

FY2020 Q2 Financial Results

October 30, 2020
TOPCON CORPORATION
President & CEO
Satoshi Hirano



FY2020 Q2 Financial Results

I . FY2020 Q2 Financial Results

II . FY2020 Full Year Plan

III . Topics

IV . Summary

V . Appendix

I . FY2020 Q2 Financial Results

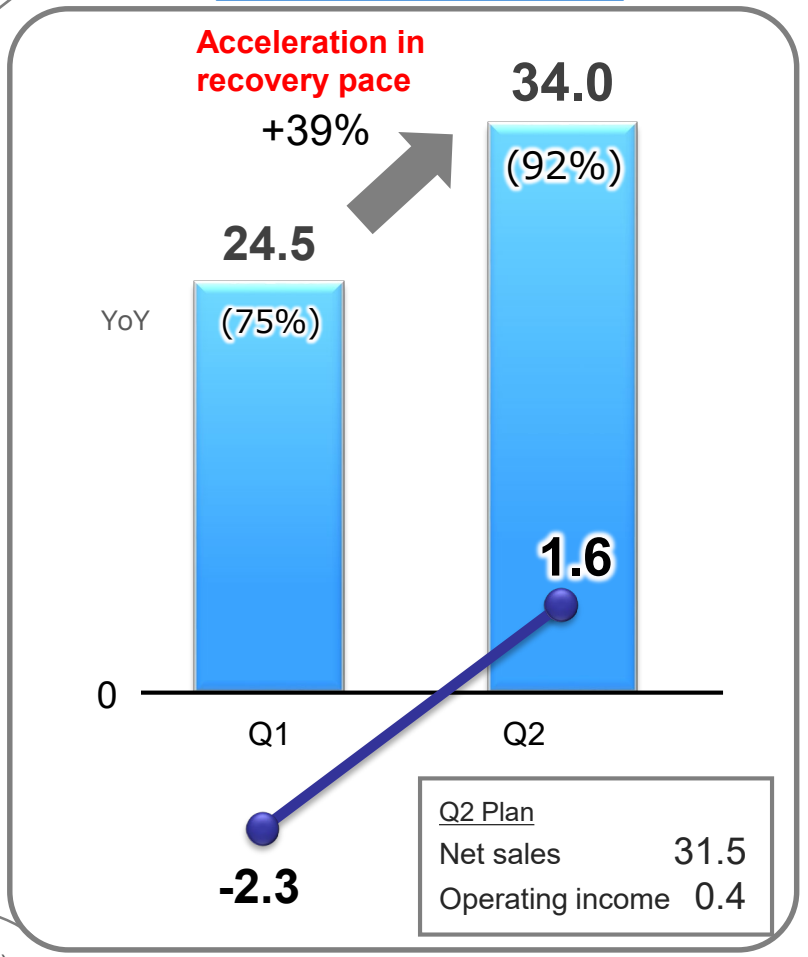
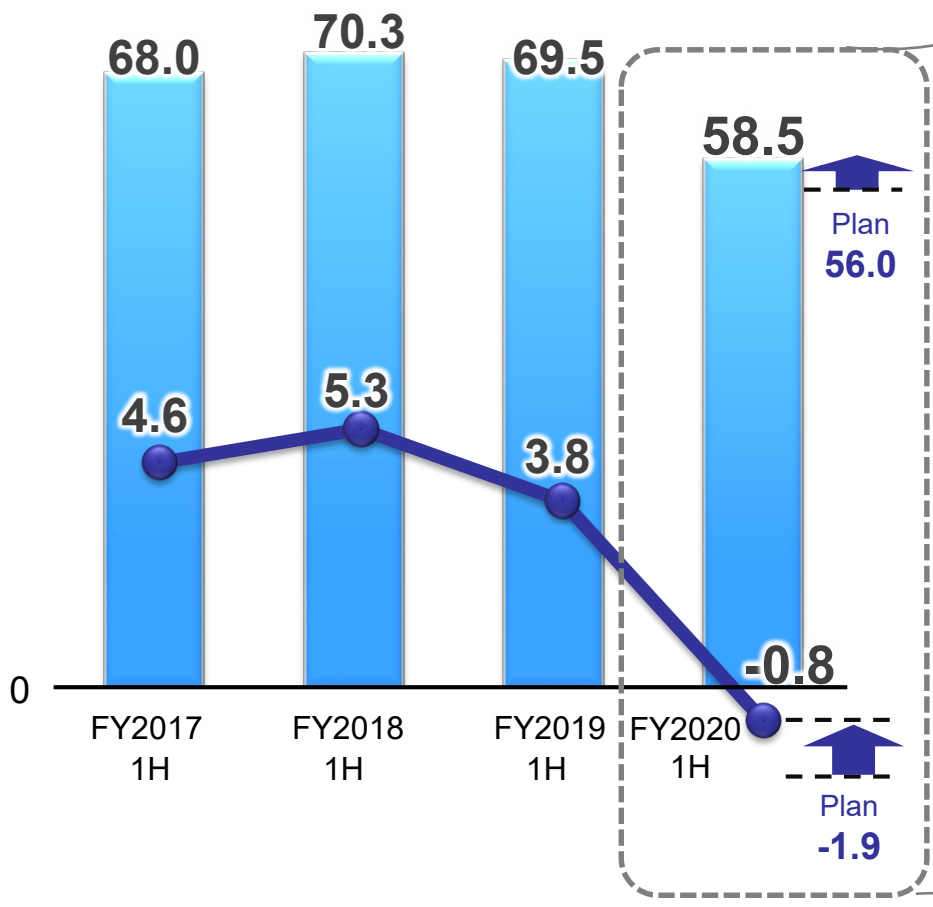
I - 1 . FY2020 Q2 Financial Results

I - 2 . Overview of Each Business

FY2020 1H Overview

- Become profitable on Q2 and the pace of recovery is accelerating albeit decreased sales and profit in 1H
- The 1H results exceeded the published original plan

Quarter-by-quarter Breakdown



(unit: billion yen) Net Sales Operating Income Increase % (QoQ)

FY2020 1H Financial Results

- Become profitable on Q2 albeit decreased sales and profit in 1H
- The pace of recovery is accelerating

(unit: million yen)

	FY2019	FY2020					
		1H Actual	Actual		1H	YoY	1H Plan *
			Q1	Q2			
Net Sales	69,527	24,493	33,971	58,465	-11,062 (-16%)	56,000	
Gross Profit (Gross Profit Ratio)	36,972 (53.2%)	11,680 (47.7%)	16,708 (49.2%)	28,389 (48.6%)	-8,582		
SGA	33,161	14,003	15,154	29,158	-4,003	Reduction of 12%	
Operating Income (Operating Income Ratio)	3,810 (5.5%)	-2,322 (-9.5%)	1,554 (4.6%)	-768 (-1.3%)	-4,579	-1,900 (-3.4%)	
Non-Operating Income (Expenses)	-1,049	-721	-308	-1,029	19		
Operating Income	2,761	-3,043	1,245	-1,797	-4,559	-3,100	
Extraordinary Income	-555	-31	-130	-162	393		
Income Before Income Taxes and Minority Interests	2,205	-3,074	1,114	-1,960	-4,165		
Net Income	895	-2,482	444	-2,037	-2,933	-2,600	
Exchange Rate	USD	¥109.00	¥107.74	¥105.88	¥106.68	-¥2.32	
(Average)	EUR	¥121.43	¥118.94	¥123.71	¥121.36	-¥0.07	

*Announced on July 31st

FY2020 1H Financial Results by Business

Operating income exceeded the published original plan in all businesses

(unit : million yen)

		FY2019 1H Actual	FY2020			
			1H Actual	YoY	YoY%	*Announced on July 31st 1H Plan *
Net Sales	Positioning	37,116	32,141	-4,975	-13%	29,700
	Smart Infrastructure	17,057	14,886	-2,170	-13%	14,300
	Eye Care	22,202	16,785	-5,417	-24%	17,000
	Others	686	500	-185	-27%	600
	Elimination	-7,535	-5,849	1,686		-5,600
	Total	69,527	58,465	-11,062	-16%	56,000
Operating Income (Operating Income Ratio)	Positioning	2,850 (7.7%)	2,157 (6.7%)	-692	-24%	1,300 (4.4%)
	Smart Infrastructure	2,492 (14.6%)	1,777 (11.9%)	-714	-29%	1,500 (10.5%)
	Eye Care	616 (2.8%)	-2,388 (-14.2%)	-3,004	-	-2,500 (-14.7%)
	Others	-62 (-9.1%)	-255 (-51.1%)	-193	-	-200 (-33.3%)
	Elimination	-2,086	-2,060	26		-2,000
	Total	3,810 (5.5%)	-768 (-1.3%)	-4,579	-	-1,900 (-3.4%)

FY2020 1H Operating Income YoY Breakdown

(unit: billion yen)



I . FY2020 Q2 Financial Results

I - 1 . FY2020 Q2 Financial Results

I - 2 . Overview of Each Business

Steady recovery in Q2 albeit decreased sales and profit in 1H

(unit: million yen)

		FY2019	FY2020			
		1H Actual	1H Actual	YoY	%	*Announced on July 31 st 1H Plan *
Net Sales		37,116	32,141	-4,975	-13%	29,700
Operating Income (Operating Income Ratio)		2,850 (7.7%)	2,157 (6.7%)	-692	-24%	1,300 (4.4%)
Exchange Rate	USD	¥109.00	¥106.68	-¥2.32		
(Average)	EUR	¥121.43	¥121.36	-¥0.07		

Review of 1H Financial Results

Overall

- Q2 sales steadily expanded compared to Q1 in the context of solid demands as an essential business
- Sales growth led to improve OP margin: Q1: 3.8%→Q2: 9.1%

IT Construction

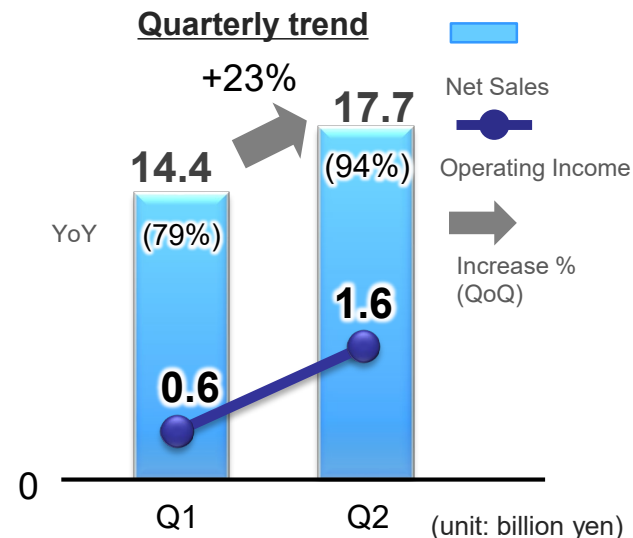
- Q2 sales in the aftermarket recovered to almost the same level as the previous year, OEM showing some signs of recovery as well

IT Agriculture

- Substantial growth in aftermarket, gradual recovery in OEM

Others

- Sales for laser products increased on the back of buoyant housing market in the U.S



Steady recovery in Q2 albeit decreased sales and profit in 1H

(unit: million yen)

		FY2019	FY2020			
		1H Actual	1H Actual	YoY	%	*Announced on July 31 st 1H Plan *
Net Sales		17,057	14,886	-2,170	-13%	14,300
Operating Income (Operating Income Ratio)		2,492 (14.6%)	1,777 (11.9%)	-714	-29%	1,500 (10.5%)
Exchange Rate (Average)	USD	¥109.00	¥106.68	-¥2.32		
	EUR	¥121.43	¥121.36	-¥0.07		

Review of 1H Financial Results

Overall

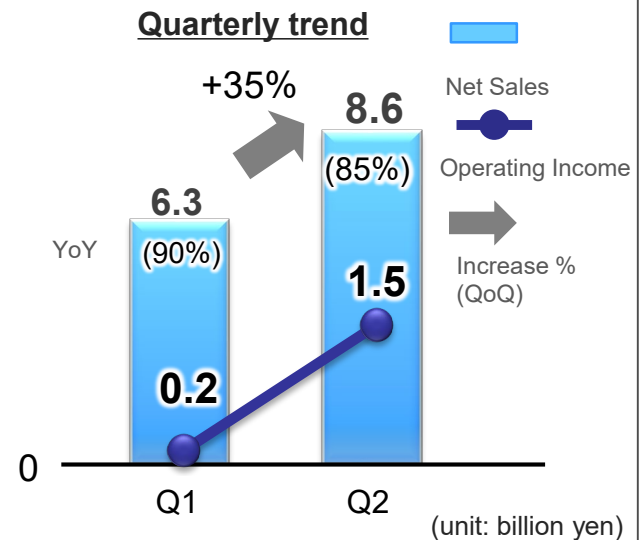
- Q2 sales steadily expanded compared to Q1 in the context of solid demands as an essential business
- Sales growth led to sharp recovery in OP margin: Q1: 3.7% → Q2: 18.0%

Japan

- Significant sales growth in IT Agriculture thanks to subsidies
- Demand expanded steadily thanks to an increase of i-Construction works
- Sales for total stations grew YoY

Other regions

- Prolonged impact of COVID-19 led to sluggish performance in Southeast Asia, India, and the Middle East



Sharp recovery in Q2 albeit decreased sales and profit in 1H

(unit: million yen)

		FY2019	FY2020			
		1H Actual	1H Actual	YoY	%	*Announced on July 31 st 1H Plan *
Net Sales		22,202	16,785	-5,417	-24%	17,000
Operating Income (Operating Income Ratio)		616 (2.8%)	-2,388 (-14.2%)	-3,004	-	-2,500 (-14.7%)
Exchange Rate	USD	¥109.00	¥106.68	-¥2.32		
(Average)	EUR	¥121.43	¥121.36	-¥0.07		

Review of 1H Financial Results

Overall

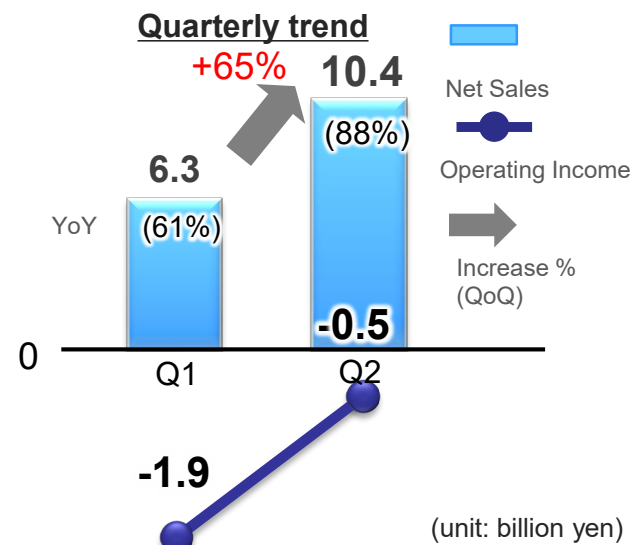
- The pace of recovery accelerated in major markets in the wake of the resumption of economic activity, Q2 sales up sharply compared to Q1
- Become profitable in September alone

The U.S and Europe

- Significant sales growth thanks to special demand for tele-optometry system
- Captured large orders from a major franchise optical stores in the U.S

China

- Increase in sales YoY after it has overcome negative impacts of COVID-19 along with positive impacts from reorganization of our distribution network



Ⅱ . FY2020 Full Year Plan

Ⅱ -1. COVID-19 Impact on our Vision

Ⅱ -2. FY2020 Full Year Plan

Ⅱ -3. Strategic Plans under COVID-19



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

Ⅱ . FY2020 Full Year Plan

Ⅱ -1. COVID-19 Impact on our Vision

Ⅱ -2. FY2020 Full Year Plan

Ⅱ -3. Strategic Plans under COVID-19

Assumptions for the plan

■ Business environment

We expect the recovery trend to continue, however the outlook remains uncertain due to potential risks such as re-spread of COVID-19 in the U.S and Europe and intensifying U.S-China friction

Positioning/ Smart Infrastructure

- Solid demand in construction and agriculture
- Delays in implementing economic policies due to the U.S presidential election
- Continued weakness in Southeast Asia, India, and the Middle East markets due to the prolonged impact of COVID-19

Eye Care

- Special demand continues for tele-optometry solutions corresponding to social distancing
- Resumption of lockdowns in major U.S and Europe countries poses a significant risk

■ Cost reduction

Given the plan of full year sales decrease amid COVID-19, we continue to strive to control and reduce costs

■ Exchange rate

Unchanged (Q3 onward \$1 = ¥105, €1 = ¥123)

FY2020 Full Year Plan

Full year plan is kept unchanged

(unit: million yen)

	FY2019		FY2020				
	1H Actual	Full Year Actual	1H Actual	YoY (%)	Full Year Plan	YoY (%)	Full Year Plan *
Net Sales	69,527	138,916	58,465	-16%	128,000	-8%	128,000
Operating Income (Operating Income Ratio)	3,810 (5.5%)	5,381 (3.9%)	-768 (-1.3%)	-	3,000 (2.3%)	-44%	3,000 (2.3%)
Ordinary Income	2,761	2,895	-1,797	-	1,000	-65%	1,000
Net Income	895	935	-2,037	-	0	-	0
ROE		1.4%			0%		0%
Dividends	¥14	¥24	-		¥5		¥5
Payout Ratio		271%			-		-
Exchange Rate	USD	¥109.00	¥109.10	¥106.68		* ¥105	¥105
(Average)	EUR	¥121.43	¥121.14	¥121.36		¥123	¥123

*Announced on July 31st

* Q3 onward

FY2020 Full Year Plan

(unit: million yen)

		FY2019		FY2020			
		1H Actual	Full Year Actual	1H Actual	YoY (%)	Full Year Plan	YoY (%)
Net Sales	Positioning	37,116	73,989	32,141	-13%		
	Smart Infrastructure	17,057	33,398	14,886	-13%		
	Eye Care	22,202	44,758	16,785	-24%		
	Others	686	1,319	500	-27%		
	Elimination	-7,535	-14,549	-5,849			
	Total	69,527	138,916	58,465	-16%	128,000	-8%
Operating Income (Operating Income Ratio)	Positioning	2,850 (7.7%)	4,537 (6.1%)	2,157 (6.7%)	-24%		
	Smart Infrastructure	2,492 (14.6%)	5,027 (15.1%)	1,777 (11.9%)	-29%		
	Eye Care	616 (2.8%)	136 (0.3%)	-2,388 (-14.2%)	-		
	Others	-62 (-9.0%)	-144 (-10.9%)	-255 (-51.1%)	-		
	Elimination	-2,086	-4,175	-2,060			
	Total	3,810 (5.5%)	5,381 (3.9%)	-768 (-1.3%)	-	3,000 (2.3%)	-44%

II . FY2020 Full Year Plan

II -1. COVID-19 Impact on our Vision

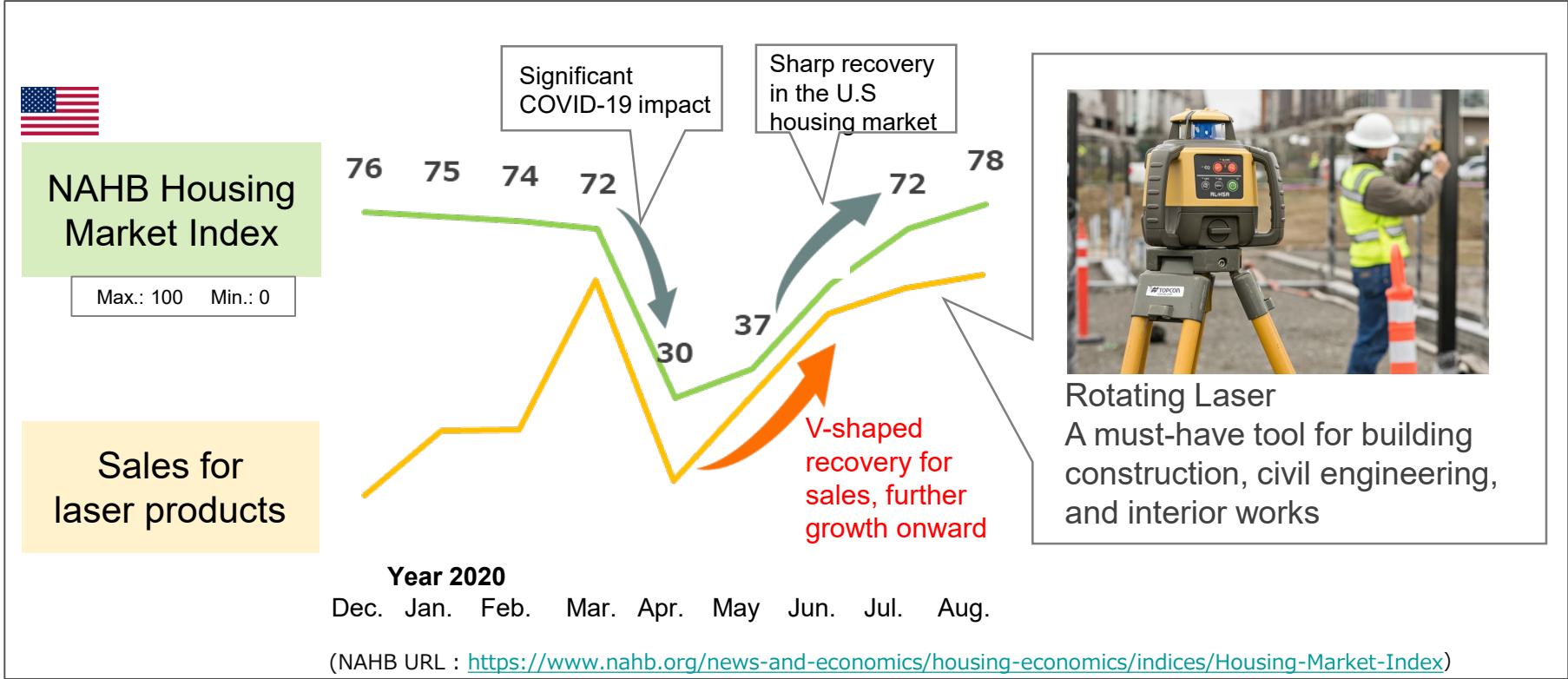
II -2. FY2020 Full Year Plan

II -3. Strategic Plans under COVID-19




Vigorous sales for laser products in the U.S

- The U.S housing market is booming driven by demand for migration to the suburbs triggered by COVID-19 as well as low interest rates
- In the wake of increase of construction works for basic infrastructure such as roads and sewerage systems, we strive to capture the demand for all construction-related equipment including surveying and IT construction





■ Agricultural markets are rapidly recovering in the U.S and Europe Subsidies for farmers is expected to spur adoption of IT Agriculture



U.S

Ag Economy Barometer

Aggregated responses to monthly questionnaires including management related for U.S farmers. The figure for October 2015 through March 2016 is set at 100. An increase in the index indicates an improvement in business confidence, while a decrease indicates a decline. The highest value is 200, and the lowest is 0.


Ag Economy Barometer

(Source: Purdue University)

Month & Year	Index Value
09/16	101
09/17	132
09/18	114
09/19	121
09/20	156

(URL : <https://ag.purdue.edu/commercialag/ageconomybarometer/charts/>)

- Subsidies for COVID-19
- Farmers' income is expected to increase 23% YoY (USDA forecast)



Europe

CEMA Business Barometer

Monthly survey of the European agricultural machinery industry. Aggregated responses to questions such as current business sentiment and sales forecast for the next six months. The results of the survey is released every month. The highest value is 100, and the lowest is -100.


CEMA Business Barometer

(Source: European Agricultural Machinery Association)

CBI = geometric mean of 1) evaluation of the current business situation and 2) turnover expectation; Index scale from -100 to +100; positive index for 1) = majority of respondents evaluates the current situation as favourable and vice versa; positive index for 2) = majority of respondents expects for the next six months an increasing turnover and vice versa (respectively compared to the previous year's level)

(URL : https://www.cema-agri.org/index.php?option=com_content&view=article&id=717:october-2020-business-climate-positive-after-more-than-a-year&catid=24&Itemid=208)

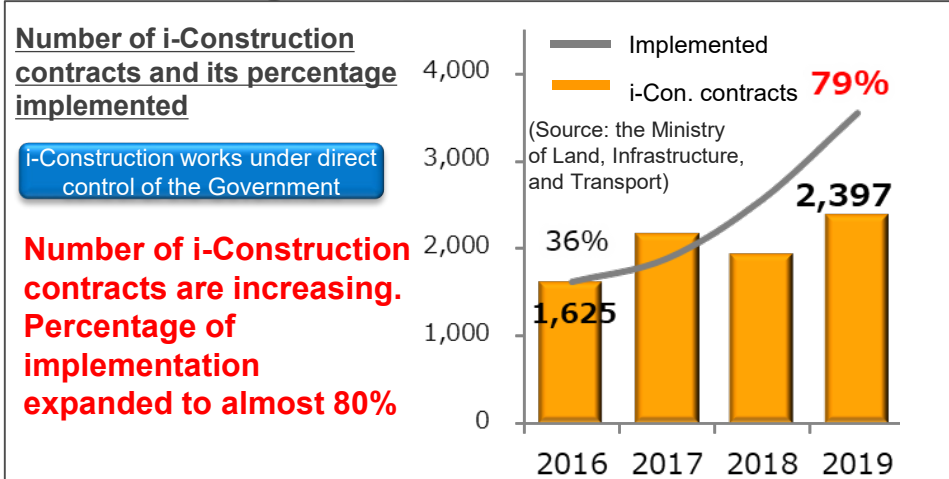
- Subsidize IT Agriculture in major countries



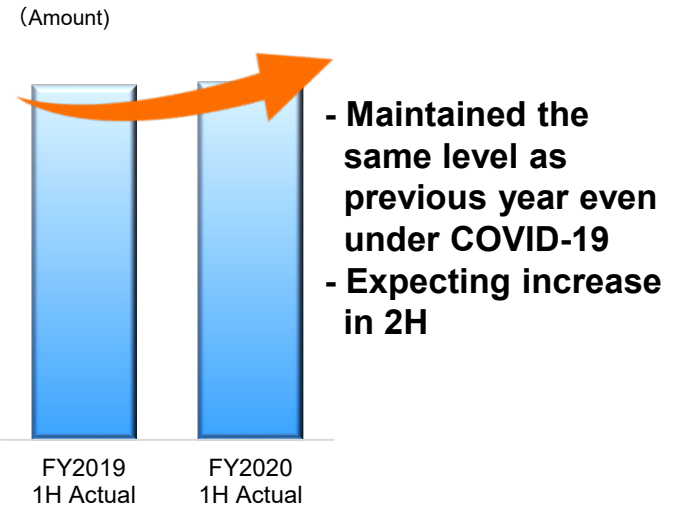
Risk

In the event that re-spread of COVID-19 becomes even more serious, there would be certain negative impact on 2H sales

Increasing adoption of i-Construction



Sales for i-Construction in Japan



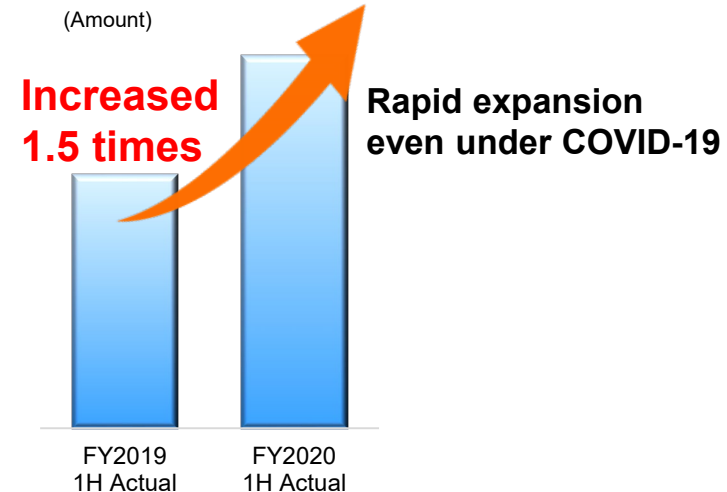
Government subsidies serve a tailwind for the spread of Auto Steering System

- Business Continuity Program: ¥20 billion
 Encourage farmers to purchase labor-saving machines for social distancing in light of COVID-19 infection control

- Additional expenditure on Business Continuity Program approved by the Cabinet: ¥24 billion

(Source: Nihon Keizai Shimbun electronic version, October 16)

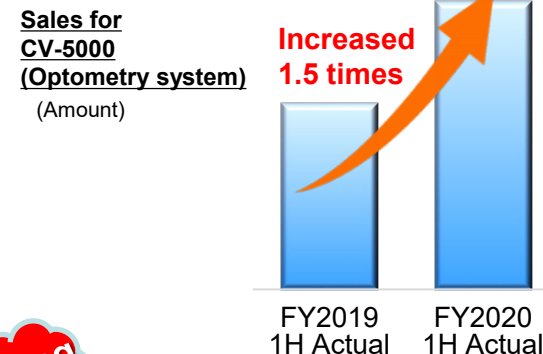
Sales for IT Agriculture in Japan



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

Global expansion of **special demands for tele-optometry** in light of social distancing

- 1H: Significant sales growth for optometry system
- Further sales expansion is expected in 2H



Conventional method

Traditional face-to-face optometry

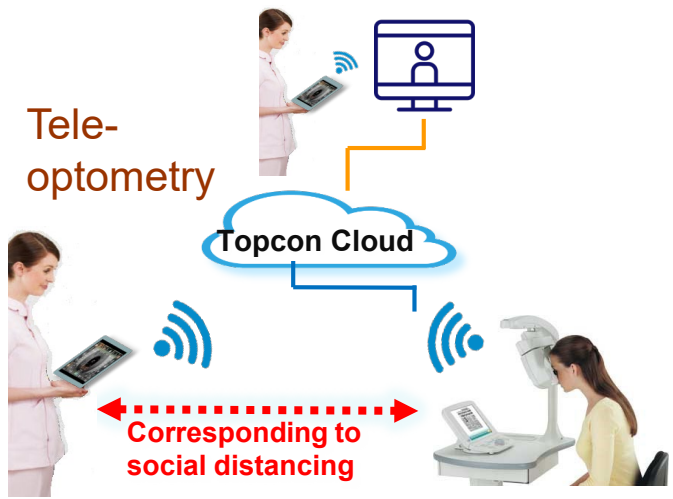
Close-range examination

Optical shops, etc.



New Normal

Tele-optometry



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

*Optometry: an examination of visual acuities to select eyeglasses

III. Topics

Topcon selected by METI as “Digital Transformation Stocks (DX Stocks) 2020”

■ Solving the societal challenges within healthcare, agriculture, and infrastructure through **DX solutions** is highly acclaimed!

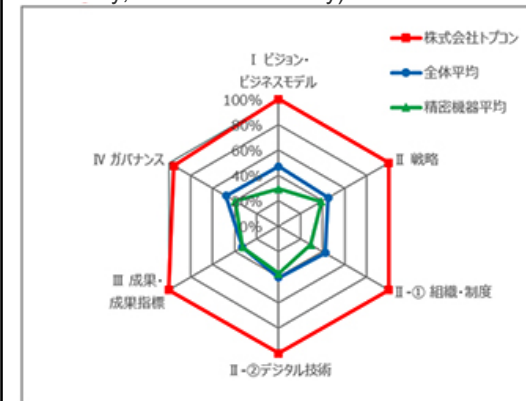
(Announced on August 25, 2020: News release <https://www.topcon.co.jp/en/about/dx/>)



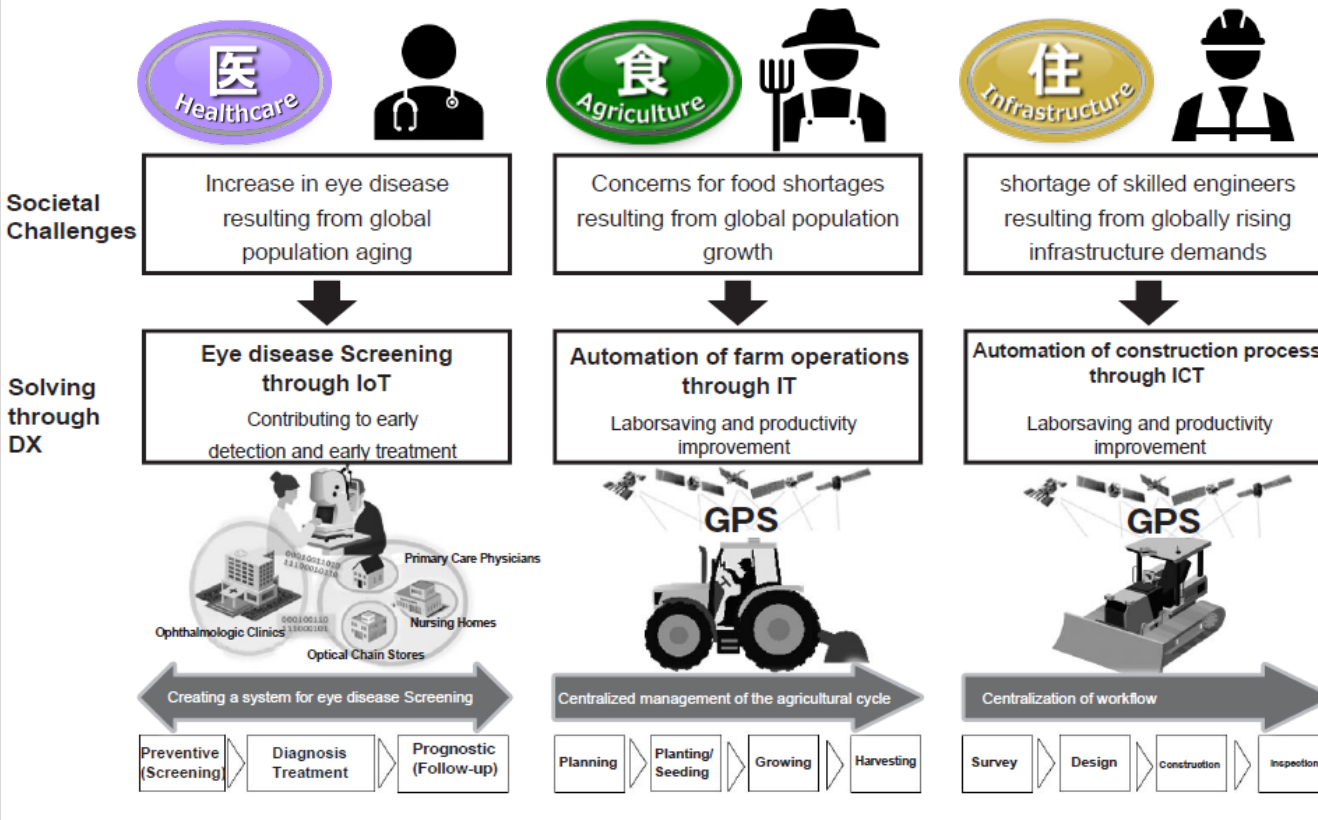
DX銘柄2020
Digital Transformation

Out of approx. 3,700 listed companies in Japan, **35 with the highest overall rating were selected as DX stocks**

Our overall rating
(Source: presentation material of Ministry of Economy, Trade and Industry)



Innovation in Healthcare, Agriculture, and Infrastructure through DX



*DX: Digital Transformation

A status in which a company responds to significant changes in its business environment by using data and digital technology to establish a competitive advantage based on transformation of its products, services, or business model, as well as innovating its operations, organization, processes, or corporate culture in accordance with the needs of its customers and society.

Strengthening production capacity in anticipation of further business expansion

Completed construction of a new factory: Producing the world's leading-edge optical components with unique technologies

News released on October 22, 2020
<https://www.topcon.co.jp/news/20201022-28503.html>
*only available in Japanese

New factory for Topcon Optonexus Co., Ltd. (Tamura city, Fukushima prefecture)



Ribbon-cutting ceremony

Our expectations

- ✓ Site area of the plant: approx. 35,000m² (Twice larger than the current plant)
Aiming for quadruple production capacity by improving productivities
- ✓ We are committed to producing high quality optical components “made in Japan”, while many industries and companies are transferring production outside of Japan for cost reduction purposes
- ✓ With its 51 year history of “master craftsmanship and quality” as its leverage, we will not only manufacture key optical components for Topcon products but also strengthen to sell them to outside of our group

Manufactured products

Optical lenses



Optical units



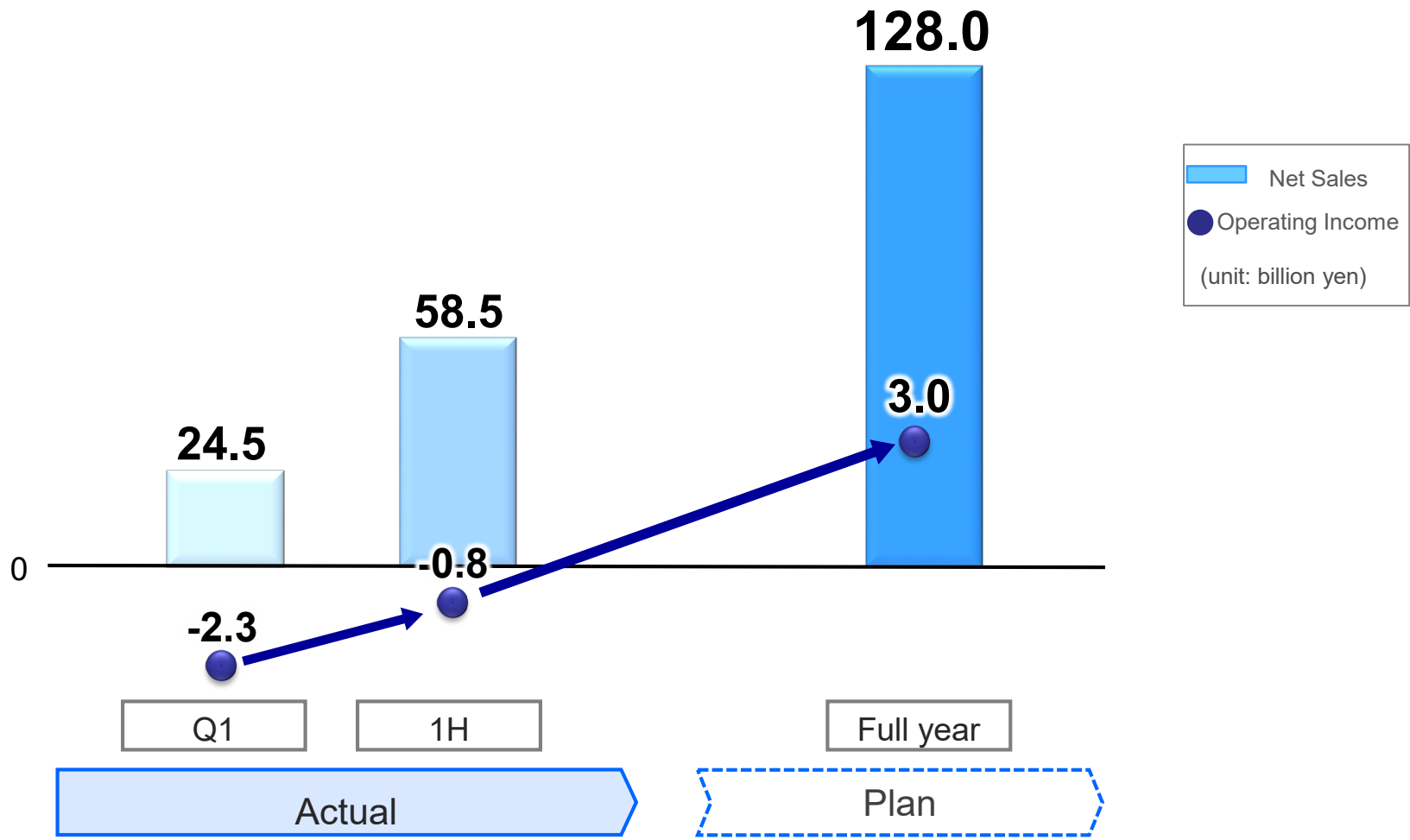
Producing optical components with leading-edge technologies for our flagship products



IV. Summary

Summary

- 1H Actual: The pace of recovery is accelerating and become profitable in Q2 albeit decreased sales and profit in 1H
- Full year plan: No revision in light of uncertainty due to potential risks such as re-spread of COVID-19 and intensifying U.S-China trade friction



【Topcon Way】

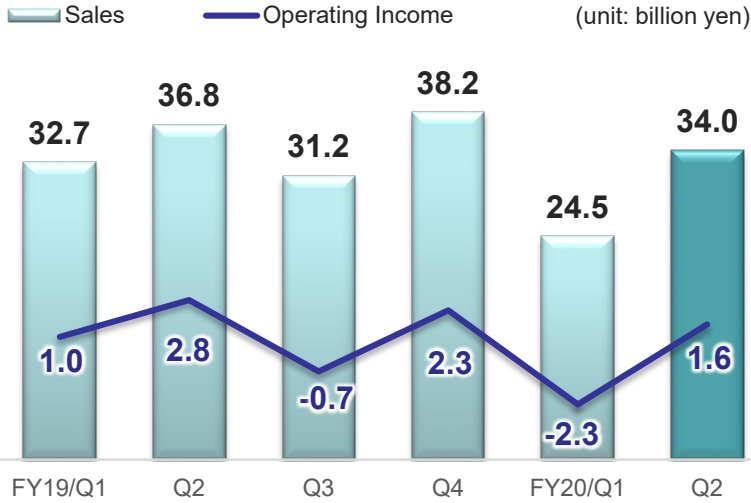
We aim to contribute to the creation of a prosperous society by solving societal challenges on healthcare, agriculture, and infrastructure



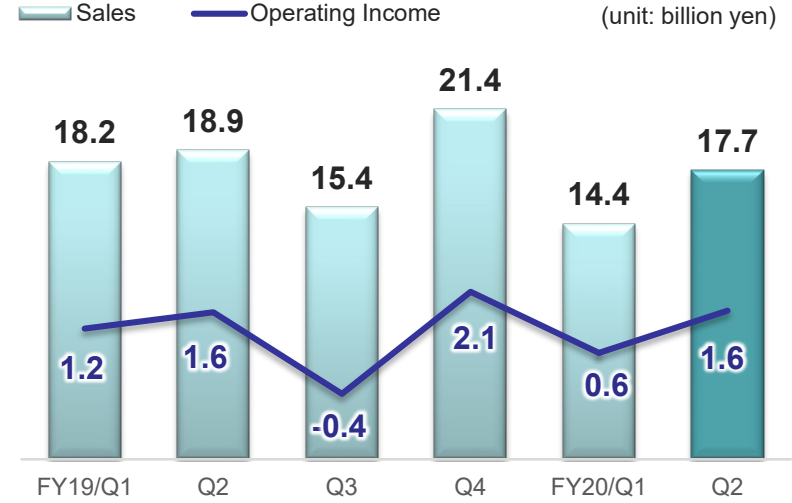
V. Appendix

Financial Results and Plan (Quarterly)

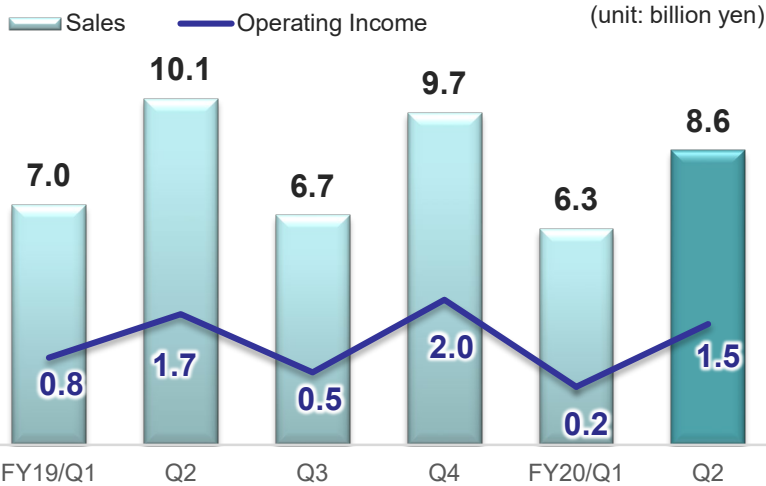
Consolidated



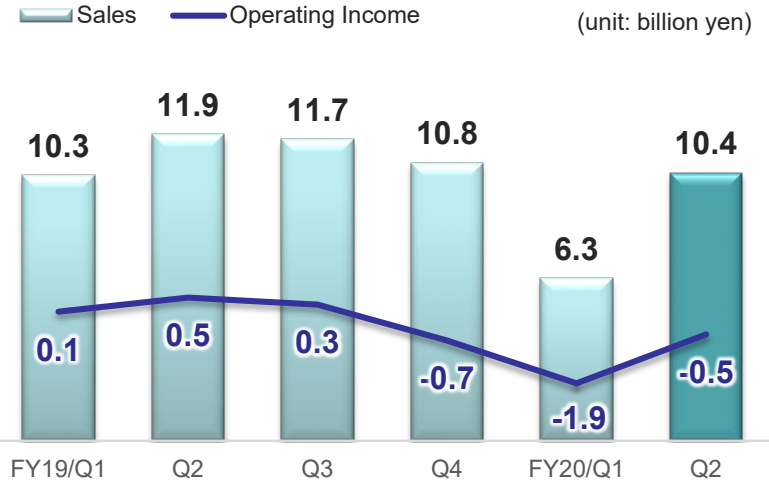
Positioning



Smart Infrastructure



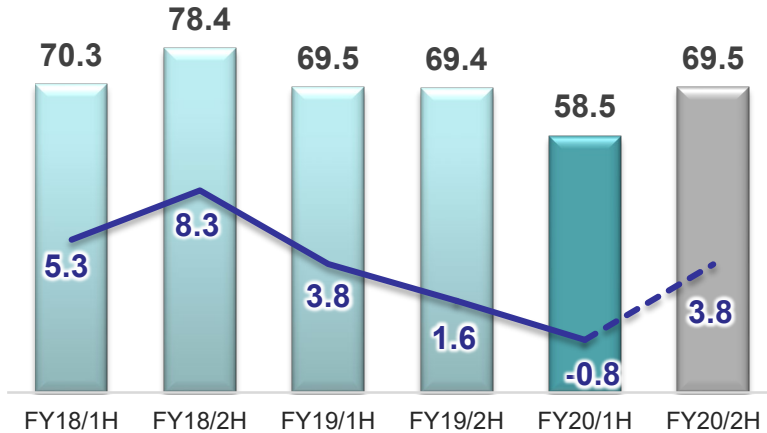
Eye Care



Financial Results and Plan (Semiannually)

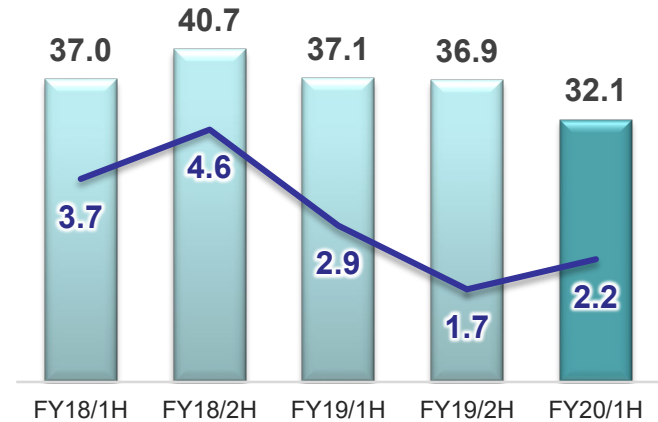
Consolidated

— Sales — Operating Income (unit: billion yen)



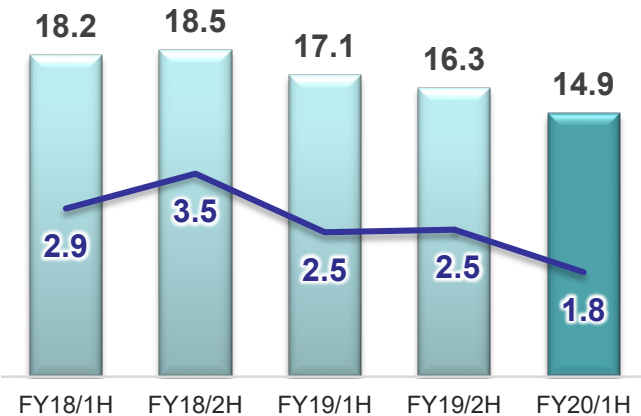
Positioning

— Sales — Operating Income (unit: billion yen)



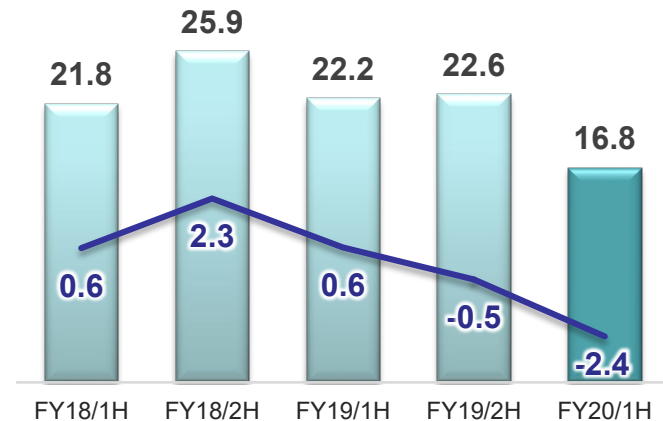
Smart Infrastructure

— Sales — Operating Income (unit: billion yen)



Eye Care

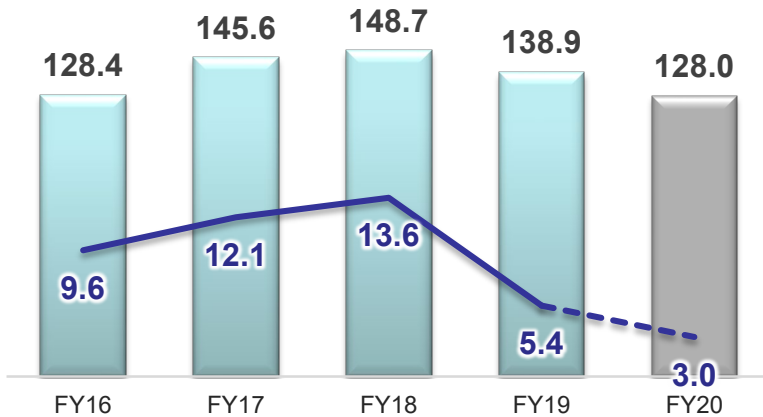
— Sales — Operating Income (unit: billion yen)



Financial Results and Plan (Annually)

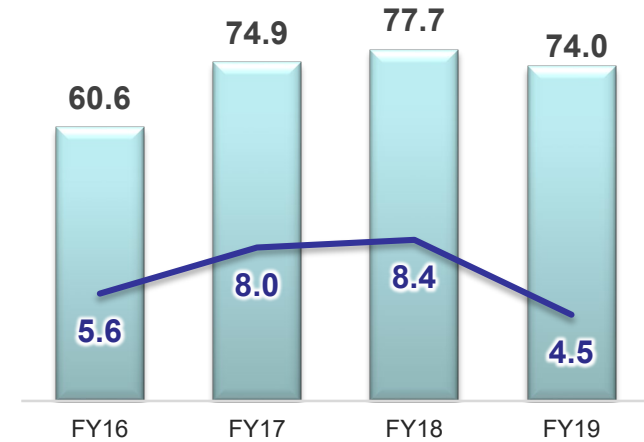
Consolidated

— Sales — Operating Income (unit: billion yen)



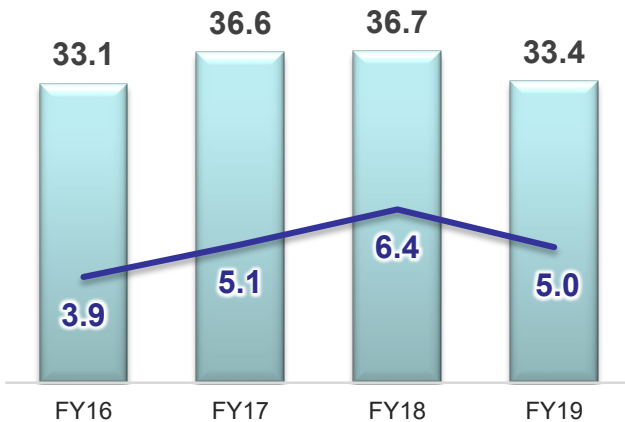
Positioning

— Sales — Operating Income (unit: billion yen)



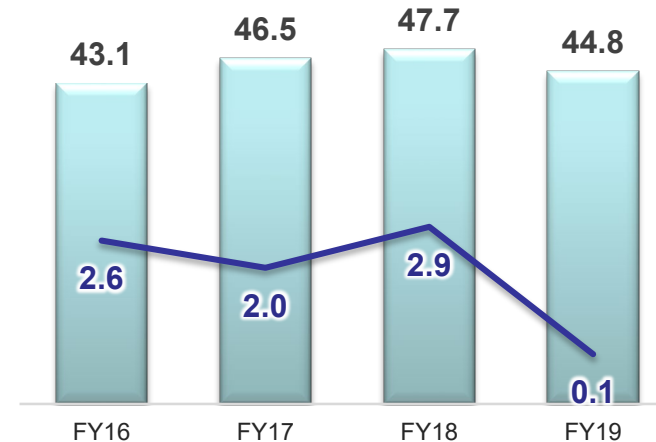
Smart Infrastructure

— Sales — Operating Income (unit: billion yen)



Eye Care

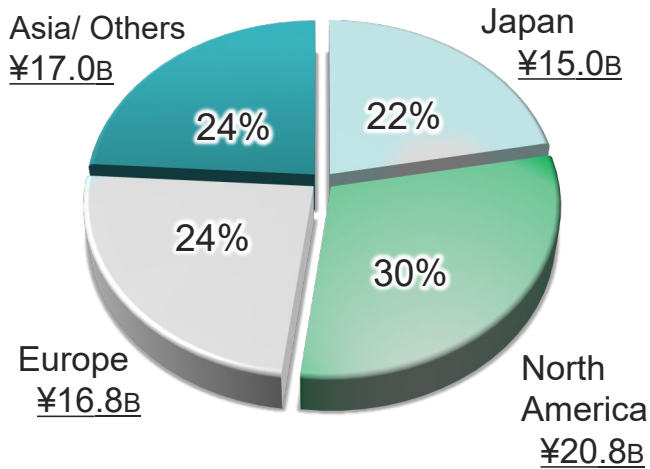
— Sales — Operating Income (unit: billion yen)



Sales by region

FY19/1H

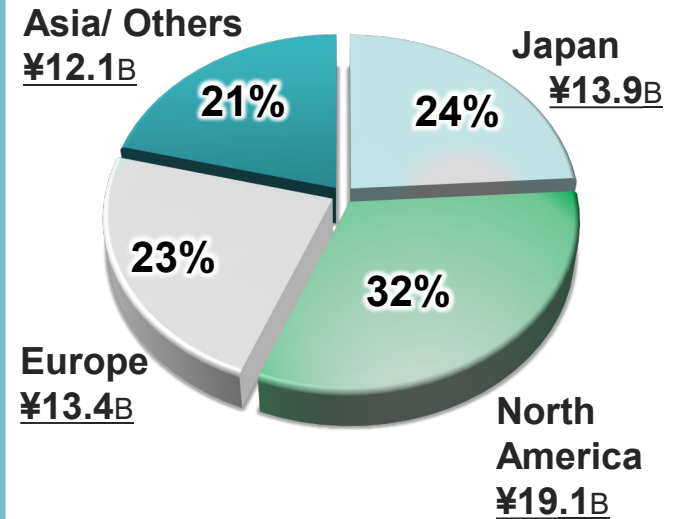
¥69.5B



YoY
-16%

FY20/1H

¥58.5B

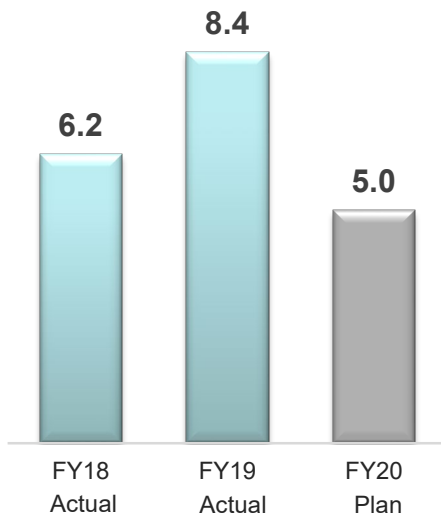


Expenditure and R&D / Forex Sensitivity

Projections

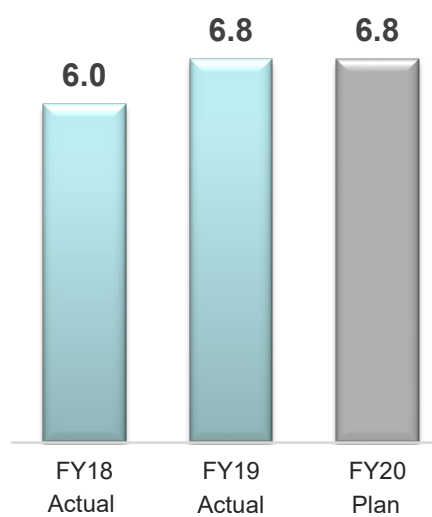
Capital Expenditure

(unit: billion yen)



Depreciation*

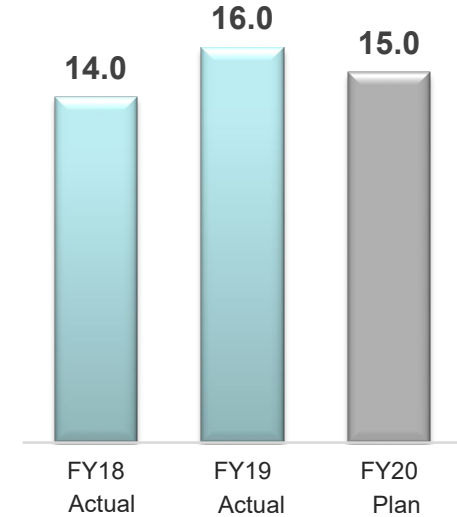
(unit: billion yen)



*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.

The original disclosure in Japanese was released on October 30, 2020 at 15:00(UTC+9)

Inquiries:

Corporate Communication Div.

Corporate Communication Dept.

TOPCON CORPORATION

Tel: +81-3-3558-2532

E-mail: investor_info@topcon.co.jp

URL: <https://global.topcon.com/invest/>