included in large-lot business deals?

A: We believe so. The US software company, which continues to make upfront investments, makes software which has a function to aggregate data. The product like this should serve a key role in negotiating with big chain stores.

Q: Retinal camera NW400 was deployed by China's Baidu. Is the service for NW400 only available in poor areas? Do you expect NW 400 sales to expand further going forward?

A: The service at the moment is limited to poor areas. In the future, we expect not only sales of fundus camera NW400 but also OCT sales to grow.

Q: Despite the impact of the downward revision of 5 yen to the euro in assumed exchange rate, you maintained your full-year outlook for Eye Care business. Is it correct to say this is because the large-lot orders for the Screening business would make contribution in the latter half of the fiscal year?

A: That is correct. But it is not yet clear whether we can continue to win large-lot orders going forward.

*i-Construction is a trademark registered with National Institution for Land and Infrastructure Management, MLIT, JAPAN.

[END]