

FY2020 1Q Financial Results

July 31, 2020
TOPCON CORPORATION
President & CEO
Satoshi Hirano



Company
Profile
Movie

FY2020 1Q Financial Results

I . FY2020 1Q Financial Results

II . FY2020 Full Year Plan

III. Topics

IV. Summary

V. Appendix

I . FY2020 1Q Financial Results

I - 1 . FY2020 1Q Financial Results

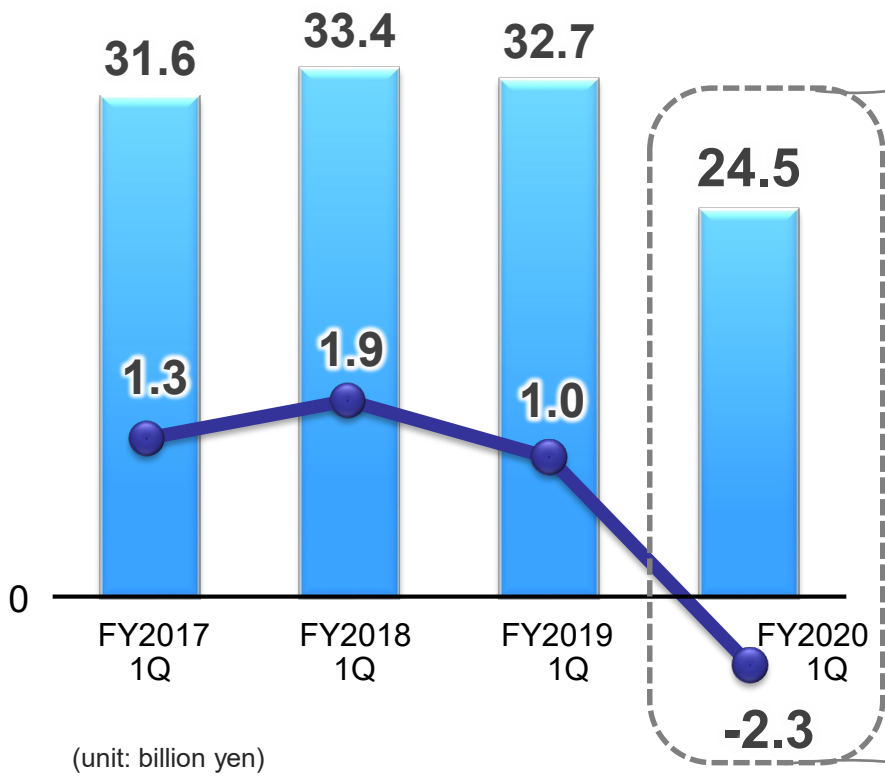
I - 2 . Overview of Each Business

FY2020 1Q Overview

Monthly sales and profit are in recovery trend despite decreased sales and profit in 1Q

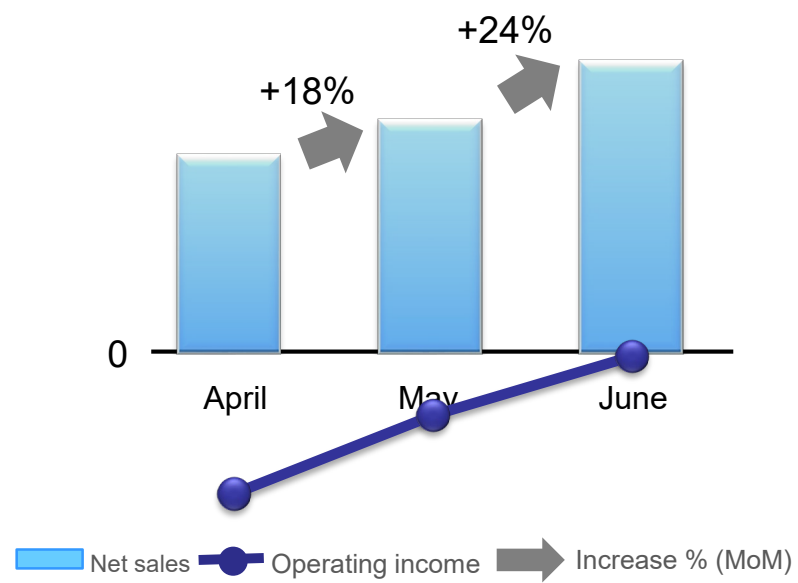
Serious impact due to lockdown

Impact :	Net Sales	-¥9.0B
	Operating Income	-¥4.0B



Month-by-month Breakdown

- Sales are picking up after hitting the bottom in April
- 16% reduction (YoY) of SG&A
- Turned out to be a break-even in June



FY2020 1Q Financial Results [Consolidated]

(unit : million yen)

	FY2019 1Q Actual	FY2020		
		1Q Actual	YoY	YoY%
Net Sales	32,747	24,493	-8,254	-25%
Gross Profit (Gross Profit Ratio)	17,692 (54.0%)	11,680 (47.7%)	-6,011	
SGA	16,682	14,003	-2,678	Reduction of 16%
Operating Income (Operating Income Ratio)	1,009 (3.1%)	-2,322 (-9.5%)	-3,332	-
Non-Operating Income (Expenses)	-442	-721	-277	
Operating Income	567	-3,043	-3,610	-
Extraordinary Income (Loss)	-562	-31	530	
Income Before Income Taxes and Minority Interests	4	-3,074	-3,079	
Net Income	-375	-2,482	-2,106	-
Exchange Rate (Average)	U S D	¥110.00	¥107.74	-¥2.26
	E U R	¥123.29	¥118.94	-¥4.35

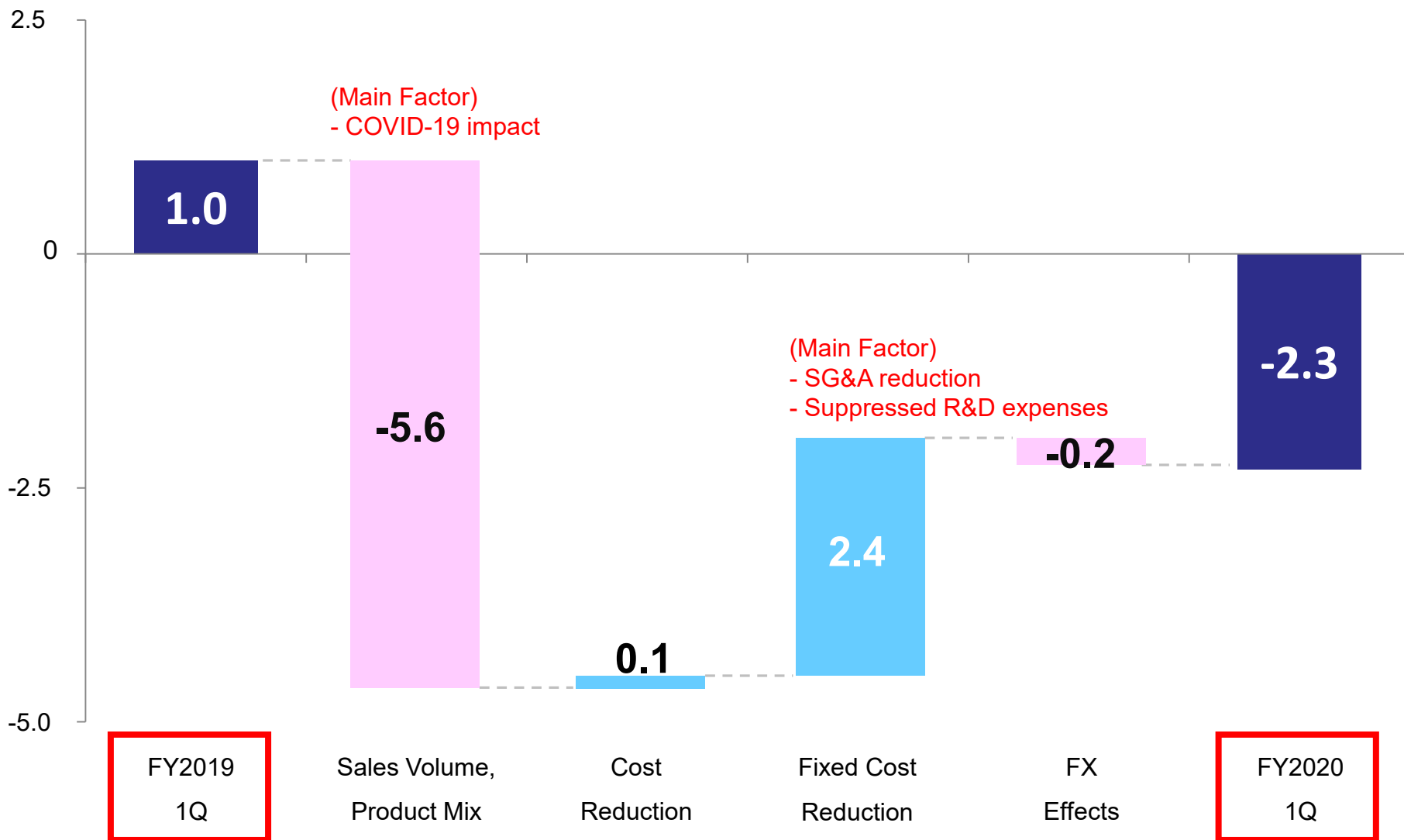
FY2020 1Q Financial Results by Business [Consolidated]

(unit : million yen)

		FY2019	FY2020		
		1Q Actual	1Q Actual	YoY	YoY%
Net Sales	Positioning	18,188	14,416	-3,771	-21%
	Smart Infrastructure	7,043	6,331	-712	-10%
	Eye Care	10,321	6,343	-3,978	-39%
	Others	316	229	-88	-27%
	Elimination	-3,121	-2,827	294	
	Total	32,747	24,493	-8,254	-25%
Operating Income (Operating Income Ratio)	Positioning	1,203 (6.6%)	553 (3.8%)	-650	-54%
	Smart Infrastructure	797 (11.3%)	235 (3.7%)	-561	-71%
	Eye Care	114 (1.1%)	-1,904 (-30.0%)	-2,018	-
	Others	-47 (-15.2%)	-138 (-60.2%)	-90	-
	Elimination	-1,057	-1,069	-12	
	Total	1,009 (3.1%)	-2,322 (-9.5%)	-3,332	-

FY2020 1Q Operating Income YoY Breakdown

(unit : billion yen)



I . FY2020 1Q Financial Results

I-1. FY2020 1Q Financial Results

I-2. Overview of Each Business

(unit : million yen)

		FY2019	FY2020		
		1Q Actual	1Q Actual	YoY	%
Net Sales		18,188	14,416	-3,771	-21%
Operating Income (Operating Income Ratio)		1,203 (6.6%)	553 (3.8%)	-650	-54%
Exchange Rate	USD	¥110.00	¥107.74	-¥2.26	
(Average)	EUR	¥123.29	¥118.94	-¥4.35	

Review of 1Q Financial Results

Overall

- Posted an operating income despite the decreased sales 21% YoY due to lockdown in the U.S and Europe, along with tireless efforts of SG&A reduction
- Sales recovery in May and June after it bottomed out in April as both construction and agriculture are essential business
- Monthly operating income turned to positive in May followed by further improvement in June

IT Construction

- OEM : Inventory adjustment due to weaker sales of clients

IT Agriculture

- Negative impact from COVID-19 is limited. Net sales recovers to the same level as last year



(unit : million yen)

		FY2019	FY2020		
		1Q Actual	1Q Actual	YoY	%
Net Sales		7,043	6,331	-712	-10%
Operating Income (Operating Income Ratio)		797 (11.3%)	235 (3.7%)	-561	-71%
Exchange Rate	USD	¥110.00	¥107.74	-¥2.26	
(Average)	EUR	¥123.29	¥118.94	-¥4.35	

Review of 1Q Financial Results

Overall

- Despite the negative impact from state of emergency declaration in major market, Japan, we could manage net sales only 10% YoY decline, since construction and agriculture are considered as essential business. Posted an operating income in Q1.
- Net sales increases in May and June after the lifting of state of emergency declaration. Monthly operating income turned to positive in May and continued it thorough June.

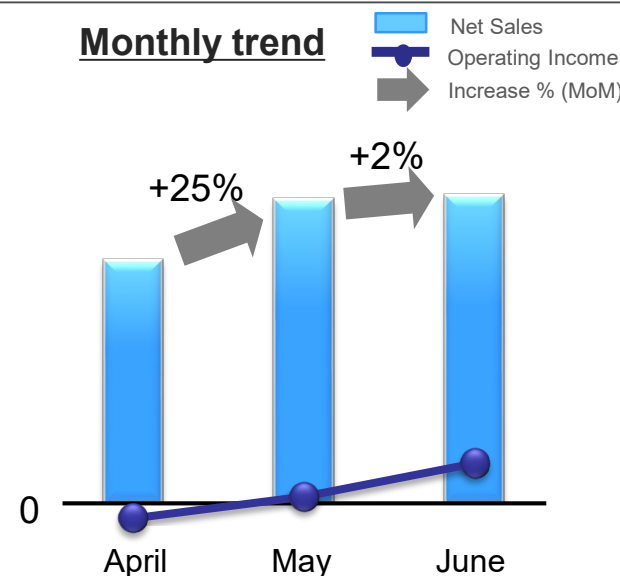
Japan

- Number of i-Construction works steadily increase thanks to enhancing public works related to National Resilience, that helps to maintain robust sales, also due to launching new products in a timely manner

Other Areas

- Brisk sales in China, while sales continue to be stagnant in India, Southeast Asia, and Middle East

Monthly trend



(unit : million yen)

		FY2019	FY2020		
		1Q Actual	1Q Actual	YoY	%
Net Sales		10,321	6,343	-3,978	-39%
Operating Income (Operating Income Ratio)		114 (1.1%)	-1,904 (-30.0%)	-2,018	-
Exchange Rate	USD	¥110.00	¥107.74	-¥2.26	
	EUR	¥123.29	¥118.94	-¥4.35	

Review of 1Q Financial Results

Overall

- Sales was down 39% YoY as sales activities to medical institutions were restrained and optical shops were closed due to lockdowns in our major markets in the U.S and Europe
- After the lifting of lockdown, sales and income are in uptrend after hitting the bottom in April

Europe

- Sales are gradually recovering due to the resumption of economic activities and growing demand for tele-optometry

China

- Consumer spending and capital expenditure are in recovery phase, we see healthy upswing in business activities after good recovery from COVID-19 impact

Monthly trend



Ⅱ . FY2020 Full Year Plan

Ⅱ -1. FY2020 Full Year Plan

Ⅱ -2. Effect on the Third Mid-term Business Plan/ Focused Area for Each Business

Full year plan

Ongoing worldwide COVID-19 pandemic and intensifying U.S-China friction are heightening uncertainty. We announce a plan of sales and income based on 1Q results which is in uptrend and short term forecast with our utmost effort as of now. We don't provide breakdown of each business for full year but 1H because various uncertainty is remained.

Economic measures which have impact on our business

U.S	"Moving America Forward Act," a \$1.5 trillion plan to rebuild infrastructure in the U.S, passed Lower House (July, 2020), in addition to economic measures already been implemented
Europe	<ul style="list-style-type: none"> - EU agreed on €750 billion post-coronavirus recovery package (July, 2020) Anticipating a progress of supportive measures in labor, healthcare, and corporate activities in each EU countries - UK government set out "New Deal" initiative (June, 2020), an economic stimulation measures for £5 billion to boost infrastructure investment in construction of roads, schools, and hospitals.
Japan	<ul style="list-style-type: none"> - Enhancement of measures toward disaster prevention as well as Nation Resilience (scale up to ¥7 trillion) in response to seriously and frequently occurring disasters (Basic Policies for the Economic and Fiscal Management and Reform 2020, July, 2020) - Business Continuity Program (budget: ¥ 20 billion) has rolled out since June this year to support farmers to purchase/adopt labor-saving machines/technologies for COVID-19 infection control. - The government supports implementation of Smart Agriculture to improve productivity as a part of NOUCHI-KOSAKU KAIZEN JIGYOU* (budget: ¥ 25 billion). (July, 2020)
China	Infrastructure investment for transportations including highways is rapidly recovering in 1Q (April-June). CNY 2 trillion , roughly 30% of the total economic stimulation measures, is placed for infrastructure investment .

■ Measures for profit improvement

Endeavor for cost reductions in light of sales deterioration (-8% YoY) due to COVID-19

- Reduction of fixed cost by ¥3.8 billion (mainly SG&A and R&D expenses)
- Restraint on the capital expenditure (**-40% YoY**)

■ Strengthening of financial capability

- In light of society coexisting with COVID-19, enhancing financing capability to secure working capital and growth capital

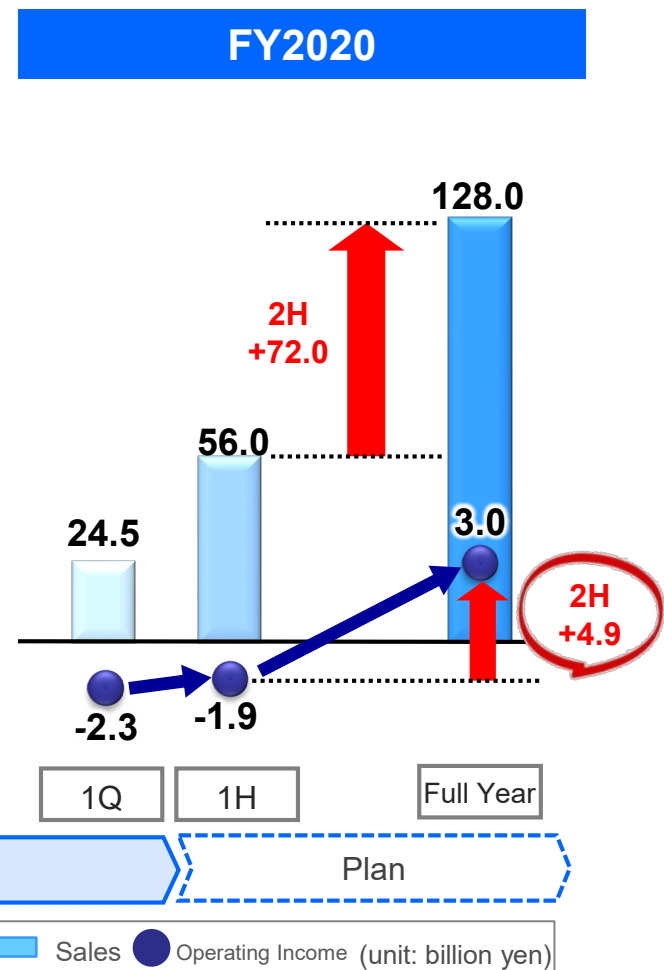
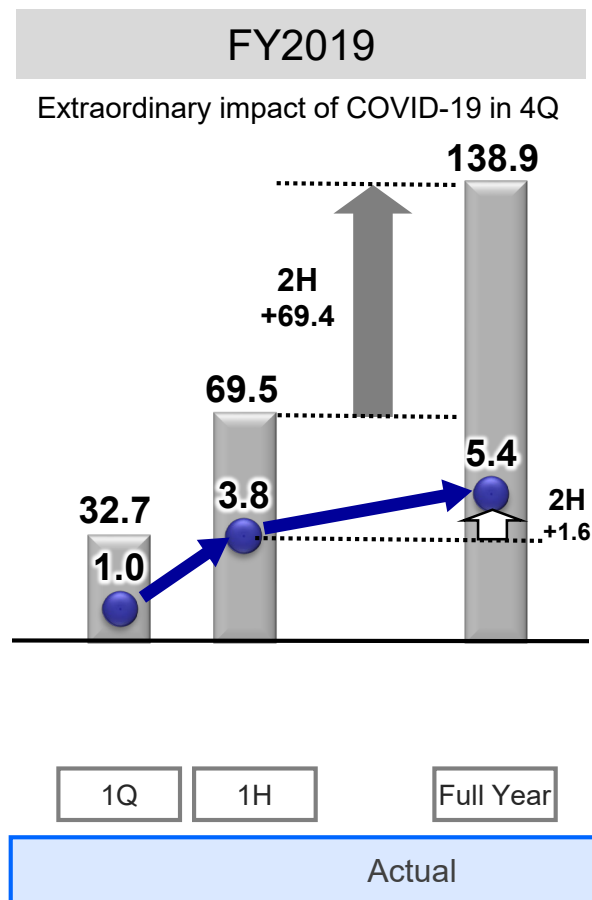
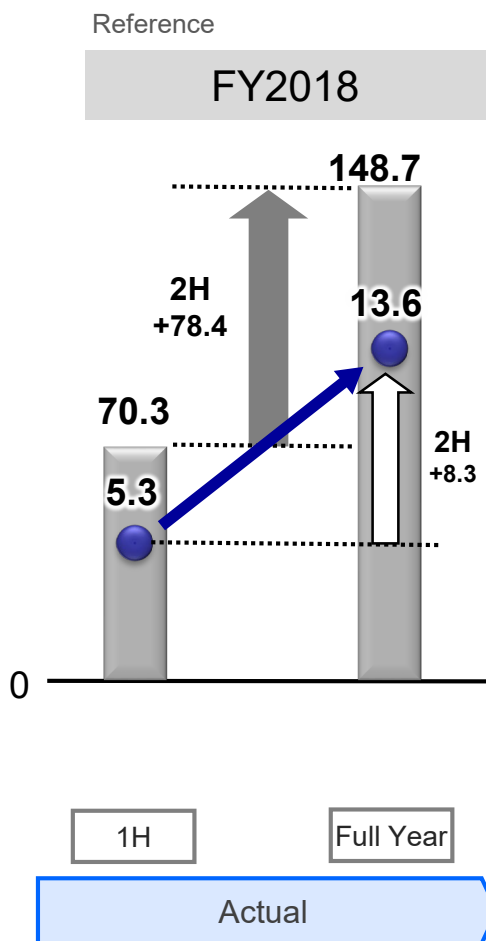
Commitment Line	Doubling to ¥42B from ¥22B
Commercial Paper	New assignment of CP Rating (R&I: a-1)
Corporate Bond	Newly issued ¥20B on June 24, 2020

■ Assumed exchange rate (2Q onward)

- \$1= ¥105.00, €1=¥123.00

FY2020 Full Year Plan

- 1H: Turn out to be profitable in 2Q based on uptrend of monthly results in 1Q
- Full Year: Increase in sales and profit in 2H by continuing uptrend



FY2020 Full Year Plan

(unit: million yen)

		FY2019		FY2020				
		1H Actual	Full Year Actual	1Q Actual	1H Plan	YoY (%)	Full Year Plan	YoY (%)
Net Sales		69,527	138,916	24,493	56,000	-19%	128,000	-8%
Operating Income (Operating Income Ratio)		3,810 (5.5%)	5,381 (3.9%)	-2,322 (-9.5%)	-1,900 (-3.4%)	-	3,000 (2.3%)	-44%
Ordinary Income		2,761	2,895	-3,043	-3,100	-	1,000	-65%
Net Income		895	935	-2,482	-2,600	-	0	-
ROE			1.4%				0%	
Dividends		¥14	¥24		-		¥5	
Payout Ratio			271%				-	
Exchange Rate	USD	¥109.00	¥109.10	¥107.74	* ¥105		* ¥105	
(Average)	EUR	¥121.43	¥121.14	¥118.94	¥123		¥123	

* 2Q onward

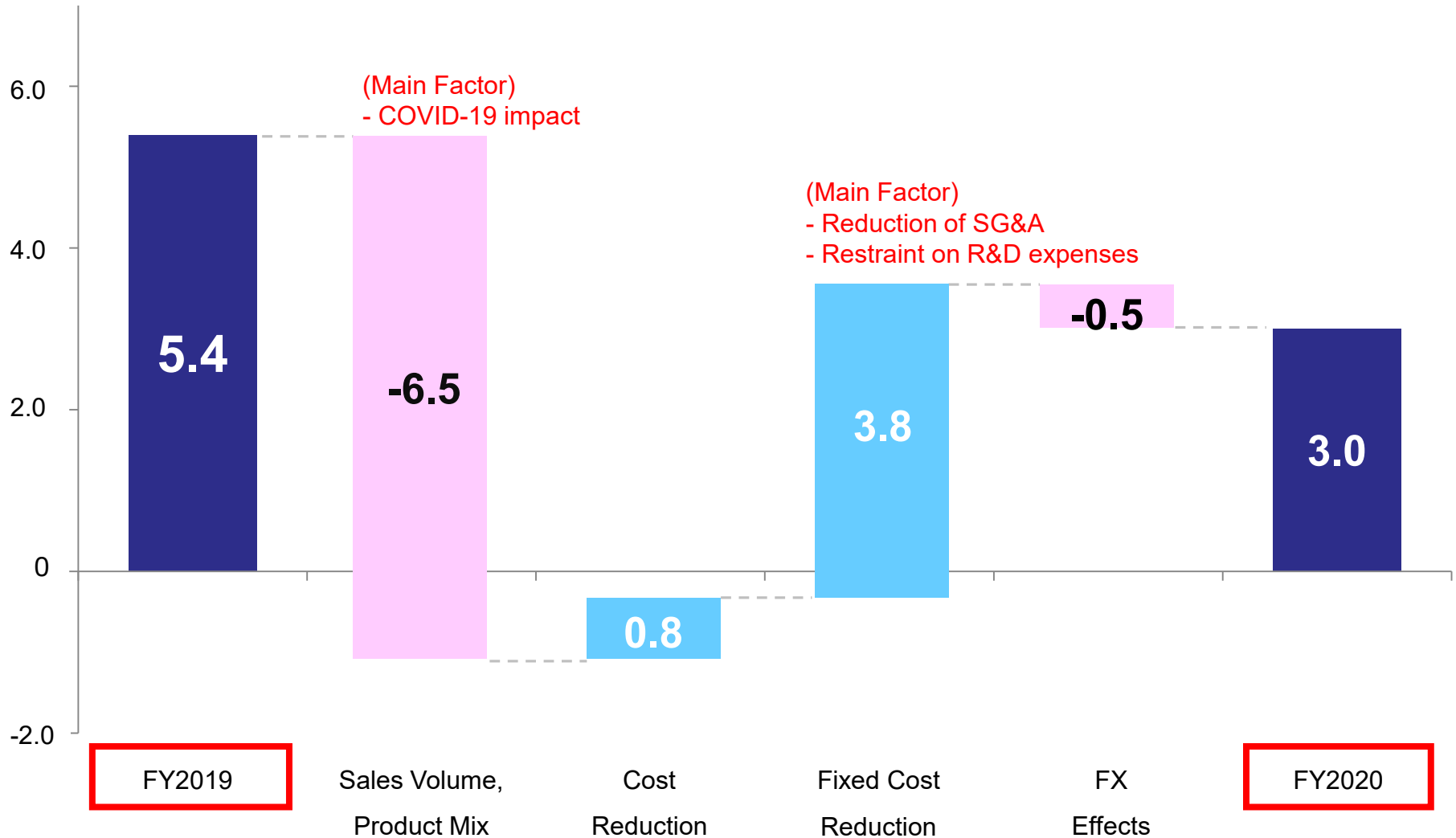
FY2020 Full Year Plan

(unit: million yen)

		FY2019		FY2020				
		1H Actual	Full Year Actual	1Q Actual	1H Plan	YoY (%)	Full Year Plan	YoY (%)
Net Sales	Positioning	37,116	73,989	14,416	29,700	-21%		
	Smart Infrastructure	17,057	33,398	6,331	14,300	-16%		
	Eye Care	22,202	44,758	6,343	17,000	-23%		
	Others	686	1,319	229	600	-13%		
	Elimination	-7,535	-14,549	-2,827	-5,600			
	Total	69,527	138,916	24,493	56,000	-19%	128,000	-8%
Operating Income (Operating Income Ratio)	Positioning	2,850 (7.7%)	4,537 (6.1%)	553 (3.8%)	1,300 (4.4%)	-54%		
	Smart Infrastructure	2,492 (14.6%)	5,027 (15.1%)	235 (3.7%)	1,500 (10.5%)	-40%		
	Eye Care	616 (2.8%)	136 (0.3%)	-1,904 (-30.0%)	-2,500 (-14.7%)	-		
	Others	-62 (-9.0%)	-144 (-10.9%)	-138 (-60.2%)	-200 (-33.3%)	-		
	Elimination	-2,086	-4,175	-1,069	-2,000			
	Total	3,810 (5.5%)	5,381 (3.9%)	-2,322 (-9.5%)	-1,900 (-3.4%)	-	3,000 (2.3%)	-44%

FY2020 Operating Income YoY Breakdown

(unit: billion yen)



Ⅱ . FY2020 Full Year Plan

Ⅱ -1. FY2020 Full Year Plan

Ⅱ -2. Effect on the Third Mid-term Business Plan/ Focused Area for Each Business

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

Vision

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

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

New Keywords

Corresponding to
Social Distancing

Essential
Business

Economic
Restoration

Effect on the Third Mid-term Business Plan

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



- Limited COVID-19 impact as an **Essential Business**
- Increase of infrastructure investment which is essential for **economic restoration**
➡ Severe labor shortage ➡ Tailwind for automation



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



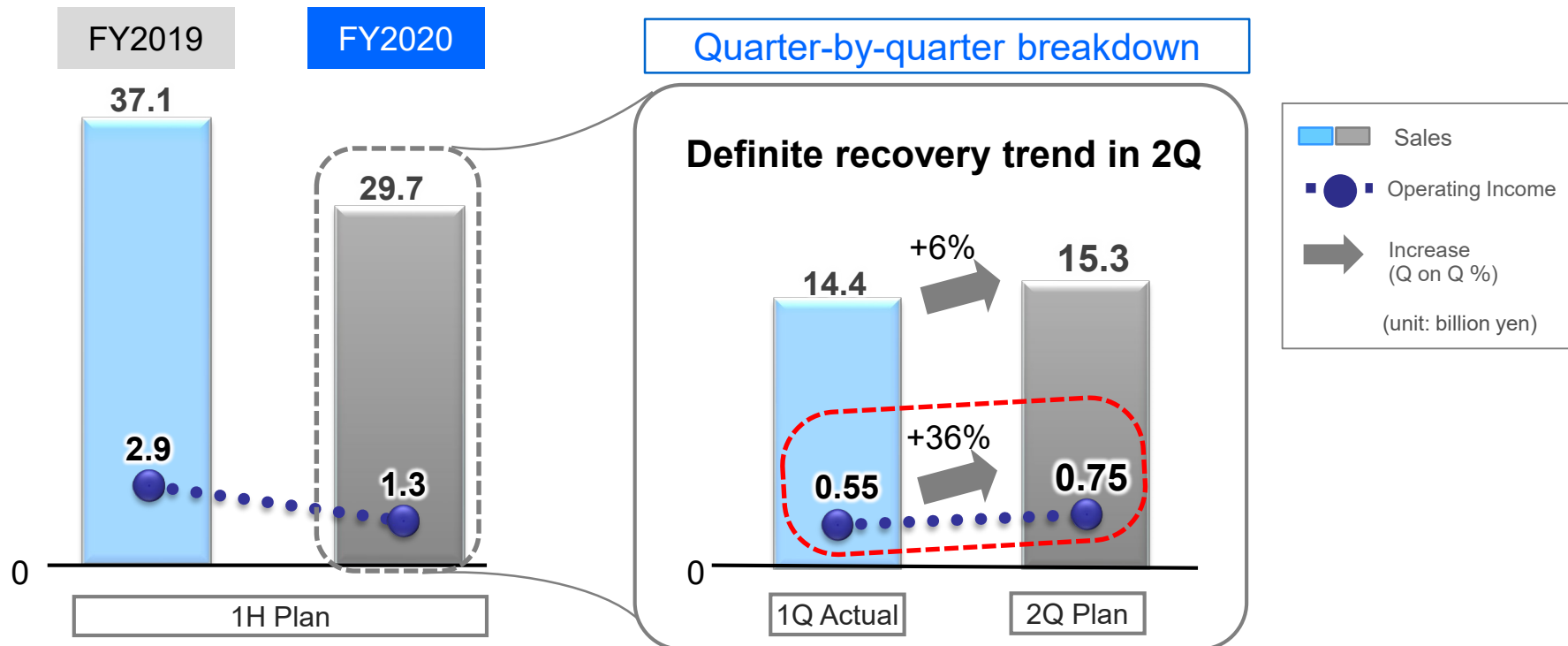
- Significant negative impact in short-term, however it is unchanged that patients with eye diseases is increasing
- Features of our remote vision testers completely coincide with new needs for **social distancing**

■ Steady demand as an Essential Business

- Macroeconomic indicators show some signs of recovery

■ New business opportunities thanks to increase of infrastructure investment for economic restoration

- Aggressively capturing new demands for IT construction



■ Indicators hit the bottom in April. Keeping a close eye on the pace of recovery.

Construction Market

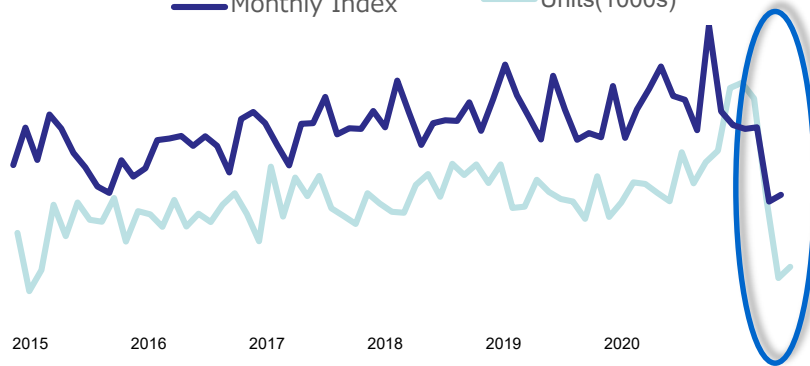
U.S

Dodge Index

U.S. housing Starts

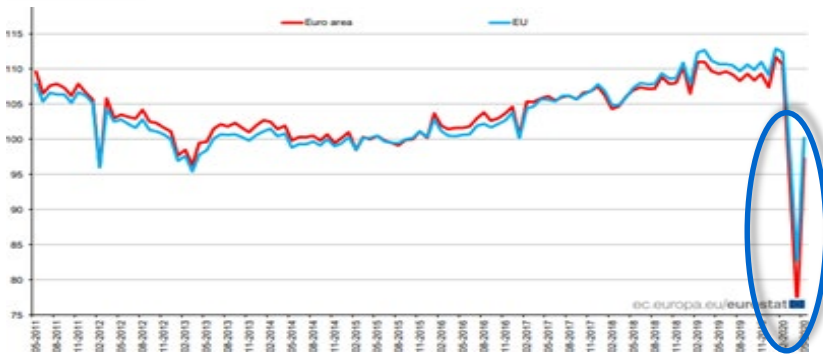
Monthly Index

Units(1000s)



Europe

EU Production in Construction

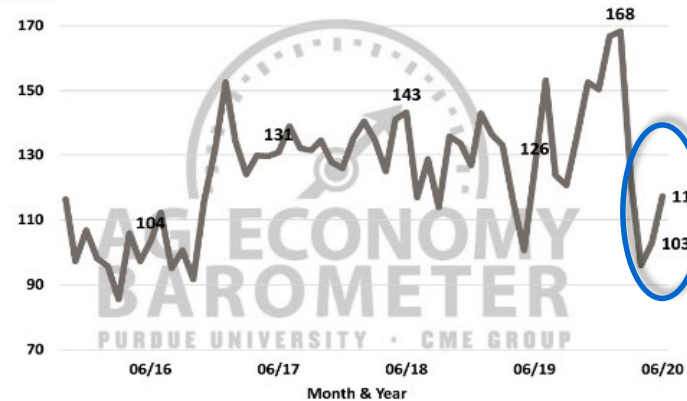


Agriculture Market

U.S

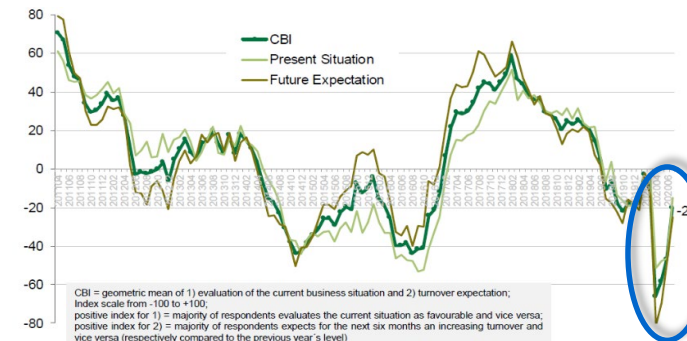
Ag Economy Barometer

Index Value



Europe

CEMA Business Barometer



New business opportunities thanks to increase of infrastructure investment for economic restoration

Positioning

■ Aggressively capturing new demands for IT construction

U.S infrastructure measure

Moving America Forward Act

(passed lower house on July 1st)

Budget : \$1.5 trillion

MOVING AMERICA
FORWARD



\$300 billion spending
for roads and bridges



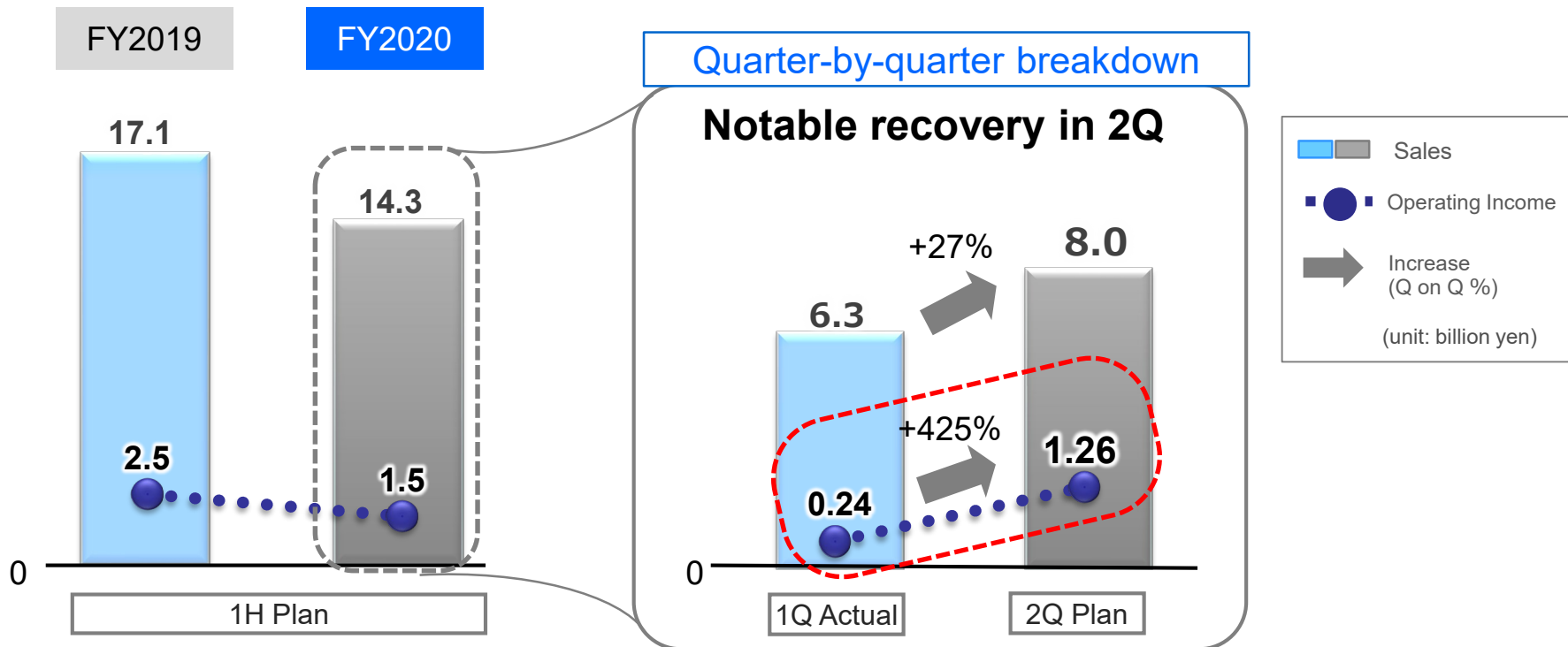
IT Construction contributes for
PRODUCTIVITY IMPROVEMENTS
and **LABOR SAVINGS**



Photos of IT construction at road construction sites

- **Aggressively capturing infrastructure demands in Japan**
 - National Resilience and increasing of i-Construction works serve as tailwind
- **IT Agriculture: Japanese Government facilitate the spread of Auto Steering System**
 - Business Continuity Program and NOUCHI-KOSAKU KAIZEN JIGYOU*

* Details on pg.26



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

■ National Resilience and increasing of i-Construction works serve a tailwind

- Securely capturing demands that have been postponed due to the state of emergency
- Acceleration of IT Construction (i-Construction) helping labor shortage

National Resilience

✓ The scale of the project is approx. **¥7 trillion** in 3 years
(Cabinet decision on December 14, 2018)

National Resilience Annual Plan 2020

Includes measures such as building levee, excavating river channel, building dam and large storage facilities of rain water, prevention from landslide damage to preserve important infrastructure facilities

Contribute to the expansion of infrastructure market in Japan



Emergency measures such as building levee, excavating river channel



Emergency measures such as reinforcement of road slope protection

Source : the Ministry of Land, Infrastructure and Transport

Market trends

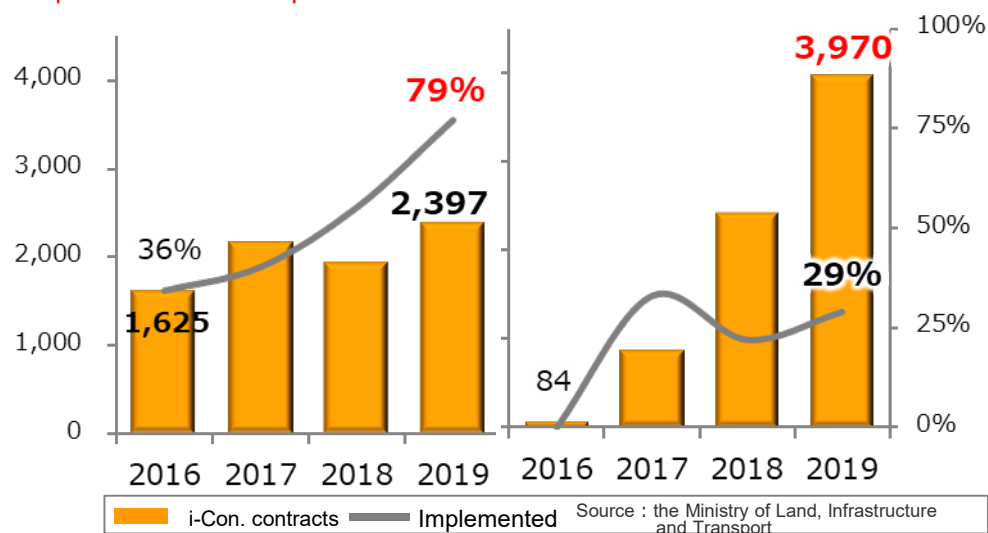
Number of i-Construction contracts and its percentage implemented

Direct control of the Government

Local government

Number of i-Construction implemented works expanded to 79%

i-Construction work contracts rapidly expanded



IT Agriculture: Japanese Government facilitate the spread of Auto Steering System

Smart Infrastructure

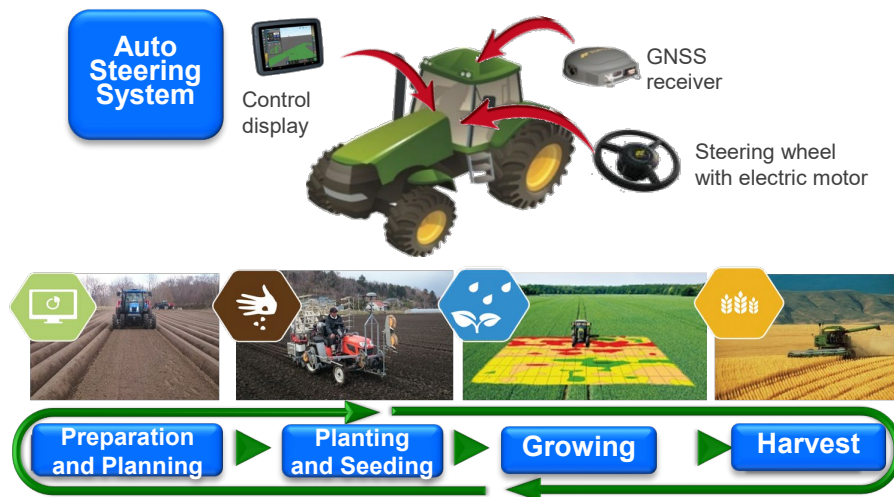
MAFF : Measures for promoting the adoption of Smart Agriculture

- **Business Continuity Program: JPY20bn**
Encourage farmers to purchase labor-saving machines for social distancing in light of COVID-19 infection control

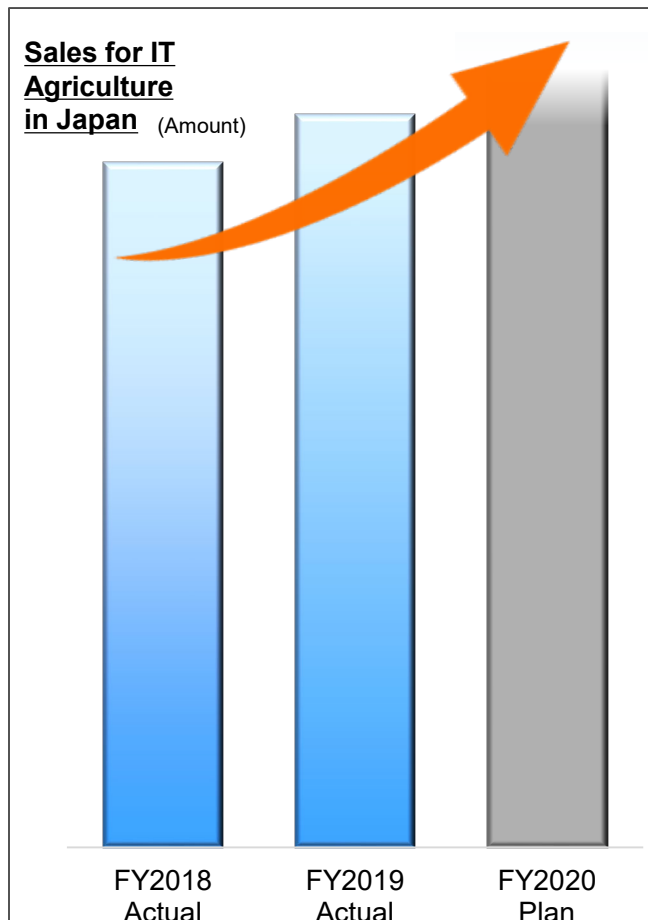
Source : Ministry of Agriculture, Forestry and Fisheries Website

- **NOUCHI-KOSAKU KAIZEN JIGYOU: JPY25bn**
Support farmers to purchase IT Agriculture system which improve their productivities

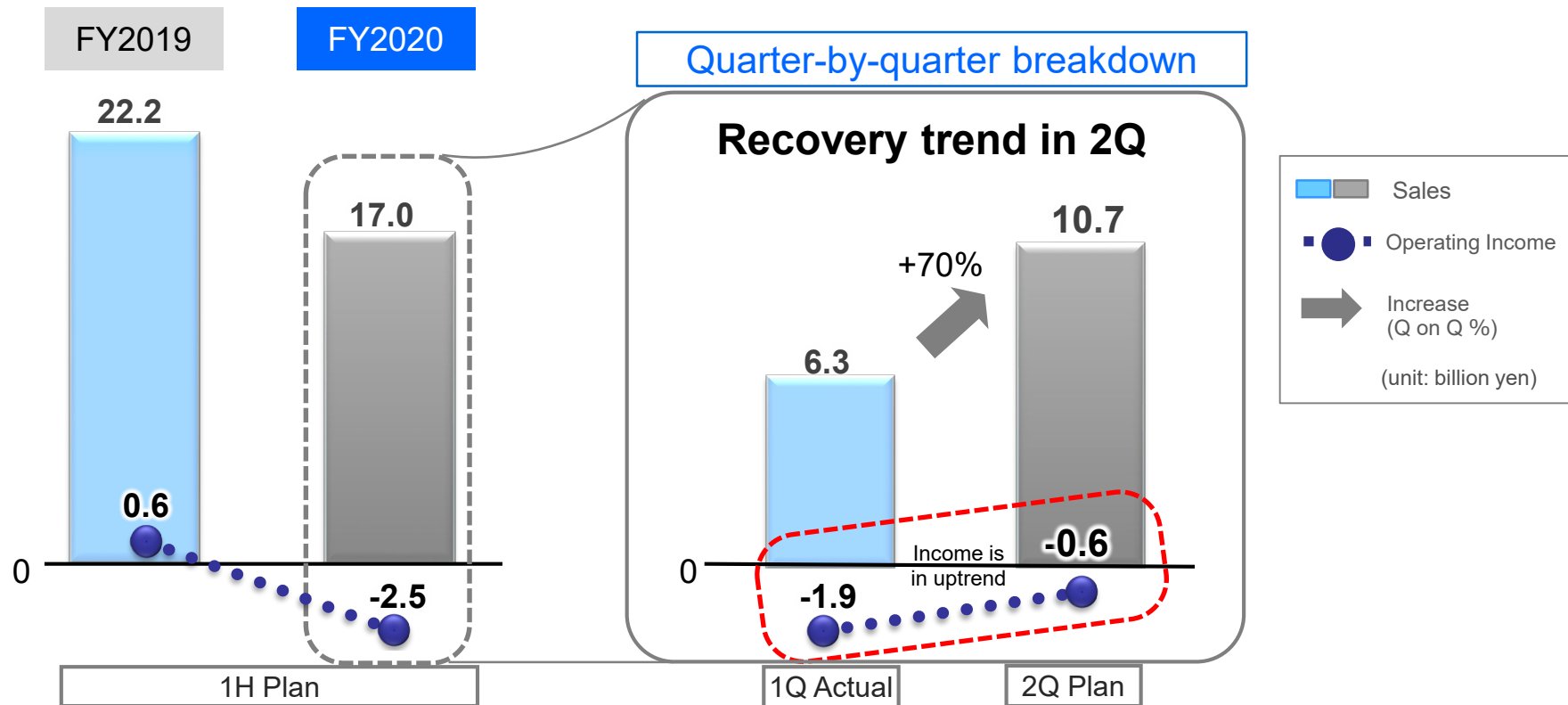
Source : Ministry of Agriculture, Forestry and Fisheries Website



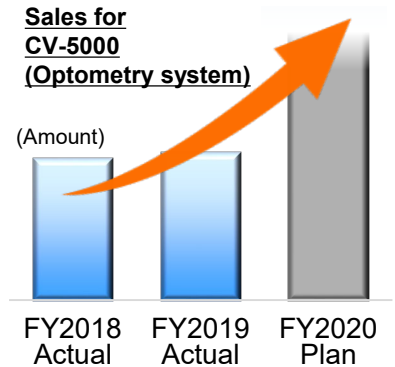
- IT Agriculture market continues to expand in Japan
- Capturing the wave of demands for adopting IT Agriculture



- **Expanding the sales of tele-optometry (remote-optometry) globally**
 - New needs for tele-optometry in light of social distancing
- **Sharp recovery in China**
 - Enhancing sales activities in China where business environment is back to normal in fastest pace
- **Screening Business**
 - Expecting recovery in major market (the U.S and Europe) based on continuous uptrend from 2Q



- Emergence of new demands for **tele-optometry** in light of social distancing
 - Our cloud solutions completely coincide with new needs



Conventional method

Traditional face-to-face optometry

Close-range examination

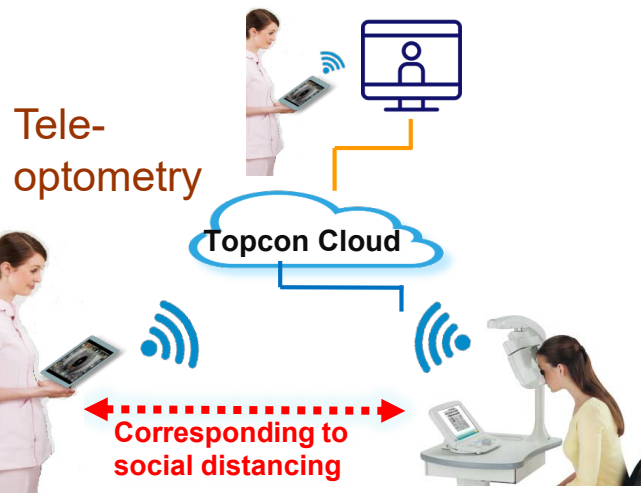
Optical shops, etc.



New Normal

Tele-optometry

Emerging needs



-Remotely operate the instrument by a tablet

Topcon's unique technology makes it happen!

Digital technology



Optometry system



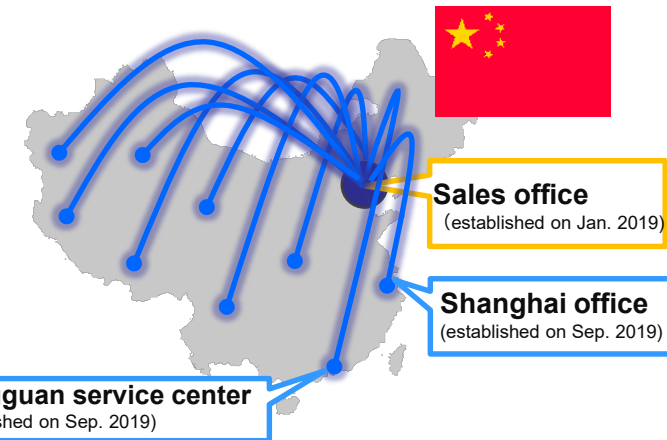
CV-5000

A computerized vision tester (phoropter) which provides precise diopter correction through refractive tests

Enhancing sales activities in China where the business environment is back to normal in fastest pace

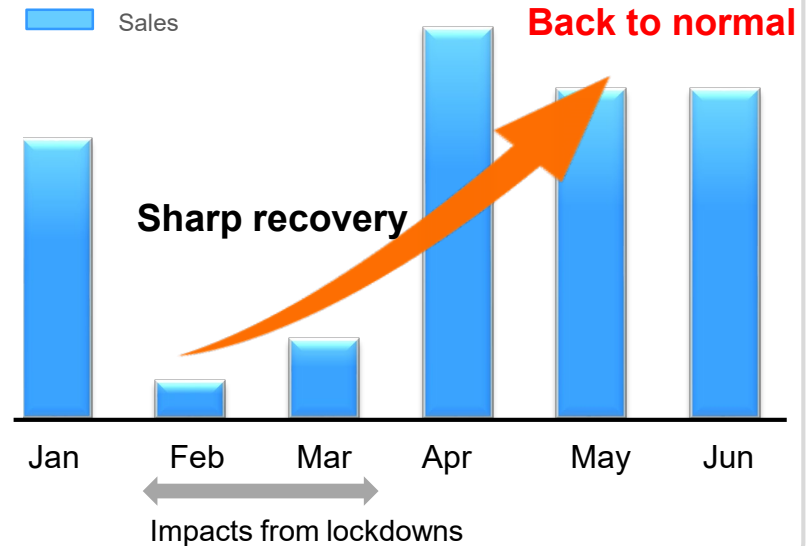
■ Reorganization of sales network

- Completion of the reorganization being proceeded since 2019 (by the end of June, 2020)
- Deployed hybrid channel strategies (multiple distributors network and direct sales focusing on key accounts) targeting public hospitals, private hospital chains, major medical and health care chains and optical stores



Chinese market has sharply recovered after the lifting of lockdowns. Further business expansion will be expected along with enhanced sales network structure.

Sales to China market



III. Topics

Designation of New Outside Director

■ Mr. Yoshiharu Inaba



Profile:

- Representative Director, Chairman of FANUC CORPORATION
- Doctor of Engineering
- Vice Chairman of the Japan Machine Tool Builders' Association
- Vice Chairman of Japan Robot Association

FA & ROBOT & ROBOMACHINE
FANUC

FANUC CORPORATION

- Sales: ¥508.3 billion (FY2019)
- Market cap: 3.7 trillion
(As of the end of June, 2020)
- Listed on the First Section of the
Tokyo Stock Exchange



CNC



Robot

FANUC is a pioneering company in CNC of machine tools (Factory Automation) market. In the field of FA, FANUC has high market share of more than 50% in both global and domestic markets.

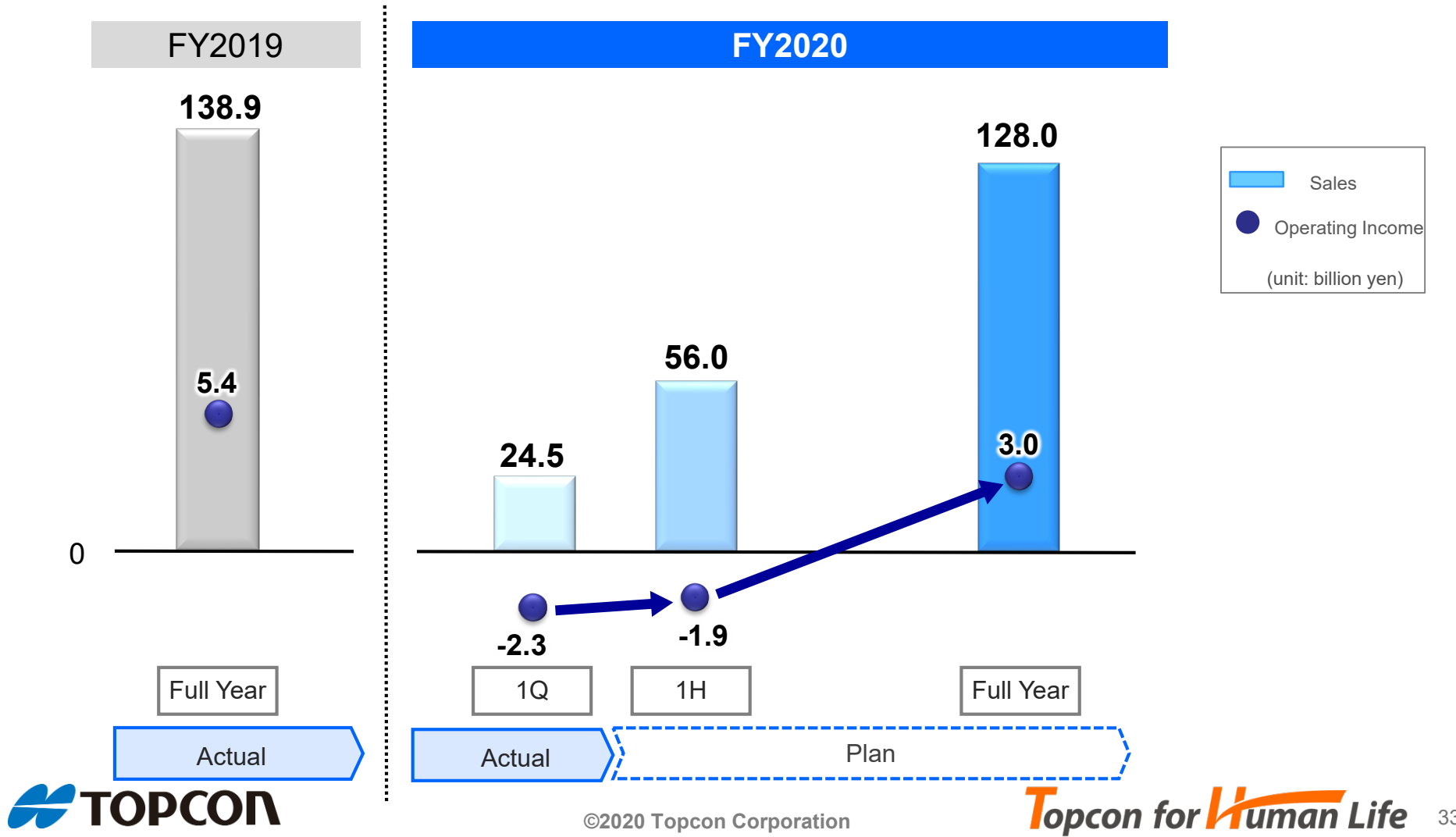
Our expectation

Topcon is a pioneering company in automation (CNC) of construction machineries. We look forward to his insights and profound advices based on his knowledge and experience to propel Topcon's IT Construction and IT Agriculture business.

IV. Summary

Summary

- Planning to be **profitable** in 2Q based on uptrend of monthly results in 1Q
Increase in sales and profit by continuing uptrend in 2H



【Topcon Way】

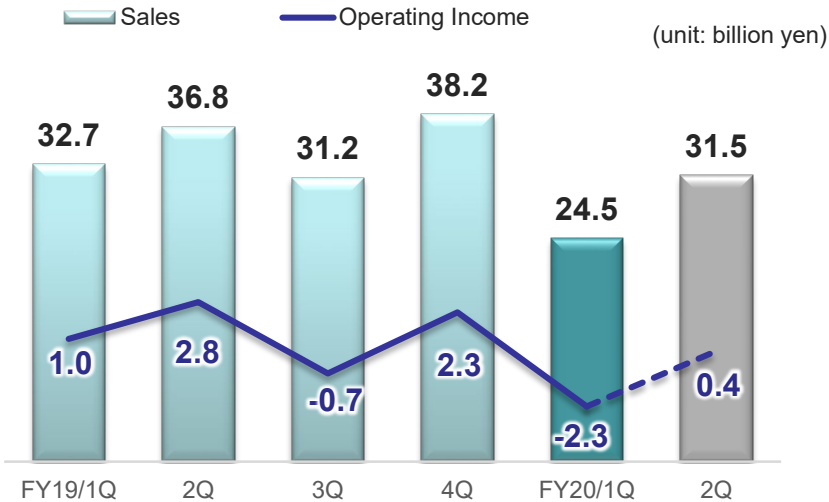
We aim to contribute to the creation of a prosperous society by solving societal challenges on healthcare, agriculture, and infrastructure



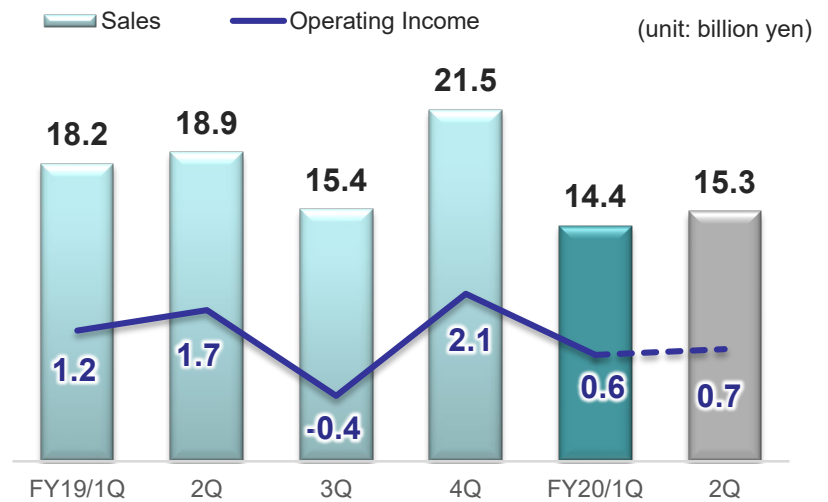
V. Appendix

Financial Results and Plan (Quarterly)

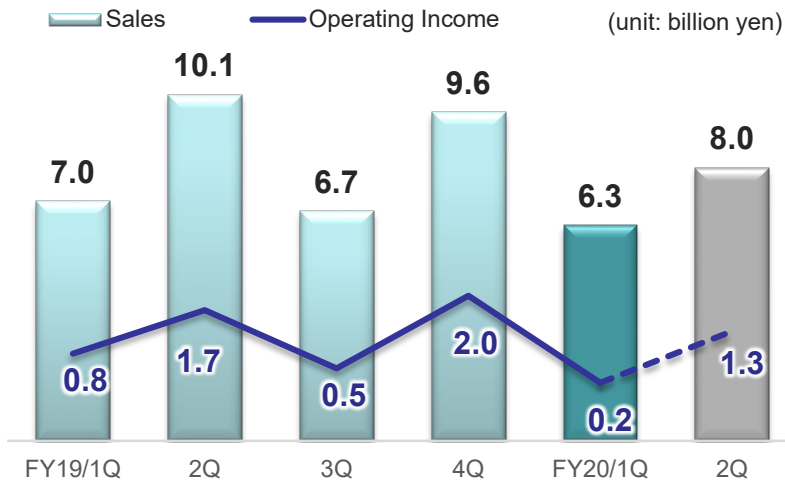
Consolidated



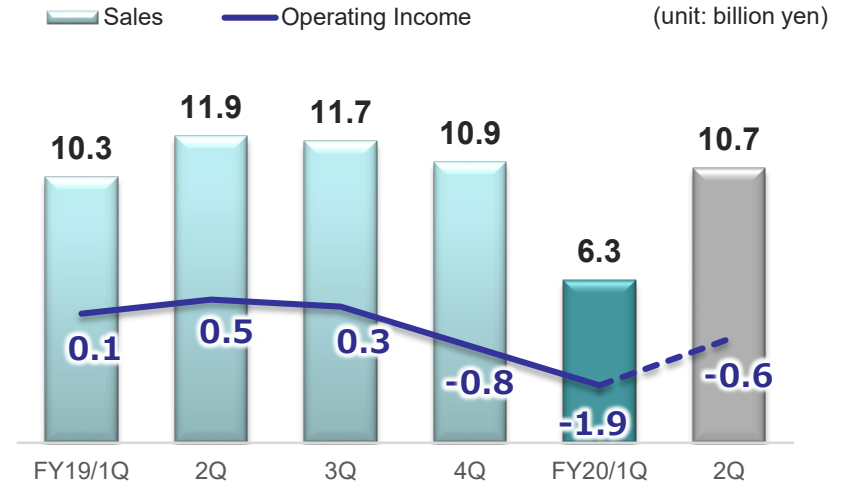
Positioning



Smart Infrastructure

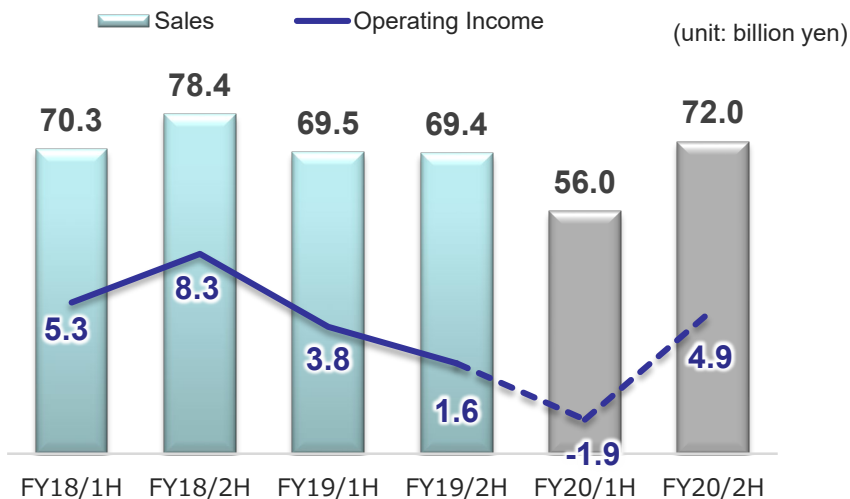


Eye Care

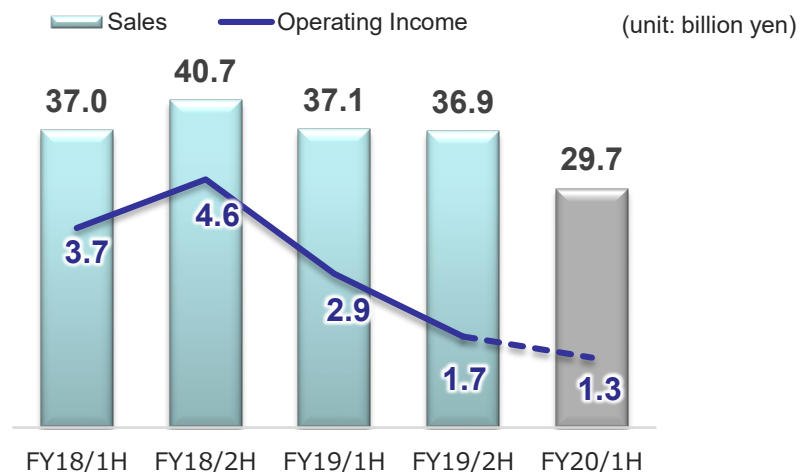


Financial Results and Plan (Semiannually)

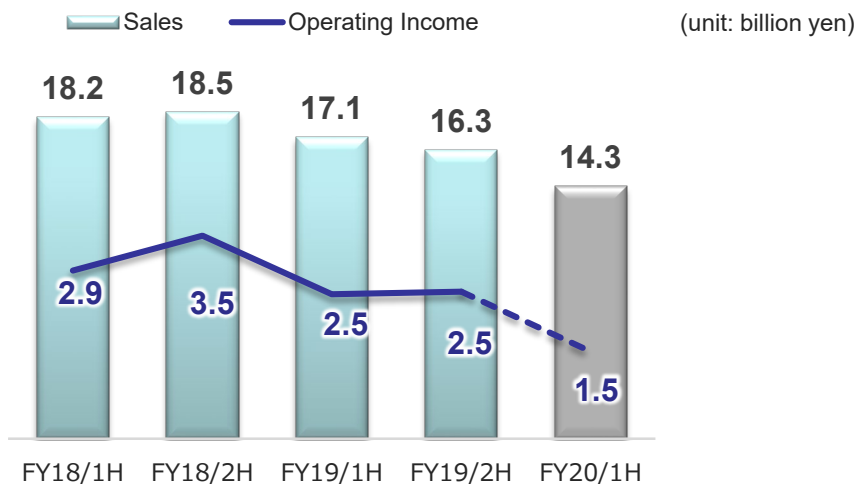
Consolidated



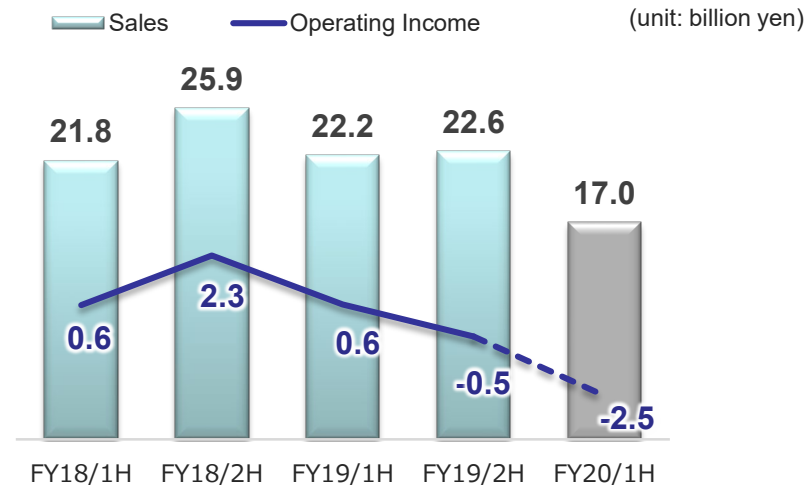
Positioning



Smart Infrastructure

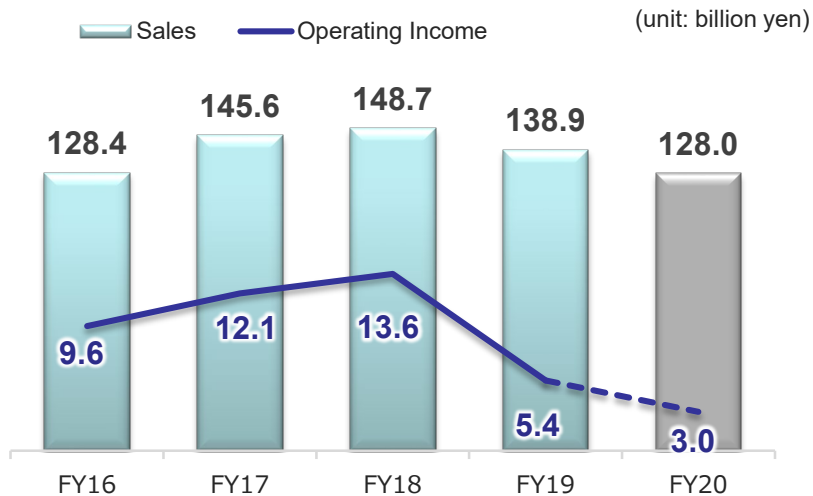


Eye Care

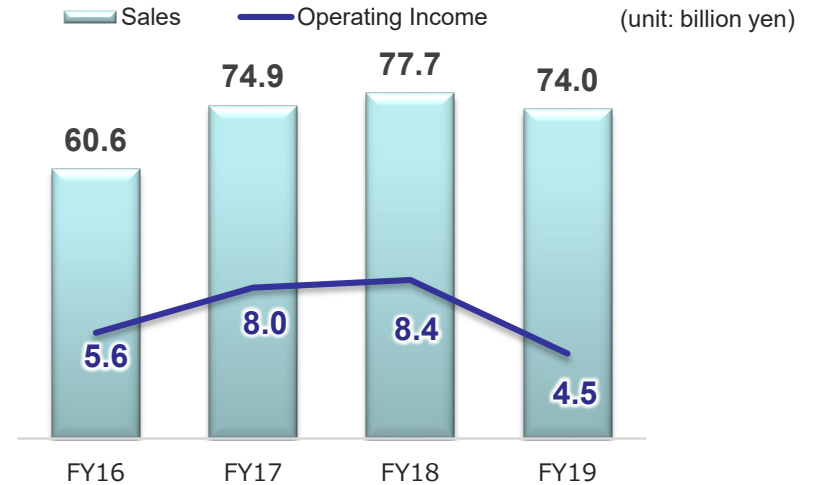


Financial Results and Plan (Annually)

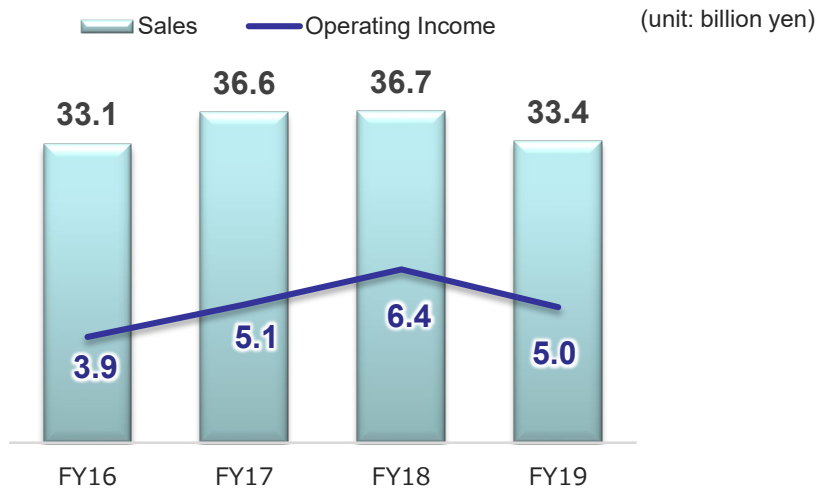
Consolidated



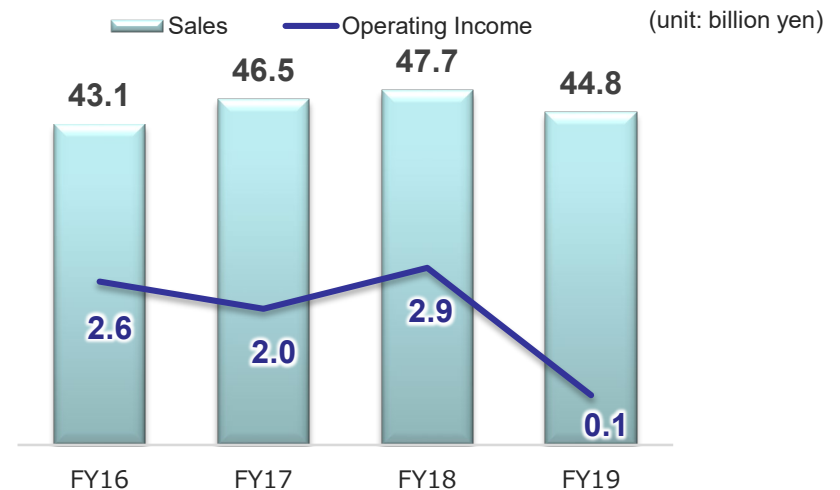
Positioning



Smart Infrastructure



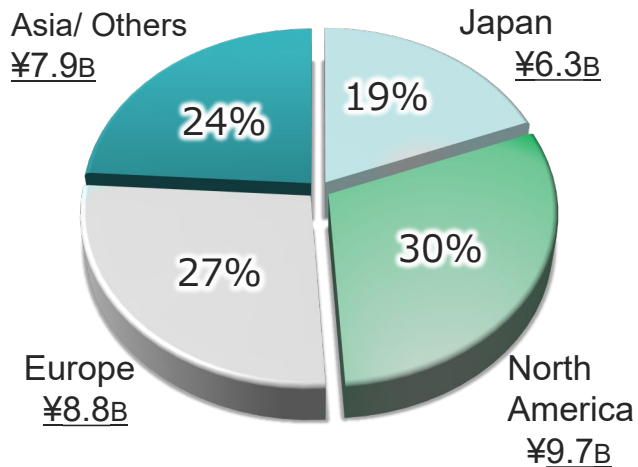
Eye Care



Sales by region

FY2019/1Q

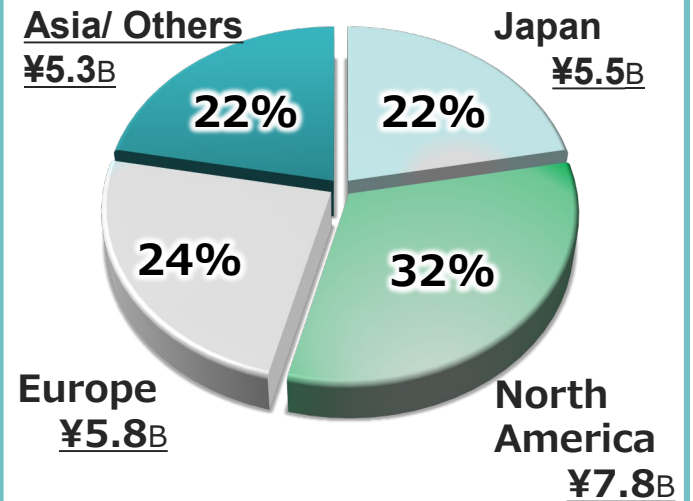
¥32.7B



YoY
-25%

FY2020/1Q

¥24.5B

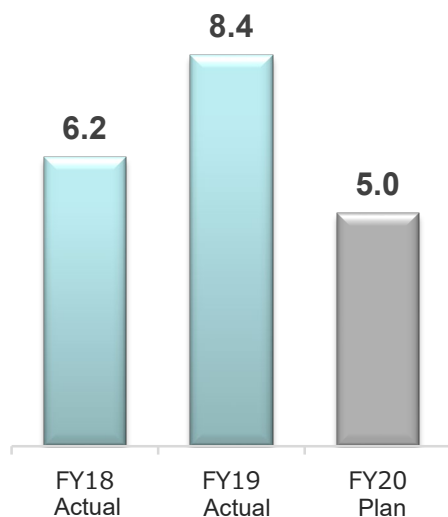


FY2020 Expenditure and R&D / Forex Sensitivity

■ Projections

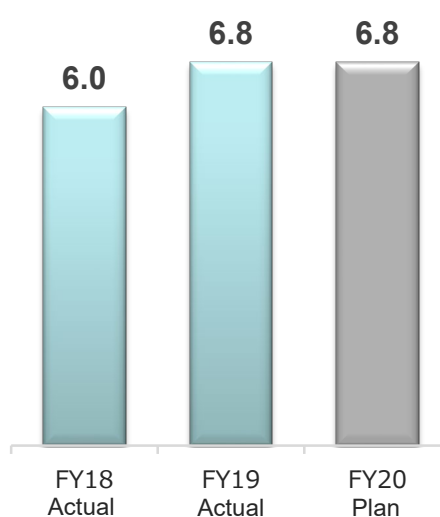
Capital Expenditure

(unit: billion yen)



Depreciation*

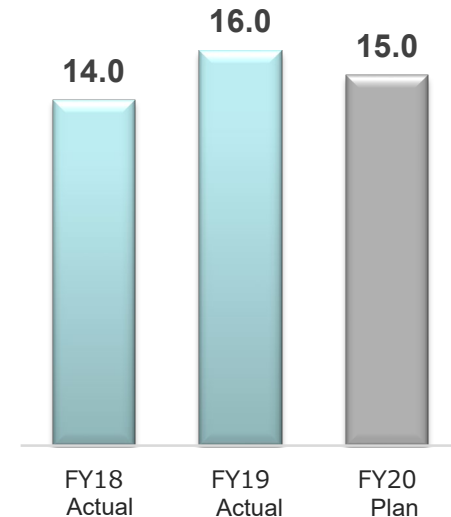
(unit: billion yen)



*Excluding Goodwill Amortization

R&D

(unit: billion yen)



■ Forex Sensitivity (impact by ¥1 change)

USD : Operating Income ¥0.15B - ¥0.2B

EUR : Operating Income ¥0.07B - ¥0.1B

Cautionary Note regarding Forward-Looking Statements

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

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

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