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TOPCON CORPORATION

FY2019 3Q Financial Results

January 31, 2020

Event Summary

[Company Name]	TOPCON CORPORATION
[Event Type]	Earnings Announcement
[Event Name]	FY2019 3Q Financial Results
[Date]	January31, 2020
[Time]	15:30 – 16:30 (Total: 60 minutes, Presentation: 30 minutes, Q&A: 30 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]	103
[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.

Contents

FY2019 3Q Financial Results

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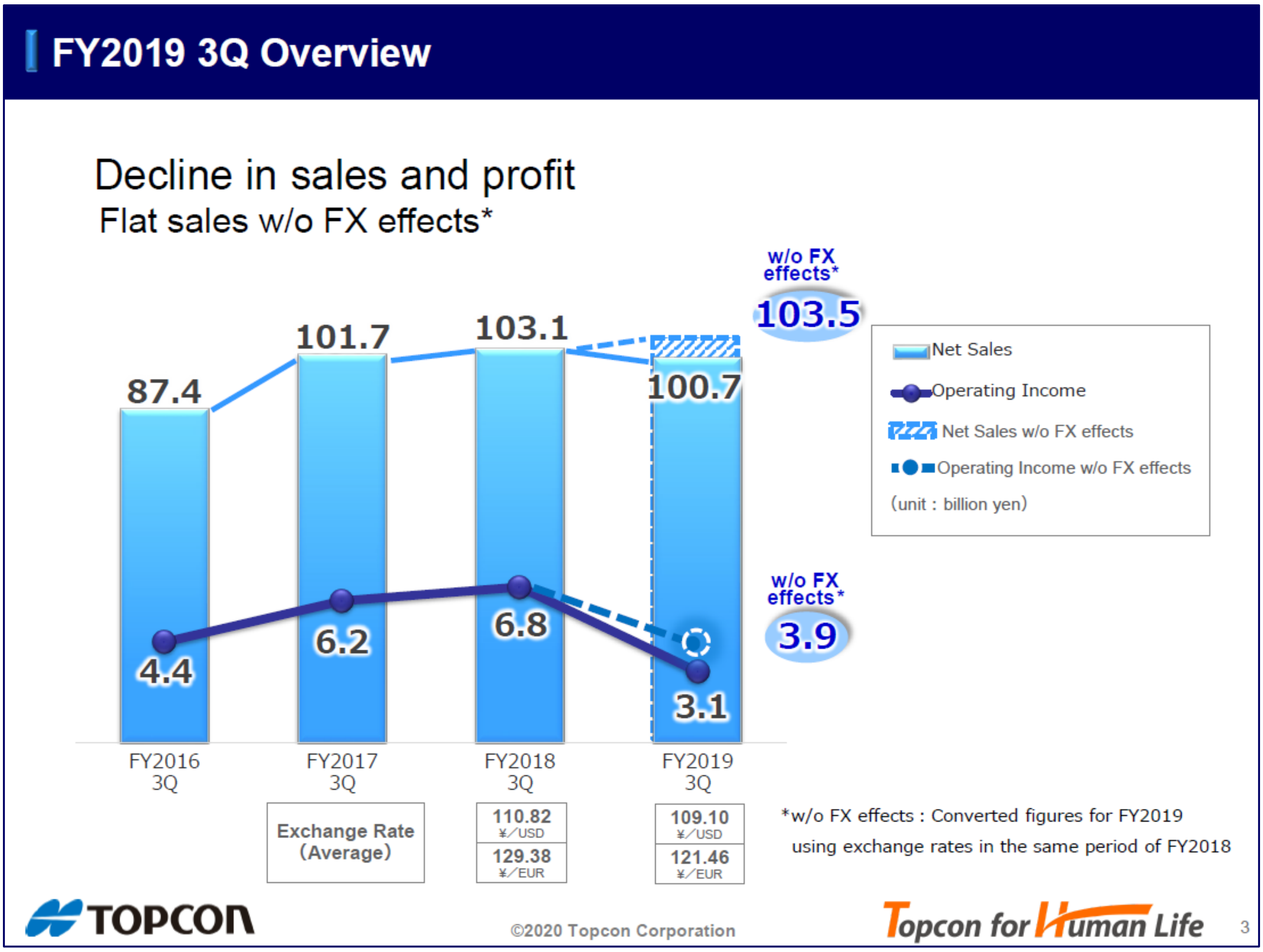
Hirano: Thank you very much for coming to our financial results briefing today during your busy schedule. I will now begin the financial results briefing for the third quarter for the FY2019. I will also talk about the full-year forecast.



Let's look at the overview of the financial results for the third quarter. The bar graph shows net sales, and the line graph shows operating income. Both sales and operating income decreased with net sales of 100.7 billion yen and operating income of 3.1 billion yen. After excluding FX effects, sales remained flat while operating income dropped to 3.9 billion yen compared to the same period last year.

I mentioned our concerns over negative effects of U.S-China trade friction at the financial results briefing for the second quarter. However, the profit ended fell below our projection. As we did thorough analysis, I will explain it to you together with our up-to-date forecast.

FY2019 3Q Financial Results [Consolidated]

(unit : million yen)

	FY2018	FY2019				
	1-3Q Actual	1-3Q Actual	YoY	%	w/o FX effects	%
Net Sales	103,106	**100,724**	-2,382	-2%	103,486	+0%
Gross Profit (Gross Profit Ratio)	54,707 (53.1%)	**53,293 (52.9%)**	-1,414			
SGA	47,948	**50,230**	2,282			
Operating Income (Operating Income Ratio)	6,758 (6.6%)	**3,062 (3.0%)**	-3,696	-55%	3,944 (3.8%)	-42%
Non-Operating Income (Expenses)	-1,147	**-1,291**	-144			
Ordinary Income	5,611	**1,771**	-3,840	-68%	2,865	-49%
Extraordinary Income (Loss)	-731	**-415**	316			
Income Before Income Taxes and Minority Interests	4,880	**1,355**	-3,525			
Net Income	2,518	**254**	-2,264	-90%	941	-63%
Exchange Rate (Average) USD	110.82	109.10	-¥1.72			
Exchange Rate (Average) EUR	129.38	121.46	-¥7.92			

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This table indicates P/L result for the third quarter, but I will skip this slide as I have already explained these numbers in the previous slide.

FY2019 3Q Financial Results by Business [Consolidated]

(unit : million yen)

		FY2018	FY2019				
		1-3Q Actual	**1-3Q Actual**	YoY	YoY%	w/o FX effects	%
Net Sales	**Positioning**	53,645	**52,546**	-1,099	-2%	54,178	+1%
	Smart Infrastructure	26,055	**23,708**	-2,347	-9%	24,011	-8%
	Eye Care	33,338	**33,943**	605	+2%	35,009	+5%
	Others	1,301	1,039	-262	-20%		
	Elimination	-11,232	-10,512	720			
	Total	103,106	**100,724**	-2,382	-2%	103,486	+0%
Operating Income (Operating Income Ratio)	**Positioning**	4,496 (8.4%)	**2,416 (4.6%)**	-2,080	-46%	2,498 (4.6%)	-44%
	Smart Infrastructure	3,933 (15.1%)	**2,984 (12.6%)**	-949	-24%	3,174 (13.2%)	-19%
	Eye Care	1,310 (3.9%)	**871 (2.6%)**	-439	-34%	1,505 (4.3%)	+15%
	Others	-46 (-3.5%)	-93 (-9.0%)	-47	-		
	Elimination	-2,935	-3,116	-181			
	Total	6,758 (6.6%)	**3,062 (3.0%)**	-3,696	-55%	3,944 (3.8%)	-42%

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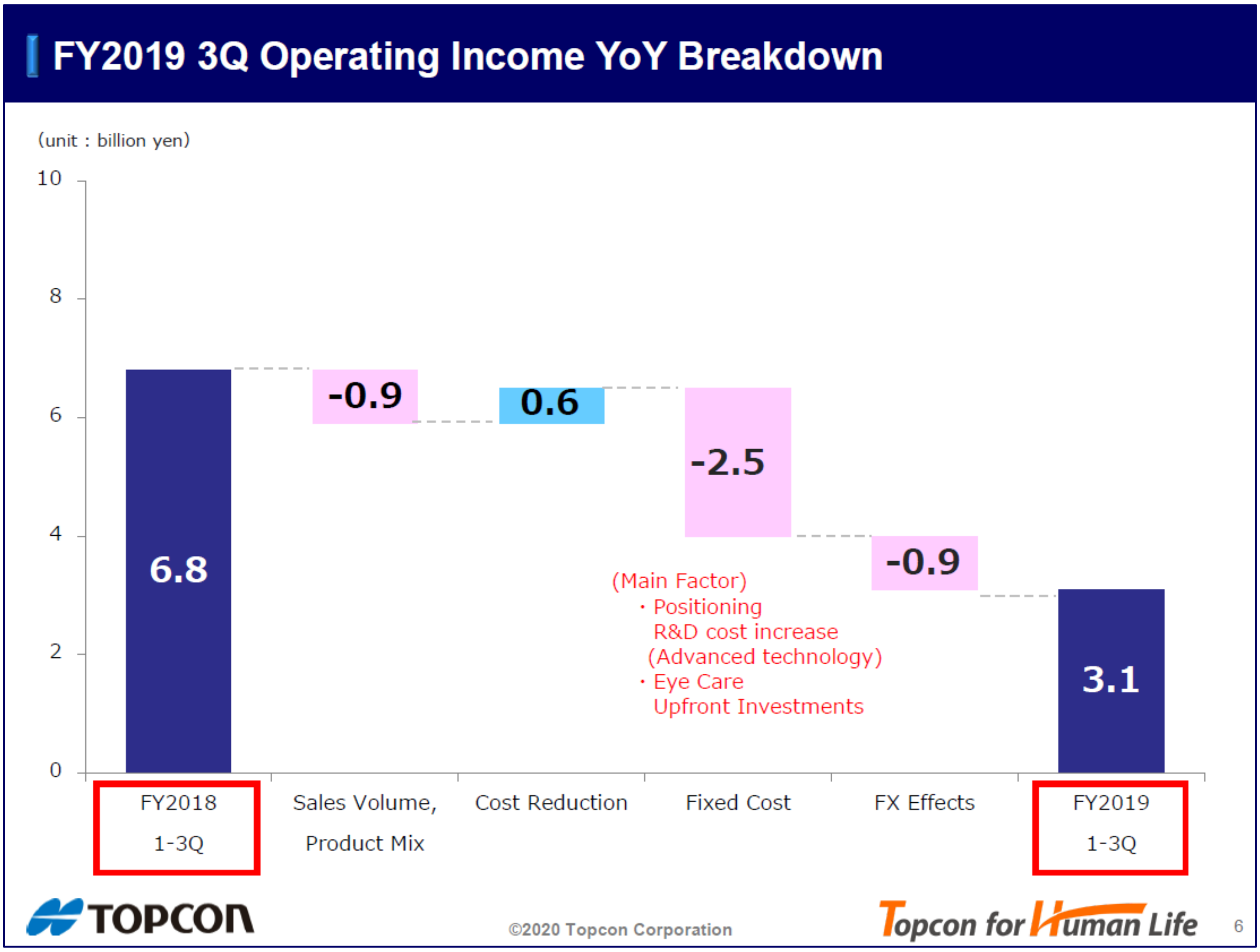
Net sales and operating income by business segment are shown here. I will discuss the details by business segment later.



This is an analysis of changes in operating income year-on-year. The difference between operating income of 6.8 billion yen for the same period last year and that of 3.1 billion yen for the third quarter this year is minus 3.7 billion yen. I will explain the details by breaking it down into four elements.

First, sales fluctuation and product mix account for negative 0.9 billion yen. Second, cost reduction accounts for positive 0.6 billion yen. Third, increase in fixed cost account for negative 2.5 billion yen, those were mainly R&D cost increase in Positioning and upfront investments for Eye Care businesses. Last, negative FX effects of 0.9 billion yen.

Ⅰ. FY2019 3Q Financial Results

Ⅰ-1. FY2019 3Q Financial Results

Ⅰ-2. Overview of Each Business

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Then, I will explain the factors behind larger-than-expected decrease in operating income by business segment.

Overview of Each Business

Positioning

(unit: million yen)

		FY2018	FY2019				
		1-3Q Actual	**1-3Q Actual**	YoY	%	w/o FX effects	%
Net Sales		53,645	**52,546**	-1,099	-2%	54,178	+1%
Operating Income (Operating Income Ratio)		4,496 (8.4%)	**2,416 (4.6%)**	-2,080	-46%	2,498 (4.6%)	-44%
Exchange Rate	USD	¥110.82	¥109.10	-¥1.72			
	EUR	¥129.38	¥121.46	-¥7.92			

Review of 3Q Financial Results

- IT Construction : Sales slowdown of OEM in 3Q
  Solid sales in after market
- IT Agriculture : Stagnant sales
- Continuing investment for future growth

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Let's take a look at the Positioning business first.

Net sales decreased by 1,099 million yen to 52, 546 million yen. The net sales remained almost flat after excluding negative FX effects. The operating income decreased by 2,080 million yen to 2,416 million yen year-on-year. We anticipated a decline in profit, but it fell below our anticipation.

Main factor was sharp decrease in OEM sales of IT Construction in the third quarter, although it was rather solid in the first and second quarters. While the aftermarket sales, that is more realistic indicator of overall market trend, remained strong year-to-date, we assume it was a transient sales downturn due to less ordering activities of specific OEM customer.

In the meantime, our continued growth investment ~~for growth~~ has increased ratio of expenses to sales, thereby pushing down profits.

Overview of Each Business

Smart Infrastructure

(unit: million yen)

		FY2018	FY2019				
		1-3Q Actual	**1-3Q Actual**	YoY	%	w/o FX effects	%
Net Sales		26,055	**23,708**	-2,347	-9%	24,011	-8%
Operating Income (Operating Income Ratio)		3,933 (15.1%)	**2,984 (12.6%)**	-949	-24%	3,174 (13.2%)	-19%
Exchange Rate	USD	¥110.82	¥109.10	-¥1.72			
	EUR	¥129.38	¥121.46	-¥7.92			

Review of 3Q Financial Results

- Steep sales decline in India
- Continuing sluggish sales in China and Southeast Asia
- Domestic market / i-Construction : Continuing strong sales

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

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Let's move on to the Smart Infrastructure business.

Sales drop by 2,347 million yen and operating income decrease by 949 million yen year-on-year. We also anticipated profit decline in this segment, but it exceeded our anticipation. The profit decline was mainly due to delayed recovery after the general elections in major countries in Southeast Asia. We have expected sales should have pick up in the third quarter, but it hasn't that much.

Also, our sales to Indian market suddenly decreased, although sales to India make up a small part of our total sales.

On the other hand, i-Construction business continued to be strong in Japan with the government's supplementary budget allocated for National Resilience and supplement works for disaster recoveries.

Even with brisk sales in domestic construction market, unexpected sales decrease in mainly Asian market led to larger-than-expected decline in operating income.

Overview of Each Business

Eye Care

(unit: million yen)

	FY2018	FY2019				
	1-3Q Actual	**1-3Q Actual**	YoY	%	w/o FX effects	%
Net Sales	33,338	**33,943**	605	+2%	35,009	+5%
Operating Income (Operating Income Ratio)	1,310 (3.9%)	**871 (2.6%)**	-439	-34%	1,505 (4.3%)	+15%
Exchange Rate USD	¥110.82	¥109.10	-¥1.72			
Exchange Rate EUR	¥129.38	¥121.46	-¥7.92			

Review of 3Q Financial Results

- Growth of sales and profit w/o FX effects
- Sales expansion of Screening Business
- Continuing investment for future growth

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In the Eye Care business, strong sales in Screening business pushed up sales by 605 million yen year-on-year. That means, the sales grew 5 percent excluding FX effects. While the operating income fell by 439 million yen, up 15 percent year-on-year with operating income of 1.5 billion yen excluding FX effects.

In Screening business, we had to defer some sales (shipments) to large optical chain stores in this quarter, but overall the business remained solid.

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 the full-year forecast based on the financial results up to the third quarter.

Revised Full Year Plan

Full Year Forecast	Downward revision of Full Year Plan taking into account worse-than-expected 3Q financial result and the following factors
Positioning	**IT Construction** - Temporary decline in OEM sales with signs of some recovery in 4Q, while uncertainty remains - Continuing solid sales in after market - Grabbing significant orders at the largest construction exhibition in the US where the market is in good shape
Smart Infrastructure	**China and Southeast Asia** Continuing sluggish sales **i-Construction in Japan** Continuing strong sales
Eye Care	**Screening Business** Strong performance but defer some sales into next FY

Revised Plan

	Before (Announced on October 31st)	**New** (Announced on January 31st)	Change	Change%
Net Sales	¥150.0B	**¥147.0B**	-¥3.0B	-2%
Operating Income	¥12.5B	**¥10.0B**	-¥2.5B	-20%
Net Income	¥6.0B	**¥4.3B**	-¥1.7B	-28%
Dividends	¥28	**¥28**	Unchanged (Payout Ratio 69%)	

Exchange rate assumptions of 4Q are unchanged : $=¥110／€=¥120¥

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

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So far, I have explained about main factors behind larger-than-expected profit decline for the third quarter.

Given such unfavorable results in the third quarter, to our regret, we have decided to make further downward revisions of the already-lowered forecast of sales and operating income announced in the second quarter.

Positioning business

Even with relatively robust sales in aftermarket in IT Construction, we think that it will be extremely difficult to recover the loss in the fourth quarter.

The US construction market remain firm thus far. In this quarter, we're expecting to get large volume of orders at the largest construction exhibition in the US that takes place every three years. Still, these orders have fallen short of making up for a drop in OEM sales, so we have decided to lower our forecast again.

Smart Infrastructure business

Despite brisk sales for i-Construction in Japan, we revised down our forecast due to continuous sluggish construction markets in Asia and India. Meanwhile, please note that we haven't taken any negative impact of the Novel Coronavirus into account at this point.

Eye Care business

Even with brisk Screening business, we had to postpone some shipments to large optical chain store in the third quarter in order to accommodate client's request. This deferment of shipment may continue in the fourth quarter that may affect our sales in this fiscal year. Given such risk along with negative FX effects against the euro, we slightly lowered our forecast.

We regret that we lowered our forecast again. We now project net sales of 147 billion yen (revised down by 3 billion yen), operating income of 10 billion yen (revised down by 2.5 billion yen), and net income of 4.3 billion yen (revised down by 1.7 billion yen).

Having said that, we will not change our present growth strategy for the next fiscal year and beyond. We, therefore, keep our annual dividends per share @ Yen 28 as planned with dividends payout ratio of 69%.

FY2019 Full Year Plan [Consolidated]

(unit : million yen)

	FY2018	FY2019		
	Full Year Actual	Full Year Plan	YoY (%)	Announced on October 31st
Net Sales	148,688	**147,000**	**-1%**	150,000
Operating Income (Operating Income Ratio)	13,596 (9.1%)	**10,000 (6.8%)**	**-26%**	12,500 (8.3%)
Ordinary Income	11,497	**8,000**	**-30%**	10,500
Net Income	6,548	**4,300**	**-34%**	6,000
ROE	9.8%	**6.5%**		9%
Dividends	¥24	**¥28**		¥28
Payout Ratio	39%	**69%**		49%
Exchange Rate (Average) USD	¥110.69	(Assumed FX rate) ¥110		¥110
EUR	¥128.43	¥120		¥120

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I will skip this slide as I already explained it in the previous slide.

FY2019 Full Year Plan by Business [Consolidated]

(unit : million yen)

		FY2018	FY2019		
		Full Year Actual	Full Year Plan	YoY (%)	Announced on October 31st
Net Sales	Positioning	77,722	**76,000**	**-2%**	76,500
	Smart Infrastructure	36,744	**34,500**	**-6%**	36,000
	Eye Care	47,713	**50,000**	**+5%**	51,000
	Others	1,698	1,500	**-12%**	1,500
	Elimination	-15,190	-15,000		-15,000
	Total	148,688	**147,000**	**-1%**	150,000
Operating Income (Operating Income Ratio)	Positioning	8,358 (10.8%)	**6,000 (7.9%)**	**-28%**	7,500 (9.8%)
	Smart Infrastructure	6,393 (17.4%)	**5,100 (14.8%)**	**-20%**	5,600 (15.6%)
	Eye Care	2,896 (6.1%)	**3,000 (6.0%)**	**+4%**	3,400 (6.7%)
	Others	-65 (-3.8%)	0 (0.0%)	**-**	0 (0.0%)
	Elimination	-3,986	-4,100		-4,000
	Total	13,596 (9.1%)	**10,000 (6.8%)**	**-26%**	12,500 (8.3%)

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This table shows full-year forecast by business segment.

We revised down our sales forecasts from 76.5 billion yen to 76 billion yen for Positioning business; from 36 billion yen to 34.5 billion yen for Smart Infrastructure business; and from 51 billion yen to 50 billion yen for Eye Care business.

We also lowered our forecasts of operating income: from 7.5 billion yen to 6 billion yen for Positioning business; from 5.6 billion yen to 5.1 billion yen for Smart Infrastructure business; and from 3.4 billion yen to 3 billion yen for Eye Care business. We revised down our forecast by 2.5 billion yen in total, so our forecast for the full year comes to a total of 10 billion yen.

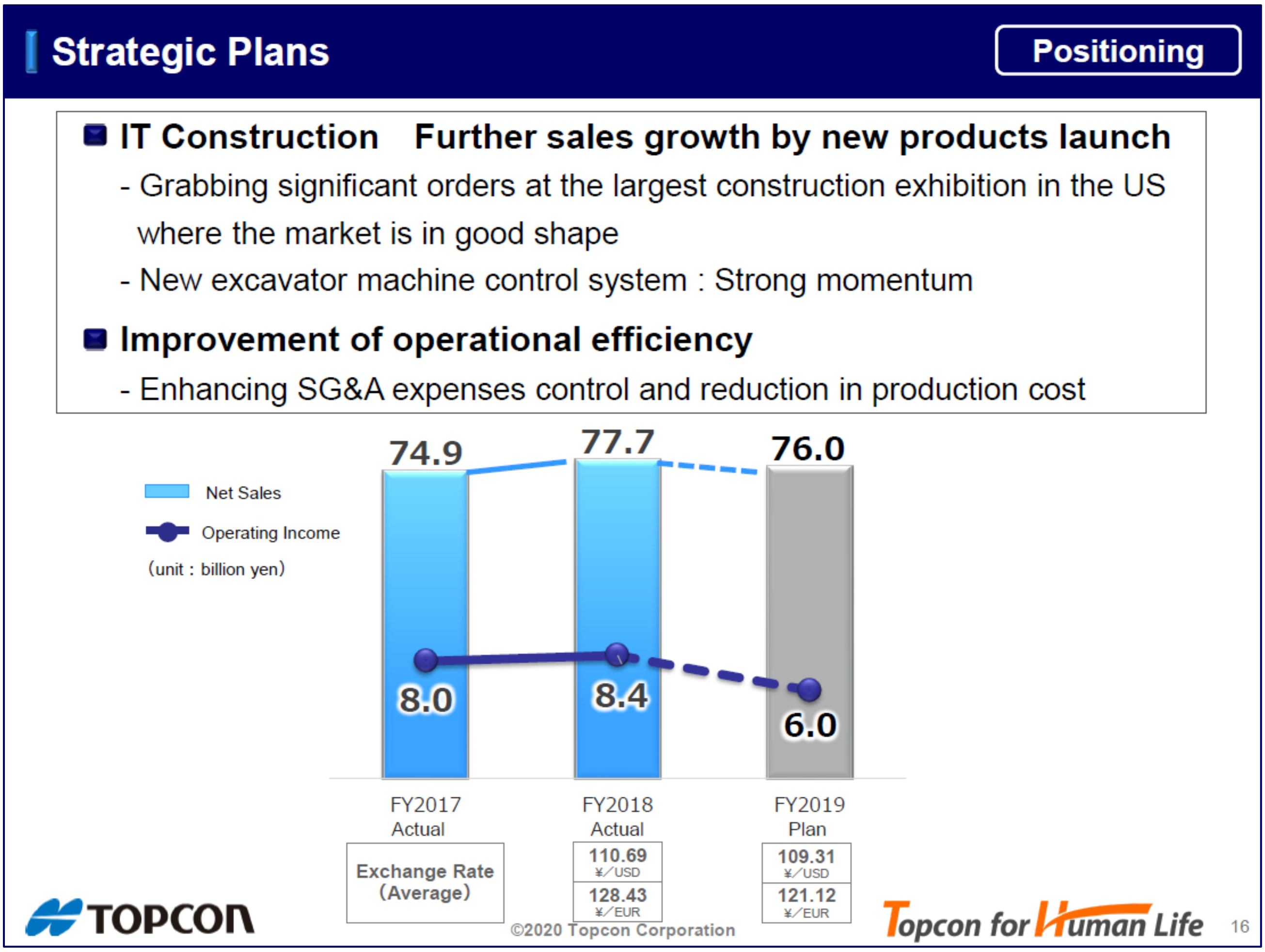
Ⅱ. FY2019 Full Year Plan

Ⅱ-1. FY2019 Full Year Plan

Ⅱ-2. Strategic Plans

Ⅱ-3. Summary

Next, I will explain what we will focus on for the rest of this fiscal year.



First, I will talk about Positioning business.

The aftermarket sales for IT construction continue to be in good shape.

We’re expecting to win large volume of orders at the largest construction machinery exhibition in the US where we plan to launch many new products. Sales of excavator machine control system is in full swing. I will talk about these topics later.

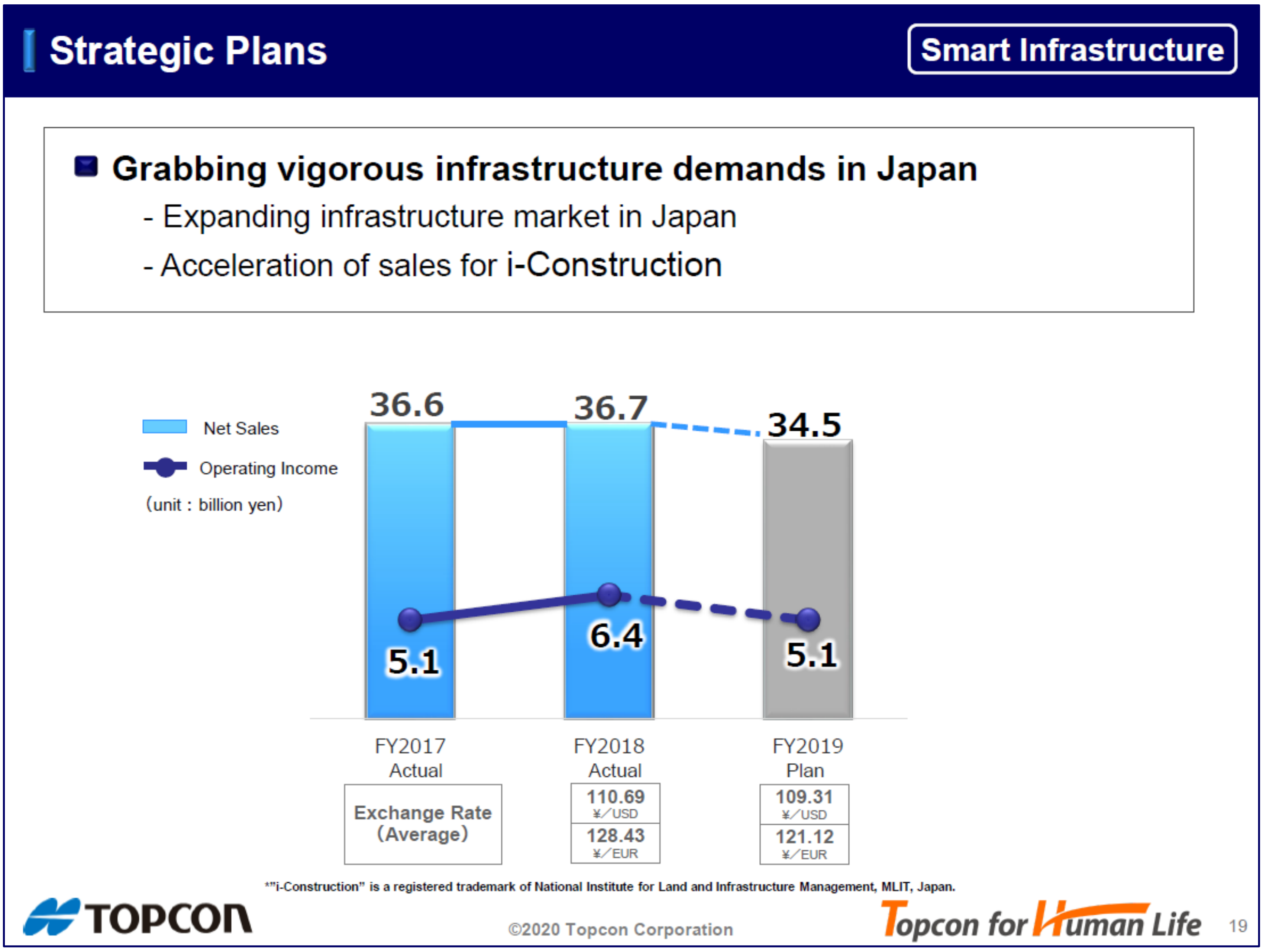
I explained improvement of management efficiency in the briefing for the second quarter, and we will strive to further improve management efficiency. We have been making utmost efforts to reduce SG&A expenses and production costs since last October. In the fourth quarter, we will strengthen cost reduction efforts. With all things considered, our forecasts are net sales of 7.6 billion yen and operating income of 6 billion yen.

In terms of IT Construction, we are expecting to win large volume of orders at the largest construction machinery exhibition in the US where the market conditions remain robust. The exhibition takes place in March every three years at Las Vegas. 130, 000 visitors and 2,800 exhibitors are expected this year.

As you can see in these photos, the scale is magnificent. A major construction manufacturer occupies whole of building of an exhibition hall. The photo on the left shows our booth. The size is considerably big. A lot of deals are made during the show period although it is not typical at exhibitions in Japan. We are expecting to win larger volume of orders than last time because we are going to launch various new products in addition to new excavator machine control system, which is our main products.

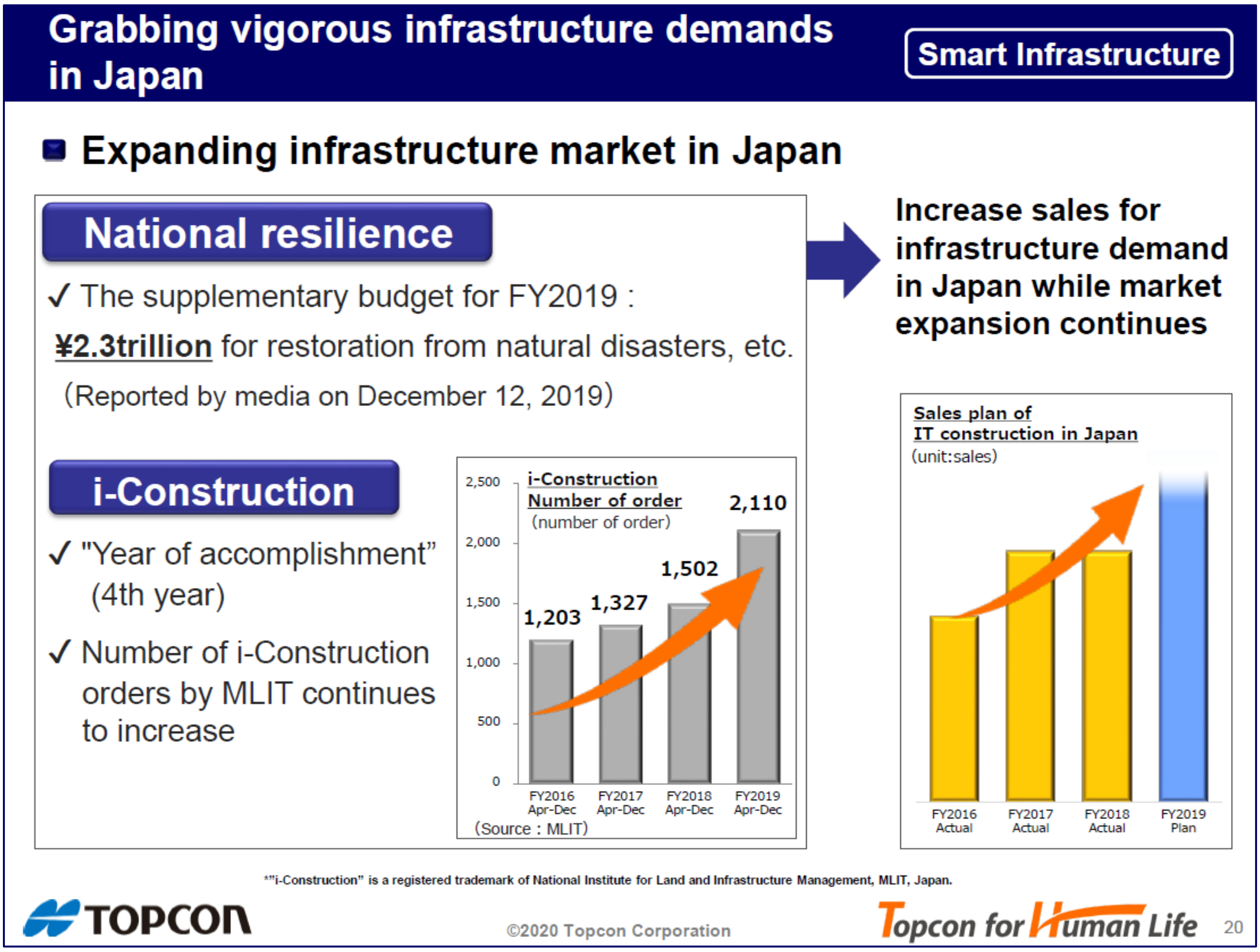
Let me talk about our excavator machine control system. As we have mentioned several times in the past, our products are vendor neutral. They can be retrofitted to excavators of any manufacturers. There is "High growth potential (as you can see in the slide)." Annual production volume of medium and large excavators is around 300k units. Assuming the durable years are 5 to 8 years, there are 1500k to 2400k (=300k×5 to 8) of excavators in the market. The penetration rate is only a few percent. Therefore, we believe there are significant opportunities to expand the sales of retrofittable excavator machine control system.

Although the line chart does not show exact numbers of units sold, the sales has been strongly expanding since the launch in April 2019.



I will talk about Smart Infrastructure business.

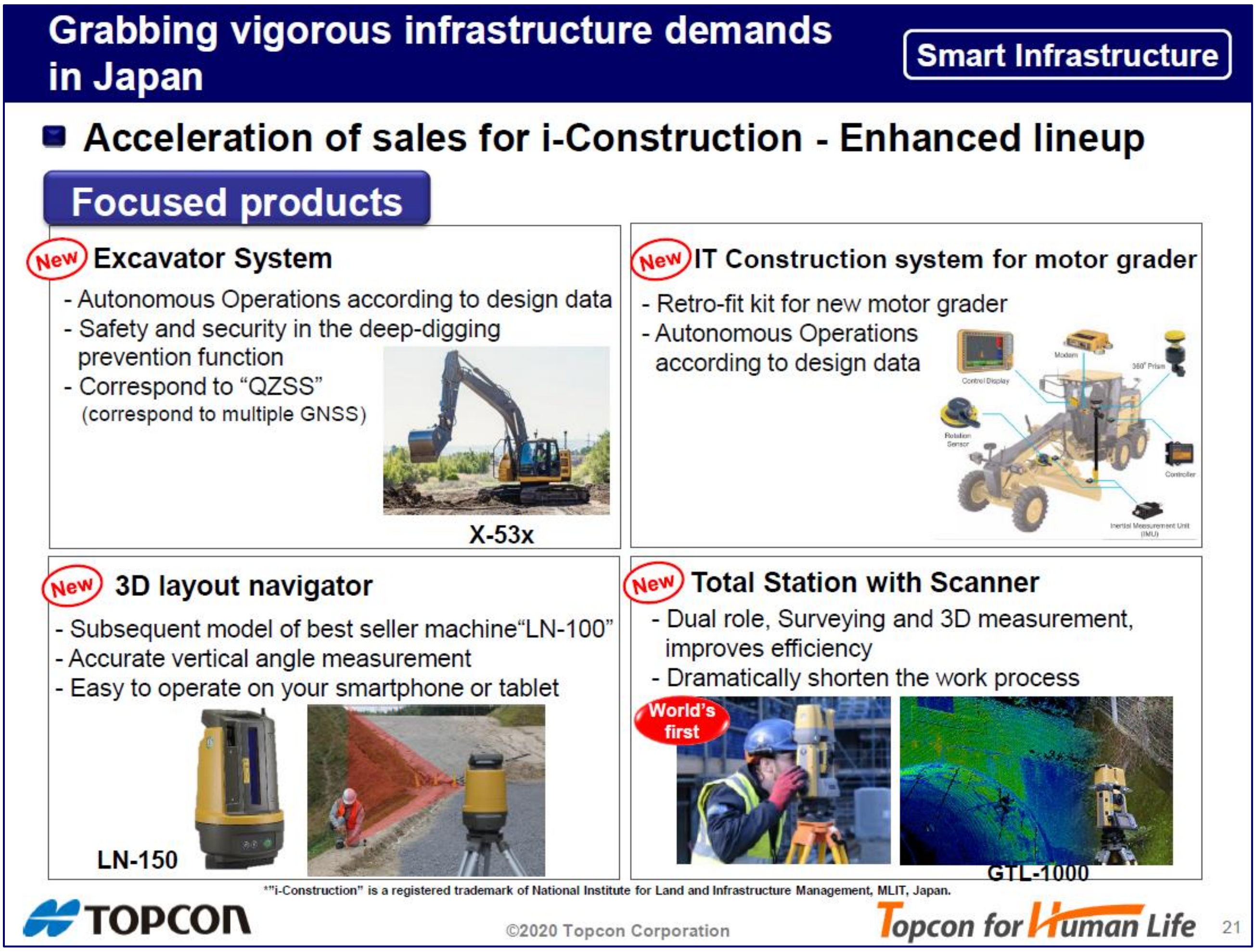
There is significantly large demand in domestic infrastructure market. We aim to accelerate the sales volume expansion through providing a total solution for i-Construction which MILT is promoting. On the other hand, we cannot see the bottom of the slowdown in Southeast Asia, China and India yet. Therefore, we have decided to revise down our guidance, net sales to 34.5 billion yen and operating income to 5.1 billion yen.



Regarding domestic infrastructure market, 2.3 trillion yen of supplemental budget is allocated for not only National Resilience but also restoration from natural disasters last year.

Although related sales will not be recognized fully in the fourth quarter, the demand has been increasing since when the government started the initiative several years ago.

i-Construction started 3 years ago. The ministry calls this year “the year of accomplishment.” Our i-Construction business has been growing as the bar chart on the right shows while the number of orders by both the central and local governments has been increasing every year. We will grab the growing demands in the fourth quarter.



Three-dimensional (3D) survey data is needed to automate construction machinery. We have been developing proprietary technologies for gathering the 3D data and have some products based on the technologies.

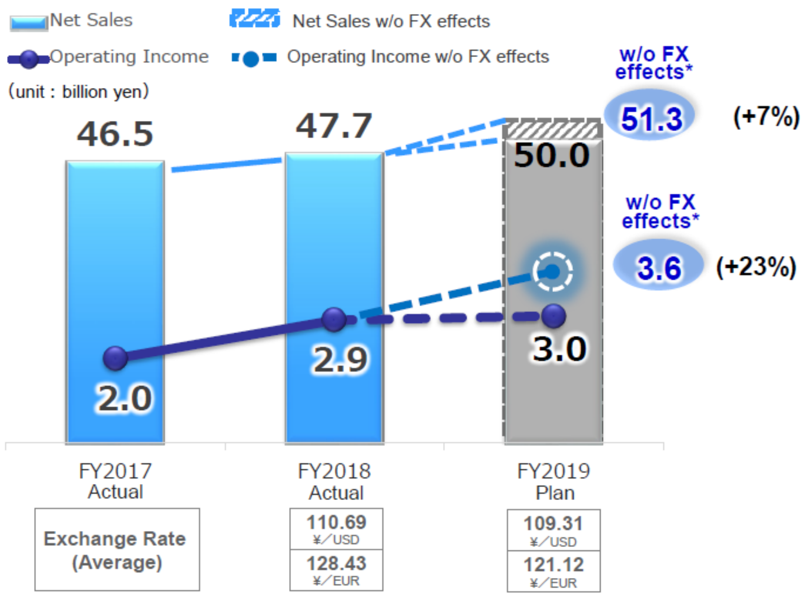
We reckon there are significant demands for us. Our automated excavator system can receive and utilize positioning signals from Michibiki, or Quasi-Zenith Satellite System(QZSS) of Japan, in addition to other satellites' signals. In terms of motor grader system, only our system can be retrofitted to this specific new models of motor grader. Although its market size is relatively small in Japan. The 3D Layout Navigator, LN-150, is our new surveying instrument. The demand for this kind of products is increasing rapidly as an entry model for the i-Construction.

We will generate certain revenue from the decent products line-up for i-Construction although there are only two months left for this fiscal year.

Strategic Plans

Eye Care

- **Further sales expansion of 3D OCT**
- **Expansion of Screening Business**



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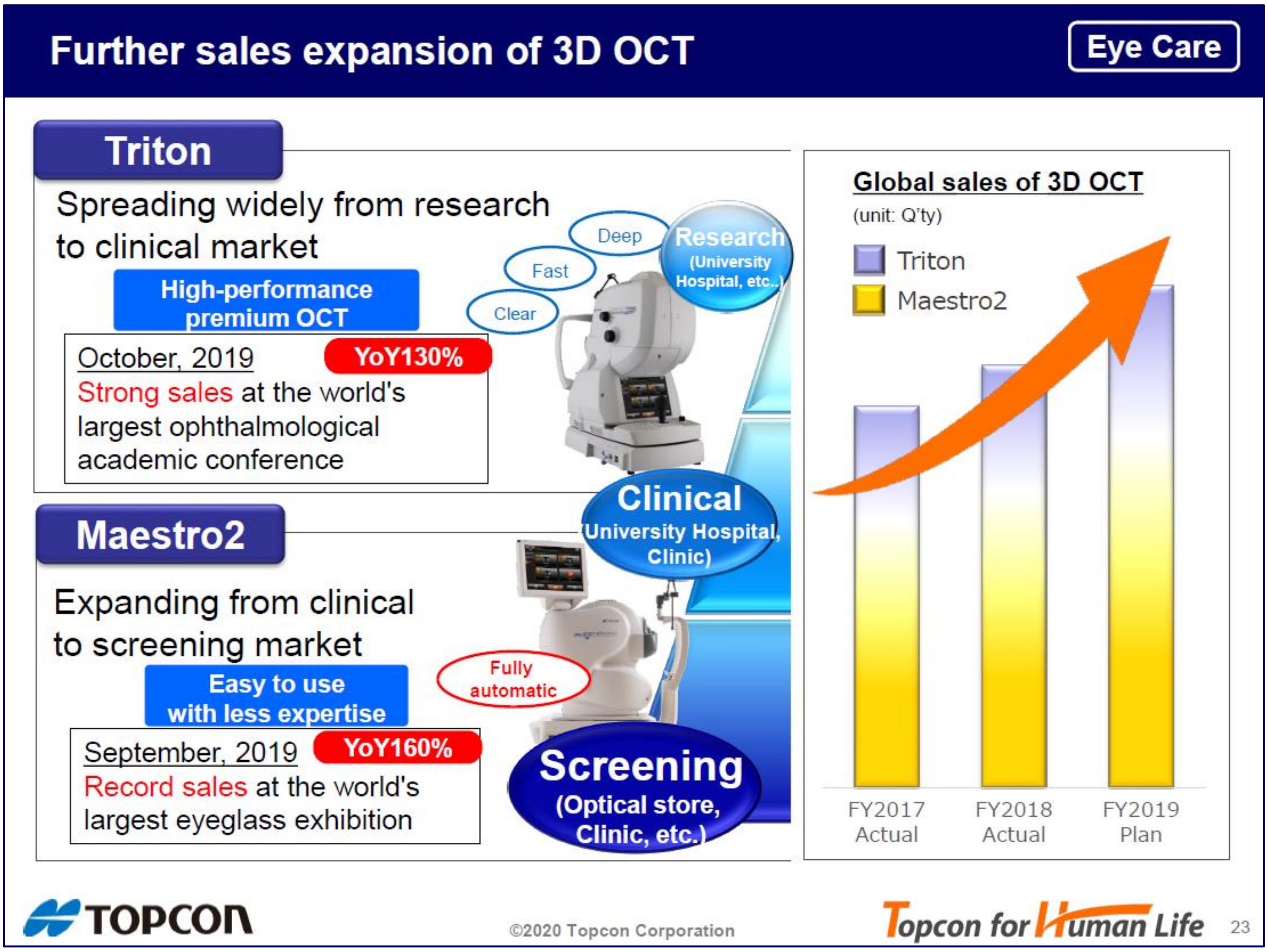
Finally, I would like to touch upon Eye Care business. Our area to focus remains the same. We will continue to expand the sales of 3D OCT and Screening business. 50 billion yen of net sales and 3 billion yen of operating income are our guidance figures for this fiscal year. There is negative impact from FX fluctuations, particularly euro/yen. Excluding such FX effects, we expect operating income to increase 23% year-on-year. In terms of Screening business, the market in Europe is taking off following US. We expect upward trend will continue in fourth quarter. However, it cannot be denied the possibility that some of the sales to large optical chain stores will be recognized in April or later. We set conservative numbers.



3D OCT is the main product to drive our Screening business on top of our conventional business for ophthalmology clinics. We have two of 3D OCT products. One is “Triton” which is the highest class and the other is “Maestro2” which is used in a wide range of fields from clinical practice to Screening application. The year-on-year sales growth for both products are 130% and 160% respectively at major exhibitions.

We expect certain sales growth for 3D OCT in total from fiscal year 2017 to 2019 as shown in the bar chart.

Expansion of Screening Business

Eye Care

OCT getting popular in European market

- **Continuing strong sales of Maestro2**

  New orders from major optical retail chains in the UK and Scandinavia, following Australia and the United States

Specsavers' case

Installed 350units of Maestro from 2017 to 2019 (Oceanian region)

Top 10 Eyewear and Optical retailers in Europe 2017

Rank	Retailer	Headquarter	Sales (€ Millions)	Stores
1	Specsavers	UK	2,028	1,226
2	Fielmann	Germany	1,606	723
3	Optic 2000	France	1,350	1,180
4	Krys Group	France	1,000	1,400
5	Alain Afflelou	France	730	1,200
6	Apollo Optik	Germany	694	800
7	Grandoptical	France	664	299
8	Boots Opticians	UK	417	637
9	Hans Anders	Netherlands	367	409
10	Hartlauer	Austria	238	155
		Total	€9,094 millions	8,029 stores

(Source: Retail-Index)
https://www.retail-index.com/Sectors/OpticalRetailersinEurope.aspx

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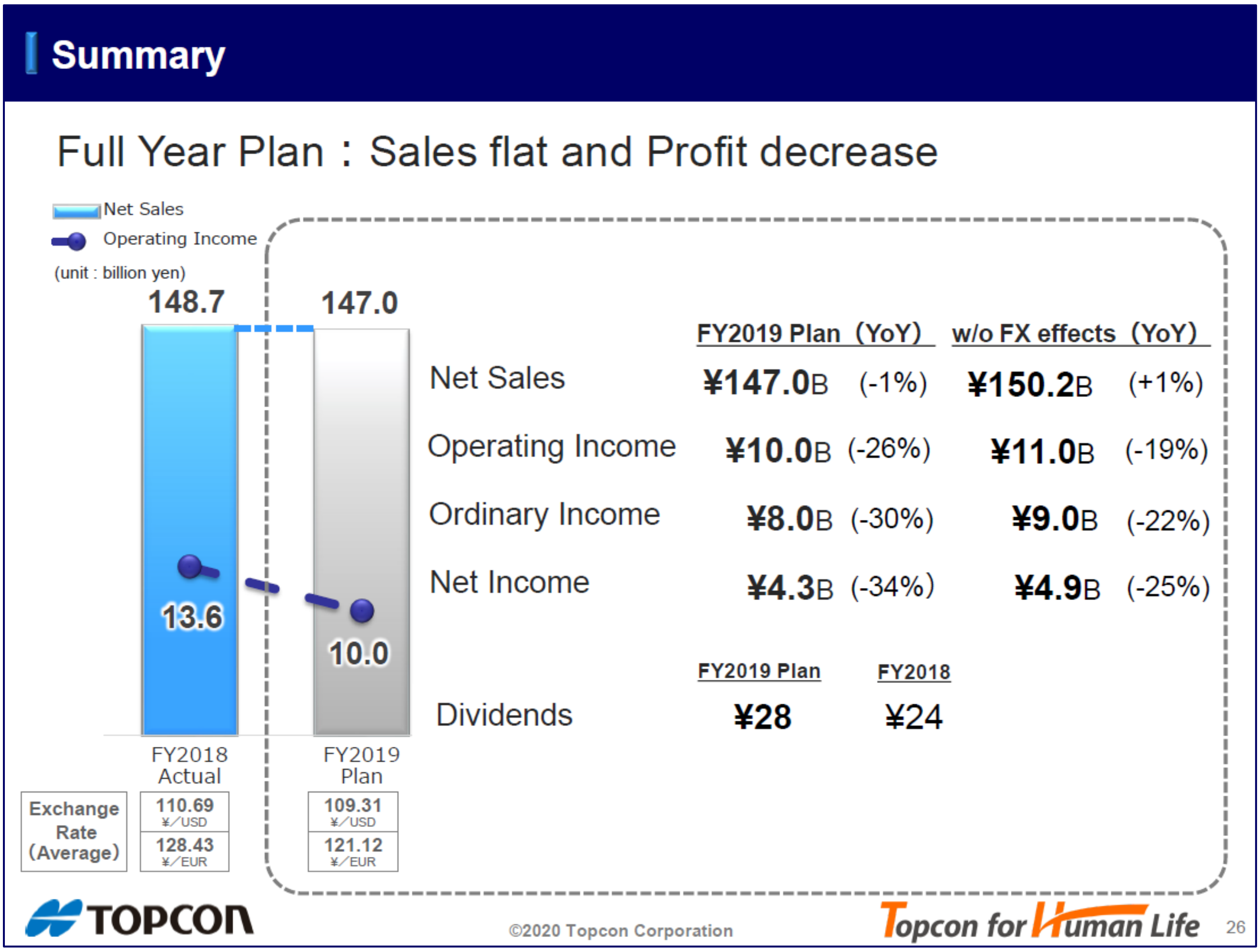
Let me talk about the expansion of Screening business. We showed you the ranking of the US optical chain-store operators at the briefing for the second-quarter results. This slide shows the ranking of optical retailers by sales in Europe. The top 10 retailers operate a total of 8,000 stores.

We have mentioned some large-lot orders placed by Australian and US optical chain stores at briefings in the past. This time, I would like to inform you that we received the orders from optical chain stores in UK and Nordic countries. We cannot disclose concrete names. However, it is one of the examples to show that Screening business is now got off the ground.

This concludes the briefing by business segment.

I would like to wrap up my presentation.



We revise down the forecast for net sales and operating income to 147 billion yen and 10 billion yen, respectively. Operating income will decrease from last year while the net sales is almost flat. We maintain our stance to increase dividends and don’t change dividends per share.

This slide shows the numbers excluding the FX effects, for your reference. Net sales are flat while operating income is down by 19%. There are, however, many positive factors in the market. We will try to capture and monetize the opportunities one by one.

We appreciate your continued support. I will wrap up my presentation.

This concludes the explanation of the third-quarter earnings results and full-year earnings forecast. Thank you for your attention.

Questions and Answers

<Positioning Company>

Q. IT Construction: What is the year-on-year growth for the cumulative three quarters and the third quarter alone respectively?

A. Cumulative three quarters: a high single digit growth for the aftermarket despite a double-digit decline for OEM. The third quarter alone: a high single digit growth for the aftermarket. OEM declined to roughly half.

Q. IT Construction: Do you think the major OEM client may be changing the way to develop business for ICT construction equipment? I have heard that there is a plan to provide own retrofit products.

A. We are not in position to know what kind of plan they have. However, we don't think it is relevant. ICT excavator system is classified as automatic or guidance. Our OEM products are former while theirs are latter. Their specifications are completely different.

Q. IT Construction: In terms of the OEM, how is the indication for the fourth quarter?

A. At the moment, the forecast is not weak. We think the slowdown in the third quarter is temporary. However, there remains uncertainty. We do not expect a full recovery in short term.

Q. IT Construction: Could you give us the breakdown of the amount revised-down operating income forecast (minus 1.5 billion yen) for Positioning segment for the third and fourth quarters?

A. Roughly 1 billion yen is in the third-quarter. It is mainly due to OEM in the IT Construction business and slight impact from IT Agriculture. 0.5 billion yen is factored into the fourth quarter as there is uncertainty if sales of our OEM products would recover or not.

Q. IT Construction: I think the situation is different between OEM and the aftermarket. Do we not need to worry about the aftermarket? How do you assess the inventory of OEM clients?

A. Sales to OEM clients are affected by not only ICT construction equipment demand but also their inventory level. In terms of the aftermarket, we think it is directly linked to users' demand. If the aftermarket is performing solidly, we would think the slowdown in OEM is temporary. We have not grasped the situation of OEM clients' inventory.

Q. Investment plan: When you revised down the forecast at the briefing for the second-quarter earnings results, you said you would focus on cost cutting. Could you explain current status?

A. We continue to invest in necessary development projects. However, we assess them selectively and some have been halted. In particular, if the agriculture-related areas continue to face a slowdown, we will implement the second and third rounds of cuts in expenses and fixed cost.

Q. IT construction: In terms of the large volume of orders to be placed at the US biggest construction machine exhibition in March, do you expect the same level of orders as what you saw 3 years ago? Or are you assuming more aggressive numbers?

A. We are projecting relatively bullish number. There are two reasons. First, we now have featured product, the automatic excavator machine control system. Second, the market condition is better than 3 years ago. However, the contribution to the fourth quarter sales would be limited because certain part of the expected sales will be recognized next fiscal year.

<Smart Infrastructure business>

Q. Analysis of changes in profit: Why was the operating profit margin for the third quarter down year-on-year? Don’t you think the competition is getting harsher?

A. The operating profit margin declined due to worsening capacity utilization rates while sales dropped for the third quarter by 1.2 billion yen year-on-year. There is no big change in the competitive environment.

<Eye Care Business>

Q. Screening business: You explained that orders from major chain stores were on the rise. Could you tell us the volumes and period of these orders?

A. We cannot disclose the details. In mid-term business plan (from fiscal year 2019 to 2021), we identified Screening business and China business as growing segments for Eye Care business. You can safely assume that the majority of contribution to the growth should come from Screening business.

Q. Screening business: You have mentioned the delay of sales to be booked. Were you talking about the large-lot deal in the US which you explained at the briefing for the second-quarter earnings results or different one? How long do you expect to be delayed? Could you let me know the cause?

A. It is regarding the large-lot deal in the US which we explained at the second-quarter earnings results announcement. We assume the booking the sales has been delayed for a few months. The cause is at the client side and there is nothing we can do. So, we revised down the forecast by 0.4 billion yen.

Q. Screening Business: Is the number of major optical chain store partners growing? What is your strength to accelerate the increase?

A. The number is increasing. It started in Australia followed by the US and Europe. Our products can be used quite easily because they are fully automated. It is the main competitive advantage. Screening exams can be easily and quickly done at optical chain stores.

Q. Subscription Business: Do you have any update on the software and subscription businesses?

A. The number of contracts for the subscription business is steadily increasing. However, the pace is not as fast as we expected. We do not disclose detail figures.

Q. Earnings forecast: The downward revision for Eye Care business is small. How do you factor in the impact of changes of the economic environment?

A. Negative impact from the trade friction between US and China is limited on Eye Care business, different from our Positioning Business. However, if there is any big move which will cause a negative impact on individual consumption, it will likely to influence on our business. We are concerned about the outbreak of the Novel Coronavirus in China because it may affect our Eye Care business which is growing fast there. Having said that, we have not factored into our earnings forecast at this point.

<Common questions for the overall company>

Q. Analysis of changes in profit: Could you tell us the breakdown of the analysis of changes in profit for full-year earnings forecast?

A. The breakdown of a year-on-year decline of 3.6 billion yen in operating income is as follows: ±0 in sales and product mix； 0.8 to 1 billion yen increase in cost reduction；3 to 3.5 billion yen decrease in fixed cost; and 1 billion yen of negative on FX effects.

Q. Analysis of changes in profit: Could you give us breakdown of “Sales Volume, Product Mix” by segment for cumulative 9 month base?

A. 1 billion yen negative in each of Positioning and Smart Infrastructure; 1 billion yen positive in Eye Care. 0.9 billion yen of negative in total.

Q. Analysis of changes in profit: Some of the businesses including IT Construction are growing. Could you explain where the product mix deteriorated?

A. Sales slowdown of OEM in IT Construction caused a negative impact on product mix.

Q. China exposure: In final demand base, how much of the revenue is coming from China?

A. It is 6 % for China as disclosed in Summary of Business Results. It is the same as final demand base.

[END]