



Topcon for Human Life

TOPCON CORPORATION

FY2020 1Q Financial Results

July 31, 2020

Event Overview

[Company]	TOPCON CORPORATION	
[Event Type]	Presentation of Financial Results	
[Event Name]	FY2020 1Q Financial Results	
[Reported Period]	FY2020 1Q	
[Date]	July 31, 2020	
[Time]	3:30 – 4:35 PM (Total time: 65 minutes; Presentation: 35 minutes; Q&A: 30 minutes)	
[Event Format]	Online (streamed)	
[Participants]	83	
[Number of Speakers]	4	
	Satoshi Hirano	Representative Director, President & CEO
	Takashi Eto	Director, Managing Executive Officer, General Manager of Smart Infrastructure Business Div.
	Fumio Ohue	Managing Executive Officer, General Manager of Eye Care Business Div.
	Haruhiko Akiyama	Director, Senior Executive Officer, General Manager of Accounting & Finance Div.

FY2020 1Q Financial Results

I . FY2020 1Q Financial Results

II . FY2020 Full Year Plan

III . Topics

IV . Summary

V . Appendix



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Hirano:

Thank you very much for taking the time to attend today's presentation.

Today, I will report our financial results for the first quarter of fiscal year 2020, and describe the full-year plan for fiscal year 2020.

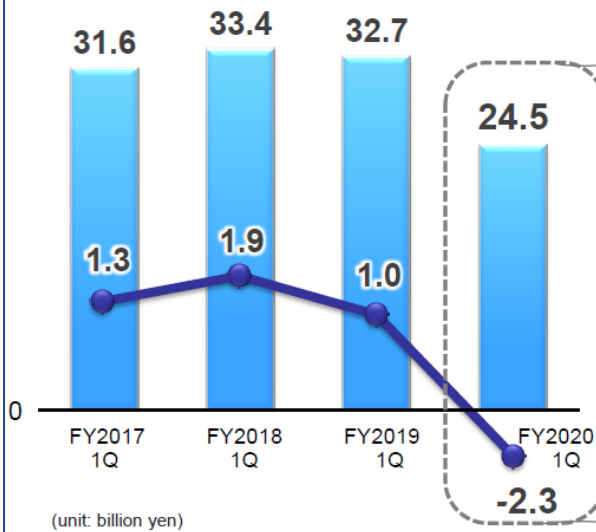
Although we generally provide the full-year plan for the fiscal year when reporting our results for the previous fiscal year, reporting of this year's plan was delayed by COVID-19.

FY2020 1Q Overview

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

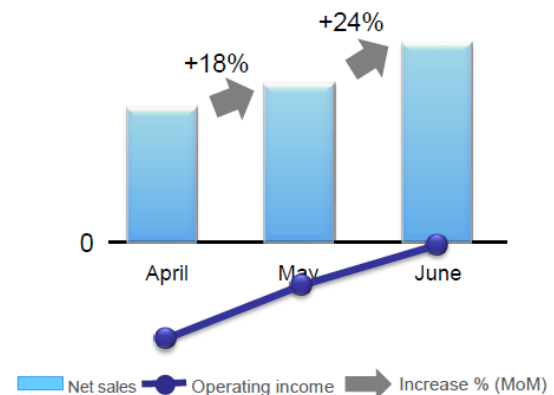
Serious impact due to lockdown

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



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This is an overview of our results for the first quarter. The bar graph shows net sales, while the line graph shows operating income. The lockdown had a serious impact. Net sales fell 25% to 24.5 billion yen, and we unfortunately recorded an operating loss of 2.3 billion yen.

The graph on the right shows a breakdown of the first quarter by month. From April to May, and once again to June, there is large month-on-month growth.

In June, we broke even on a monthly basis, in part thanks to a 16% reduction in SG&A. Despite decreases in sales and income, a month-on-month analysis shows that we are on a recovery track.

FY2020 1Q Financial Results [Consolidated]

(unit : million yen)

	FY2019	FY2020		
	1Q Actual	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				
USD (Average)	¥110.00	¥107.74	-¥2.26	
EUR	¥123.29	¥118.94	-¥4.35	



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Here are the figures. The information is the same as on the previous page, so I will just focus on the key points. Although net sales fell by 25%, we succeeded in reducing SG&A by 2,678 million yen, for a 16% reduction. Gross profit fell by roughly 6 billion yen, while operating income fell by 3.3 billion yen.

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	-



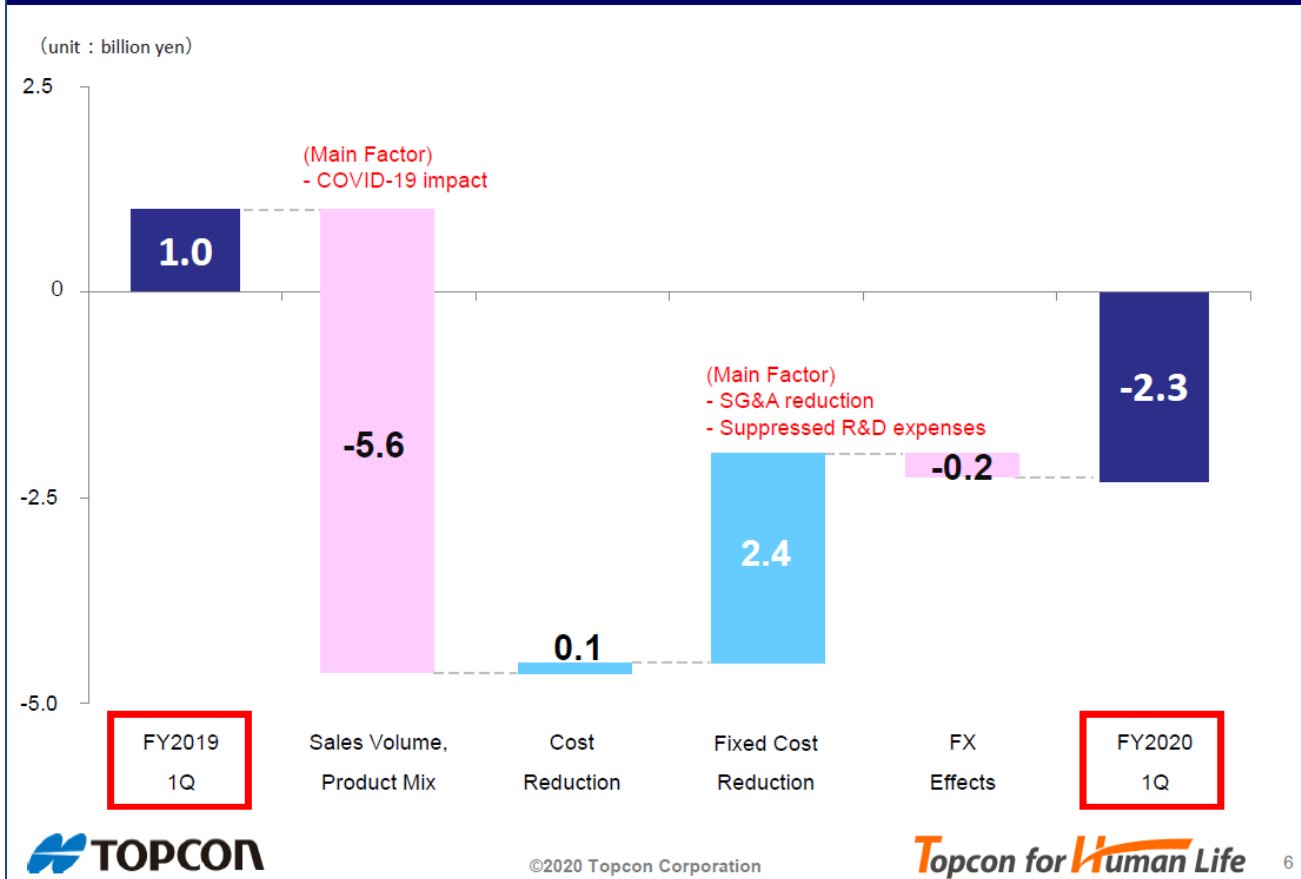
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This page shows net sales and operating income by business segment. I will discuss each business segment in detail, shortly.

FY2020 1Q Operating Income YoY Breakdown



This is an analysis of changes in operating income year-on-year. Compared to an operating income of 1 billion yen in the first quarter of the previous year, this quarter we had an operating loss of 2.3 billion yen, for a year-on-year decrease of 3.3 billion yen. I will analyze this change according to four factors.

First of all, due to COVID-19, our sales volume and product mix accounted for negative 5.6 billion yen. Our efforts at cost reduction yielded a slight change of positive 0.1 billion yen. Turning to fixed costs, although SG&A and R&D expenses have been negative factors for the past few years, this quarter fixed costs accounted for positive 2.4 billion yen due to reductions and restraint. Finally, FX effects accounted for negative 0.2 billion yen.

Sales volume and product mix accounted for negative 5.6 billion yen. If not for our efforts to reduce SG&A, the scale of the loss would have been even larger.

I . FY2020 1Q Financial Results

I-1. FY2020 1Q Financial Results

I-2. Overview of Each Business



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I will now discuss our results by business segment.

Overview of Each Business

Positioning

(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 (Average)	USD	¥110.00	¥107.74	-¥2.26	
	EUR	¥123.29	¥118.94	-¥4.35	

Review of 1Q Financial Results

Overall

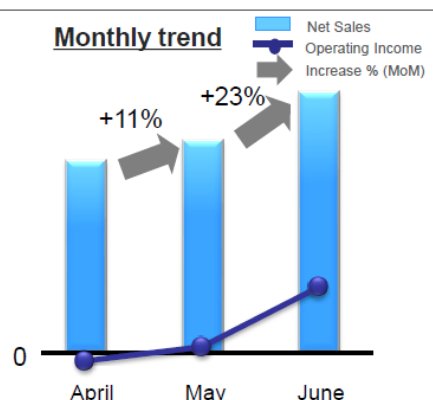
- Posted an operating income despite the decreased sales 21% YoY due to lockdown in the U.S and Europe, along with tireless efforts of SG&A reduction
- Sales recovery in May and June after it bottomed out in April as both construction and agriculture are essential business
- Monthly operating income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



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These are the results for our Positioning Company. Net sales fell by 21% mainly due to the lockdowns in our key markets in the U.S. and Europe, but thanks to our focus on reducing SG&A, we successfully posted a positive operating income.

As both construction and agriculture are essential businesses, net sales recovered in May and June after it hit bottom in April, as shown in the graph on the right. On a monthly basis, operating income reached positive territory in May, and recovered further in June.

In terms of IT Construction, aftermarket sales were adequate. However, OEM is not favorable as the customers are adjusting their inventories in the face of sluggish sales. The effects of COVID-19 on IT Agriculture were fairly limited. On a monthly basis, June performance was on par with the previous year.

Overview of Each Business

Smart Infrastructure

(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 (Average)	USD	¥110.00	¥107.74	-¥2.26	
	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 through June.

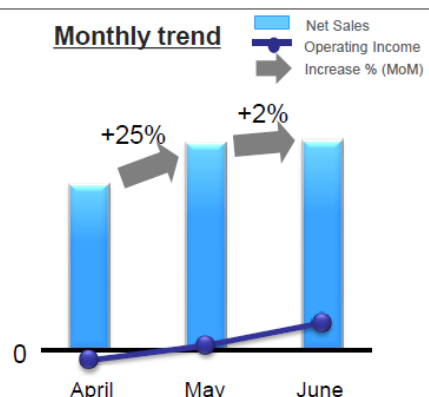
Japan

- 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



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

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Turning now to the Smart Infrastructure Business, we posted a positive operating income with just a 10% year-on-year sales decline. As both construction and agriculture are essential businesses, the Smart Infrastructure Business performed well despite the impact of a declaration of a state of emergency on our key Japanese market. After the state of emergency was lifted, sales recovered favorably in May and June. On a monthly basis, we attained a positive operating income in May, which continued into June.

In Japan, public works using i-Construction have expanded based on the National Resilience policy. Also our timely launches of new related products suitable for i-Construction have helped to maintain robust sales.

In other areas, our business in China has fully recovered and performance is strong, but sales remain stagnant in India, Southeast Asia, and the Middle East. As you are aware, India is in the middle of a lockdown and the market is at a standstill.

(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

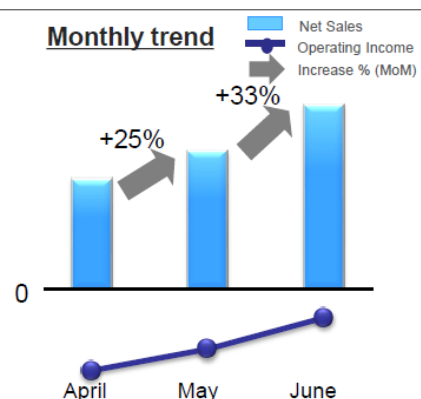
Europe

- 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



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Turning now to the Eye Care Business, the lockdown had a huge impact on our key markets in the U.S. and Europe, as sales activities to medical institutions were nearly completely halted, and optical stores were closed. As a result, net sales fell 39% year over year, and we unfortunately posted a loss.

As shown in the graph on the right, after the lockdown was lifted, both sales and income have been recovering after it hit bottom in April. Income is also recovering, although we have still posted an operating loss thus far.

In the U.S. and Europe, net sales are recovering gradually as economies reopen and demand for tele-optometry systems increases. In China, consumer spending and capital expenditure are recovering, and the country is steadily escaping from the effects of COVID-19.

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

Next, I will describe the full-year plan based on the results from the first quarter.

FY2020 Full Year Plan

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 2Q (April-June). CNY 2 trillion , roughly 30% of the total economic stimulation measures, is placed for infrastructure investment .



* Details on pg.26
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Although it is still extremely difficult to formulate a plan under the current circumstances, we have formulated a full year plan based on our results from the first quarter. The sense of uncertainty has been growing due to factors such as the second wave of COVID-19, which continues to spread worldwide, as well as the intensifying friction between the U.S. and China. That said, we are providing a plan for the first half of the fiscal year by business. This plan is based on our results in the first quarter, in which we saw a trend toward recovery, and on the short-term predictions that are currently possible. For the full year, we will provide a plan only for the Company as a whole, rather than by business, due to the large number of factors that remain uncertain.

Although the macroeconomic picture is extremely unstable, there are a number of positive factors. In terms of global economic measures, the U.S. Lower House has passed a new bill with 1.5 trillion dollars in infrastructure investment. In Europe, the EU has agreed on a 750 billion euro recovery fund, and progress on measures to support healthcare and business are anticipated. The UK has announced a New Deal initiative that will accelerate 5 billion pounds in infrastructure investment. Japan has budgeted 7 trillion yen toward disaster prevention and mitigation, as well as its National Resilience policy. It has also set roughly 20 billion yen toward a Business Continuity Program as a measure against the spread of COVID-19. Furthermore, Japan has budgeted 25 billion yen toward NOUCHI-KOSAKU KAIZEN JIGYOU (a project for improving conditions for agriculture), which we believe to be a positive development for our Smart Agriculture Business. In China, infrastructure investment has recovered quickly, and 2 trillion yuan in infrastructure investment has already been committed.

FY2020 Full Year Plan

■ 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



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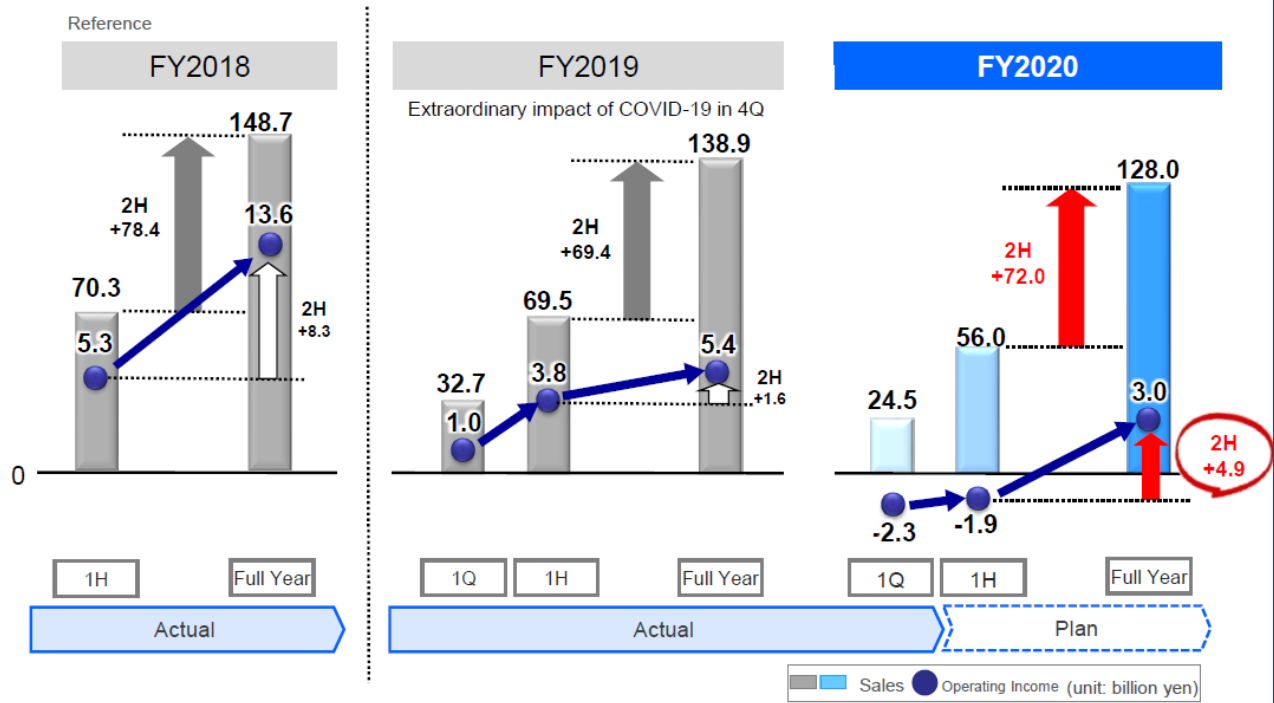
Although it is extremely difficult to make predictions, we predict an 8% year-on-year decrease in net sales due to the impact of COVID-19, despite economic measures. To counter this, our plan reduces fixed costs by 3.8 billion yen. In addition, our plan also restrains capital expenditure, reducing spending by 40% year-on-year.

With the expectation that we will be living with COVID-19 for the long term, we will strengthen our ability to secure financing, in order to ensure that we have both working and growth capital. We have roughly doubled our commitment line from 22 to 42 billion yen, and have obtained a new CP rating for commercial paper. We have also issued new corporate bonds of 20 billion yen.

While exchange rates are also extremely unpredictable, we are assuming rates of 105 yen to the dollar and 123 yen to the euro.

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



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We formulated a full-year plan under these assumptions, while also taking into consideration factors such as the macro-economic environment, economic measures, and cost reductions. The graph on the right shows our actual performance for the first quarter, and our plans for the first half and full year. The middle graph shows fiscal year 2019, while the left graph shows fiscal year 2018, for reference.

Based on the recovery trend from April to June in the first quarter, we expect to be profitable in the second quarter. We expect net sales of 56 billion yen and an operating loss of 1.9 billion yen for the first half. This assumes an operating income in the second quarter that moves us from a 2.3 billion yen loss in the first quarter to a 1.9 billion yen loss in the first half.

For the full year, we expect net sales of 128 billion yen and an operating income of 3 billion yen, going from an operating loss of 1.9 billion yen in the first half to an operating income of 4.9 billion yen in the second half.

COVID-19 had a major impact on our fourth-quarter performance in fiscal year 2019. As a result, we posted net sales of 69.4 billion yen and an operating income of 1.6 billion yen in the second half of fiscal year 2019. We expect to increase our net sales and operating income year-on-year in the second half of fiscal year 2020, and for the recovery to continue. We plan to turn a profit in the second quarter, and increase the scale of the profit in the third and fourth quarters.

Although it may seem that we expect excessive year-on-year increases in both sales and income, we would like you to compare our figures with fiscal year 2018, since the second half of fiscal year 2019 was affected by COVID-19.

In the second half of fiscal year 2018, we posted net sales of 78.4 billion yen, and an operating income of 8.3 billion yen. Thus, when we compare net sales of 78.4 billion yen in fiscal year 2018 to 72.0 billion yen in fiscal year 2020, and an operating income of 8.3 billion yen in fiscal year 2018 to 4.9 billion yen in fiscal year 2020, it shows that we would still be in recovery and the return to former levels have not yet been achieved.

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



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Here are the figures. We expect net sales of 128 billion yen, an operating income of 3 billion yen, an ordinary income of 1 billion yen, and to break even with a net income of 0. We plan to reduce our annual dividend from 24 yen in the previous year to 5 yen.

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%



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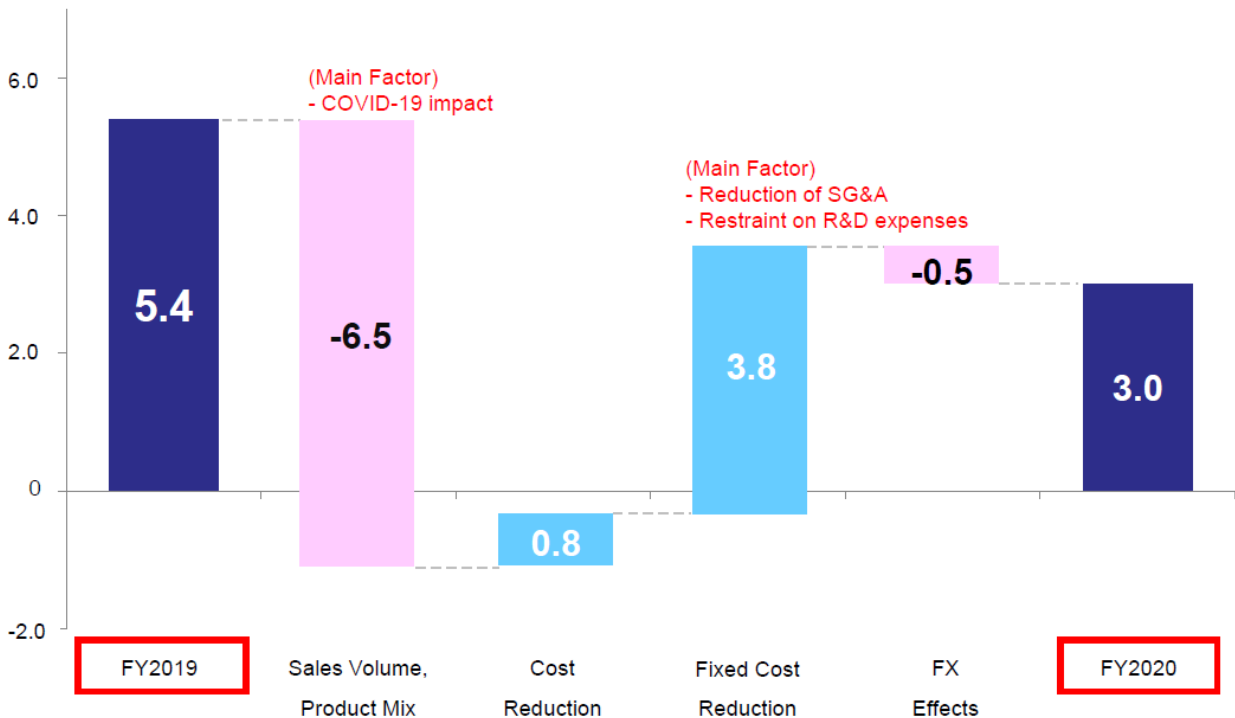
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This shows the plan for the full year by business.

As I mentioned earlier, we are only providing a plan for net sales and operating income by business for the first half.

FY2020 Operating Income YoY Breakdown

(unit: billion yen)



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This is an analysis of year-on-year changes in full-year operating income. Compared to an operating income of 5.4 billion yen in the previous fiscal year, this fiscal year we expect an operating income of 3 billion yen, for a year-on-year decrease of 2.4 billion yen. I will analyze this change according to four factors.

We expect sales volume and product mix to account for negative 6.5 billion yen due to the impact of COVID-19, cost reduction to account for positive 0.8 billion yen, fixed cost reduction to account for positive 3.8 billion yen, and FX effects to account for negative 0.5 billion yen. The resulting forecast is 3.0 billion yen for fiscal year 2020, a total decrease of 2.4 billion yen from the 5.4 billion yen in the previous fiscal year.

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



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Before discussing our focus areas for each business, I would like to touch on the impact that COVID-19 has had on our Mid-term Business Plan.



■ 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

The management vision of our Third Mid-term Business Plan—Expand our businesses and solve the societal challenges within the growing markets of Healthcare, Agriculture and Infrastructure—is intact. However, COVID-19 will inevitably affect the timeline of this vision.

Meanwhile, we believe there are some tailwinds from COVID-19 to the growth scenario of “Expand our businesses and solve the societal challenges” along with the following keywords: social distancing responses, essential businesses, and 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**



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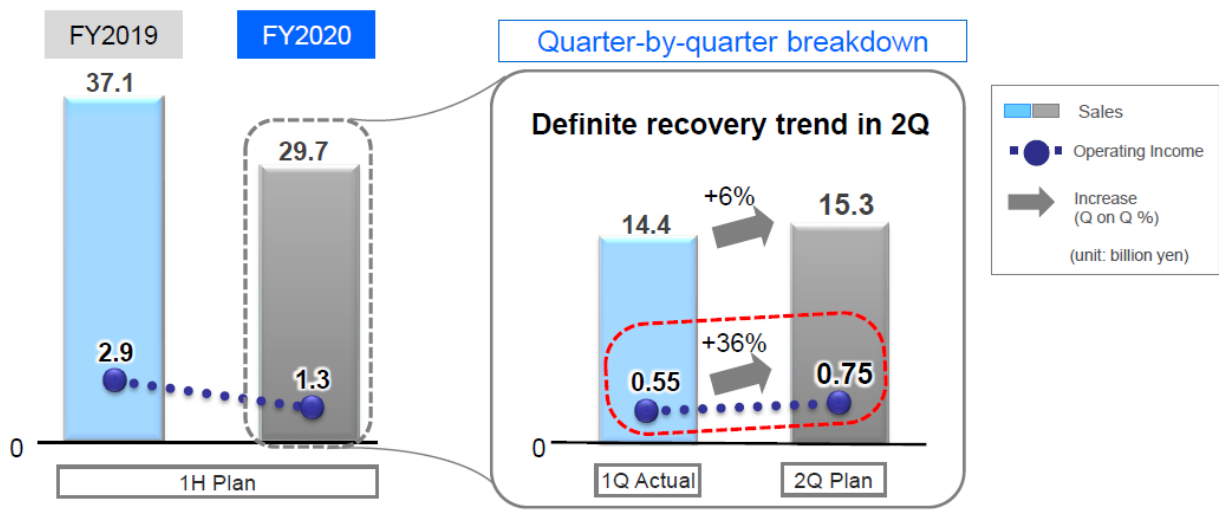
Here is a small breakdown of the tailwind in our mid-term scenario.

The infrastructure construction field is related to our Positioning and Smart Infrastructure Businesses. We believe the impact of COVID-19 will be limited because these are essential businesses. When infrastructure investment that is essential for economic restoration increases, this will make labor shortages even more severe, which will spur more rapid adoption of automation technology by IT construction.

As an essential business, there is steady demand in the field of agriculture. Labor shortages caused by travel restrictions will spur more rapid adoption of Auto Steering System

The field of healthcare pertains to our Eye Care Business. Although COVID-19 will have a huge impact over the short term, the increase in the number of patients with eye diseases will not change. The new demand for social distancing is a positive factor for the Eye Care Business, because it matches perfectly with our increased focus on tele-optometry.

- **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



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Now I will talk about each business, separately.

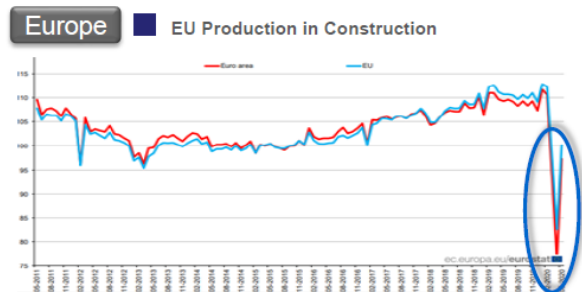
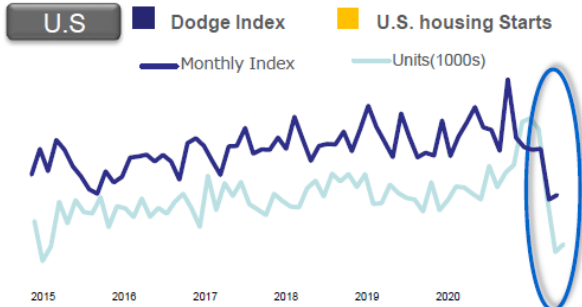
In the Positioning Company, our plan for the first half of fiscal year 2020 is net sales of 29.7 billion yen and an operating income of 1.3 billion yen, for a year-on-year decrease in both sales and income.

The graph on the right breaks down these numbers by quarter, showing actual results for the first quarter and our plan for the second quarter. Our outlook for the second quarter is for a definite recovery. We expect net sales to increase by 6% to 15.3 billion yen, and for operating income to increase by 36%.

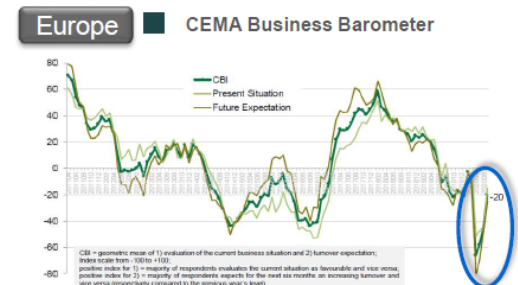
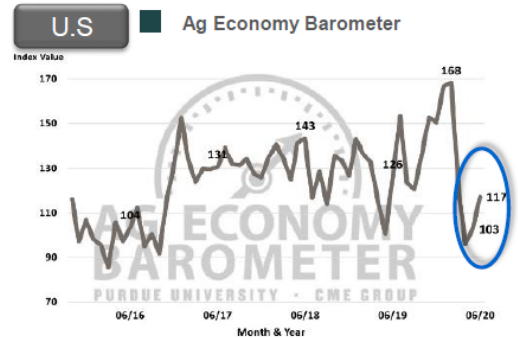
Next, I would like to speak about our specific focus areas.

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

Construction Market



Agriculture Market



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The left side of the page shows the construction-market indices from the Dodge Data & Analytics report and EU construction. Both indices hit bottom in April, and have been recovering since May.

The right side shows the agriculture market, with the top showing the U.S. and the bottom showing Europe. Both hit bottom in April and have been rising since May, and we believe that we are now experiencing a tailwind.

■ 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



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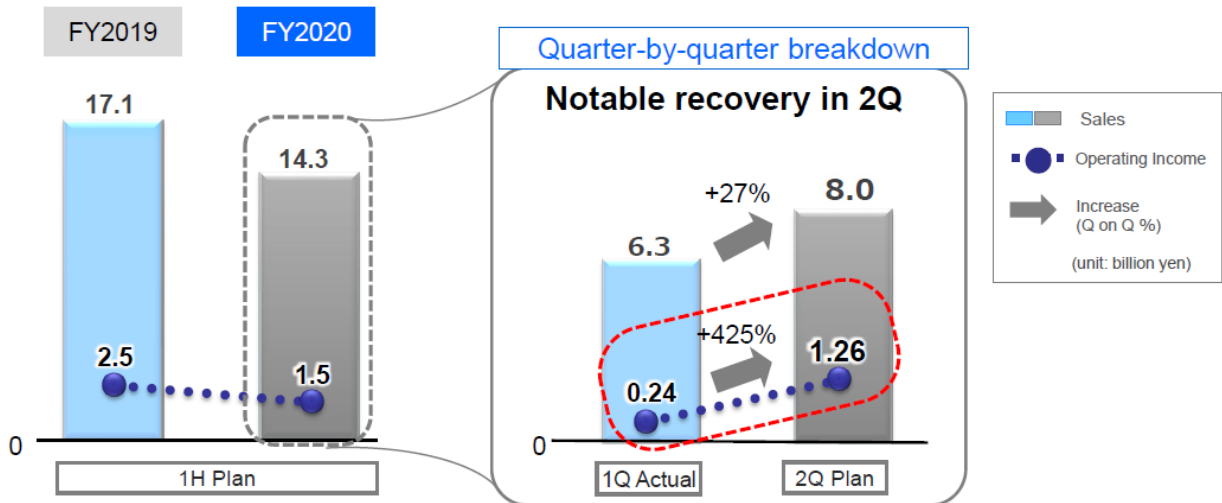
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Next, I will discuss our initiatives to capture new demand related to the economic recovery. Starting with initiatives in the U.S., there is a program with a total budget of 1.5 trillion dollars, of which 300 billion dollars is budgeted to infrastructure improvement such as roads and bridges.

With this level of demand for infrastructure, labor shortages are inevitable. Our business and product lineup help improve productivity and save labor. For example, our products include automation systems such as dozers, excavators, and asphalt pavers. We see the increased adoption of such laborsaving products, and the chance to meet demand through the introduction of IT Construction as our business opportunities.

- **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



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Next, I will turn to the Smart Infrastructure Business.

Our plan for the first half of fiscal year 2020 is net sales of 14.3 billion yen and an operating income of 1.5 billion yen, for a year-on-year decline in both sales and income.

Please turn to the breakdown by quarter in the right-hand graph. In the second quarter, we expect net sales to increase by 27% and an operating income to increase by 425%. This is an extremely large level of growth, and we forecast a remarkable recovery in the second quarter.

Two factors behind this outlook are the boost from the supplemental budget in Japan's National Resilience policy, as part of our aggressive capturing of infrastructure demands in Japan, and the adoption of IT Agriculture and the Auto Steering System in Japan. Later, I will talk about areas that are receiving greater adoption, in part through support from the government.

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)

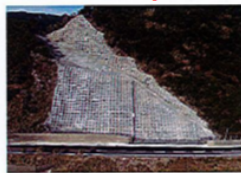
National Resilience Annual Plan 2020

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

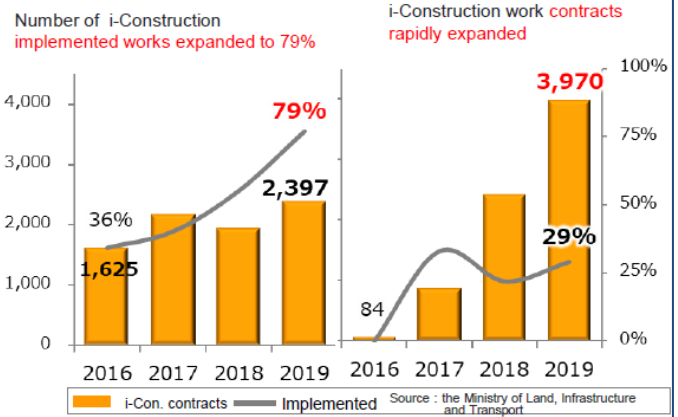
Source : the Ministry of Land, Infrastructure and Transport

Market trends

Number of i-Construction contracts and its percentage implemented

Direct control of the Government

Local government



i-Construction work contracts rapidly expanded

Source : the Ministry of Land, Infrastructure and Transport



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Japan's National Resilience and an increase in i-Construction work are giving our businesses a boost.

Demands that were postponed when Japan declared a state of emergency have steadily begun to be captured. Furthermore, Japan's National Resilience, with a project scale of roughly 7 trillion yen, includes measures to prevent landslides and other disasters by maintaining dams, large-scale underground reservoirs, and key infrastructure by acceleration of the shift to IT Construction (or i-Construction) helps compensating for the shortage of skilled engineers.

The number of i-Construction contracts published by Japan's Ministry of Land, Infrastructure and Transport has been growing since fiscal year 2016. At a national level, roughly 2,400 contracts were offered in fiscal year 2019. The percentage of government contracts implemented i-Construction, which is a measure for ability of implementation, has grown from 36% in fiscal year 2016 to 79% in fiscal year 2019.

In 2016, only 36% of approximately 1,600 offered contracts were implemented i-Construction. This was due to the lack of contractors who were capable for i-Construction work. In fiscal year 2019, the percentage increased to 79%, and the number of contracts is expected to further increase.

In addition to the national government contracts, some are managed by local governments. Although local governments offered almost no contracts in fiscal year 2016, they offered a total of 3,970 in fiscal year 2019. However, the level of implementation of i-Construction by local governments is insufficient. This is because in the case of local governments' work, many local construction companies do not have IT construction machinery or systems, and as a result, the implementation

rate is extremely low, at 29%. Consequently, the demand for such works is extremely high, and we are confident that we will capture this demand, going forward.

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

Smart Infrastructure

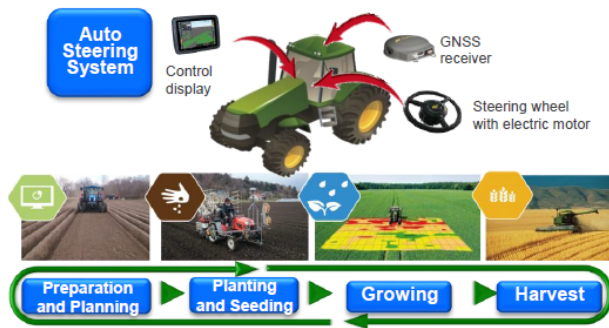
MAFF : Measures for promoting the adoption of Smart Agriculture

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

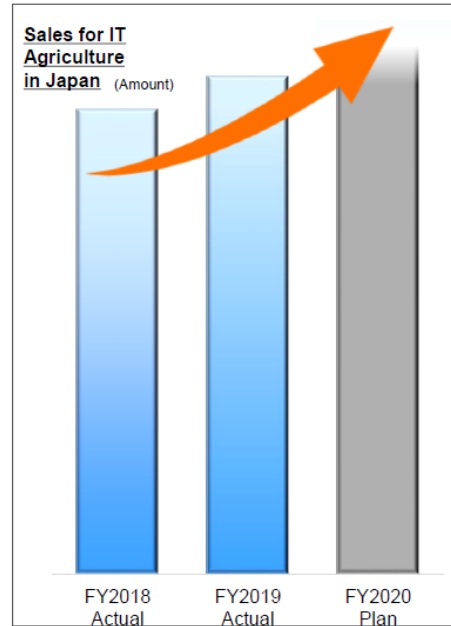
Source : Ministry of Agriculture, Forestry and Fisheries Website

- 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

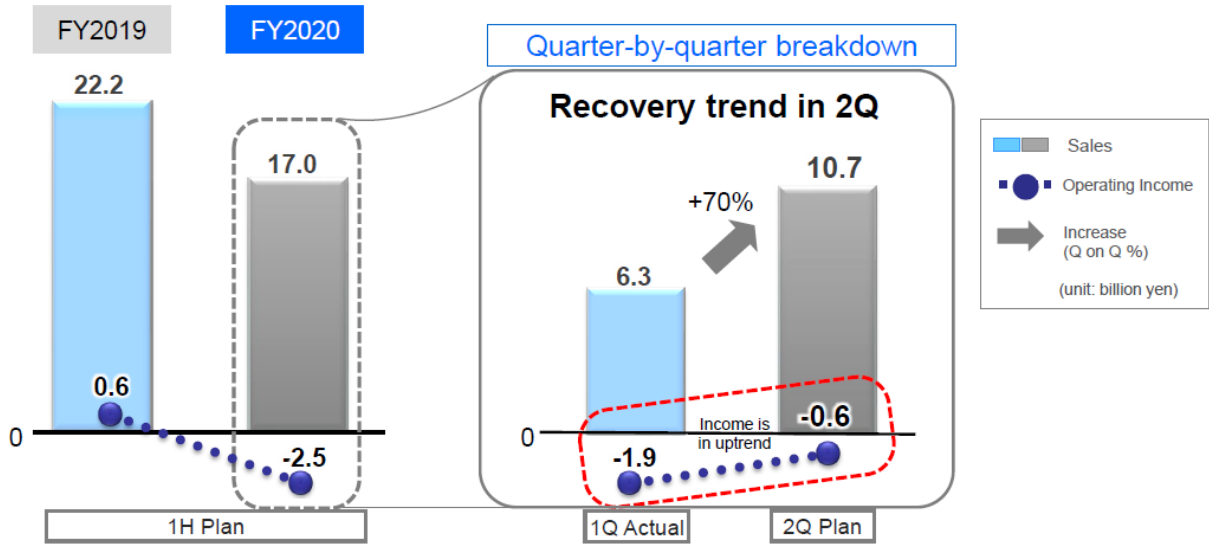


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The Ministry of Agriculture, Forestry and Fisheries is providing 20 billion yen subsidy as a Business Continuity Program to farmers, and this program is promoting the introduction of labor-saving machinery. Also the retrofittable Auto Steering System is extremely popular in NOUCHI-KOSAKU KAIZEN JIGYOU, the project for improving conditions for agriculture, which has been budgeted 25 billion yen. We expect a continued growth of IT agriculture in fiscal year 2020.

- **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



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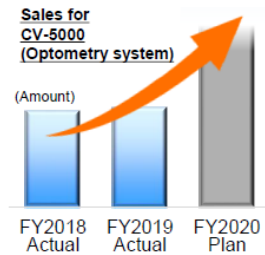
Last, I will discuss the Eye Care Business.

Our plan for the first half of fiscal year 2020 is net sales of 17 billion yen and an operating loss of 2.5 billion yen. However, we expect a large growth of 70% in net sales in the second quarter, compared to the level of 6.3 billion yen in the first quarter.

We have no doubt that we will be in a recovery trend in the second quarter. Although we expect a loss of 0.6 billion yen in the second quarter, thus remaining in negative territory, the loss will be much smaller than the 1.9 billion yen in the first quarter. Under these circumstances, our focus area is to expand global sales of tele-optometry. I will discuss this in more detail momentarily.

We will begin to strengthen sales in the second quarter and onward, under the assumption of a market recovery and early normalization in our Chinese business, as well as the good response we are receiving from our Screening Business, which we have been focusing on.

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

Tele-optometry

Topcon Cloud

Corresponding to social distancing

-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

*vision test: an examination of visual acuities to select eyeglasses

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I will now discuss our expansion of global sales of tele-optometry. We have been involved in tele-optometry for some time, and this matches the demand created by social distancing.

Conventionally, when customers visit optical stores to get their vision tested and have eyeglasses made, optometrists use systems that switch lens combinations in front of the customer's eyes. This requires extremely close face-to-face contact, which is now being avoided.

Using the cloud, tele-optometry systems enable the equipment that the optometrist uses to test the customer's vision to be located far from the optometrist. We have marketed these systems overseas, particularly in the U.S. and Europe, and worked to create a new business.

These systems can be used as-is, now that social distancing is required. Instead of needing to be near an optometrist to have their vision tested, customers can get their vision tested easily, at any location, simply by using a tablet and connecting to the cloud.

These systems are gaining popularity due to their ability to immediately support social distancing. Although COVID-19 has had a major impact on the Eye Care Business in fiscal year 2020, we believe that this is one of the strategies for turning the situation around.

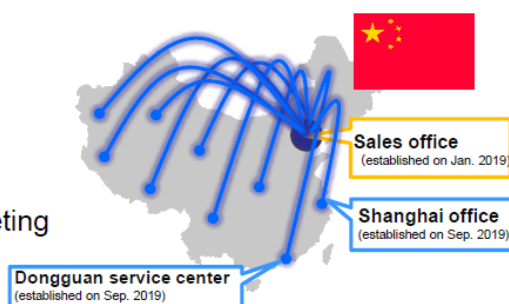
Sharp recovery in China

Eye Care

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.



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Our business in China is recovering rapidly, and we will strengthen our sales in China, where the market is normalizing at a quickest pace. The bar graph on the slide shows our sales in China over time. Although the impact from COVID-19 was slight in January, sales plummeted in February and March.

In April, the demand that had fallen in February and March surged back to make a major recovery. Sales then leveled off somewhat in May and June, showing clearly that demand has returned to normal. Our sales in China grew substantially during the previous fiscal year, and have been contributing to the net sales of the Eye Care Business, as a whole. We have great expectations that the normalization we have seen here will lead to a large improvement, going forward.

In addition, we also began a reorganization last year to enhance our sales network in China, which was completed at the end of June. We believe that the synergy between the rapid normalization of the market that occurred after the lockdown was lifted and our enhancements to our sales and distribution structure will lead to even greater sales growth.

This concludes our detailed business plan by segment.

III. Topics



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I will share a topic.

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.



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A new outside director was elected at our shareholders meeting held in June. This increases our number of outside directors to four, and with the current total Board of Directors membership of nine, outside directors now make up 44% of our board.

Mr. Yoshiharu Inaba is Representative Director and Chairman of FANUC CORPORATION. As you are well aware, FANUC is a robotics manufacturer that is famous for ultra-high-precision machine tools and CNC.

FANUC CORPORATION is a pioneer in the automation of general-purpose machine tools and the factory-automation revolution. It is a global leader with large market shares of over 50%, both in Japan and internationally.

Mr. Inaba is a person who made the change from analog to digital through general-purpose machine-tool automation systems, or CNC. Accordingly, we have high expectations that he will provide us with accurate advice, based on his knowledge and experience, in order to propel Topcon's IT Construction and IT Agriculture business forward.

IV. Summary



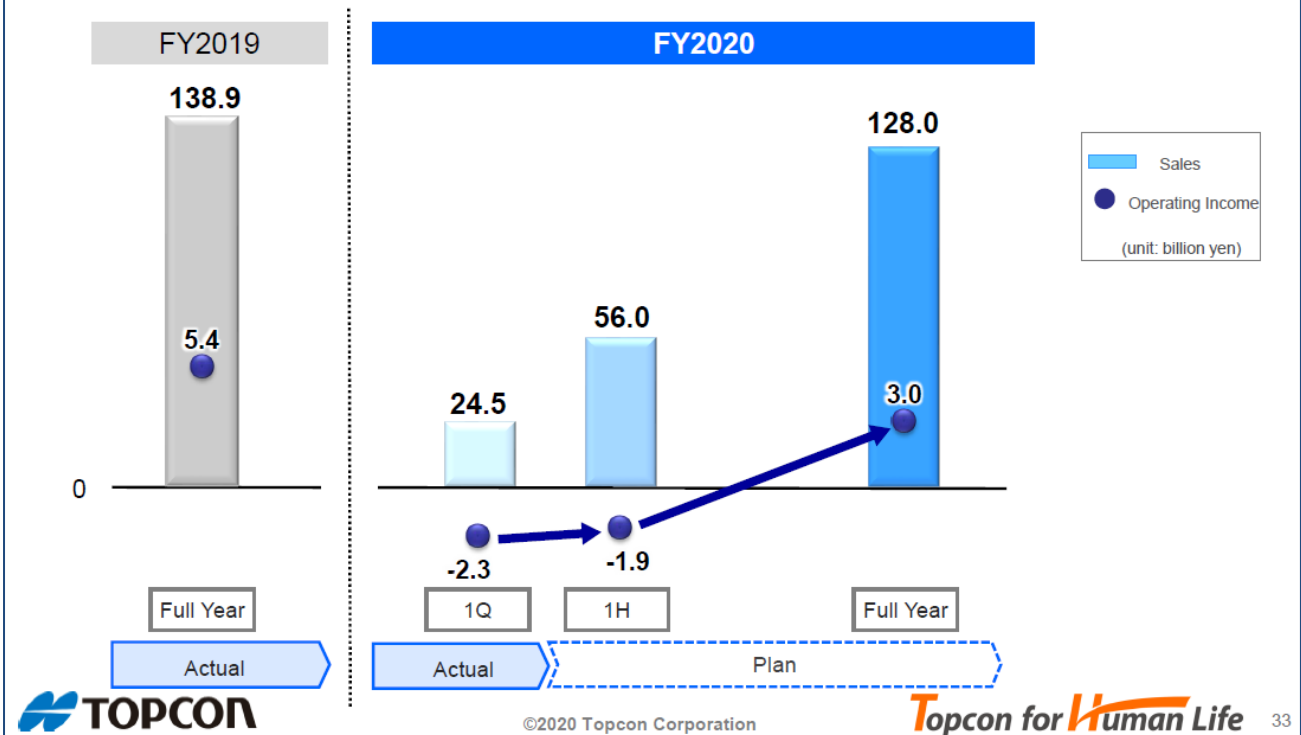
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In closing, I will summarize today's presentation.

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



This is our closing summary. Although our plan for the first half of fiscal year 2020 is net sales of 56 billion yen and an operating loss of 1.9 billion yen, we expect to turn a profit in the second quarter, on a quarterly basis. In the second half, we expect to increase sales and income as our recovery continues, with net sales and operating income for the full year of 128 billion yen and 3 billion yen, respectively.

This concludes our report on our results from the first quarter and our plan for the full fiscal year.

Thank you very much for your time.

Questions and Answers

<Common subject matters>

Q. Earnings forecast: Are the economic measures in each country (p. 12 of the slides) actually in play in business negotiations? When do you expect their effects to appear in your sales numbers?

A. It seems that some contracts are starting to be placed for work, in anticipation of budgets from economic recovery measures. We believe the effects will appear in the third to fourth quarter.

Q. Earnings forecast: Your long-term numerical vision is net sales of 250 billion yen and an ROE of greater than 15% by fiscal year 2025. Has your forecast on this changed?

A. We have not changed our Long-term Goal. However, some impact on our timeline is inevitable, and it will be extremely difficult to meet our fiscal year 2021 targets. Conversely, we think it is possible that there will be tailwind for our 2025 target.

Q. Cost management policy: You said that you will reduce fixed costs by 3.8 billion yen over the full year (p. 17 of the slides). However, you decreased costs by 2.4 billion yen in the first quarter (p. 6). Why will the size of the reduction be smaller over the following nine months?

A. We were able to make a large reduction to SG&A in the first quarter, because this was a special case where, due to lockdowns and other factors, we were able to make major savings in business travel and other expenses. Our earnings forecast includes plans to increase sales in the third and fourth quarters. Accordingly, although we will continue to reduce costs, we expect costs to increase in a manner that is commensurate with our increases in sales.

Q. Cost management policy: How much do you plan to reduce SG&A?

A. Nearly all of the fixed cost reduction of 3.8 billion yen in the operating income year-on-year breakdown is from SG&A.

Q. Cost management policy: Did COVID-19 change your method of controlling fixed costs? Until now, your policy was to uncover future growth potential through upfront investment. What is your policy, going forward?

A. COVID-19 caused a drastic drop in sales. We responded by thoroughly controlling SG&A, R&D, and other expenses. Although R&D expenses are vital, we will be selective, thinking carefully about the timeline for effects to the top line, while making adjustments from both short and long-term perspectives. Alternatively, we will consider how to grow our businesses while controlling investment costs.

<Positioning Company/Smart Infrastructure Business>

Q. [IT Construction](#): Were the decrease in sales to OEM clients of construction equipment smaller compared to the third and fourth quarters of last year? What is the outlook beyond the second quarter?

A. Although we cannot control OEM clients, aftermarket demand has recovered considerably despite COVID-19. For this reason, we believe that OEM demand will also recover, although some lag time is expected.

<Eye Care Business>

Q. [Tele-optometry](#): What is the scale of your tele-optometry system business? Can this business model become one of the pillars of your business? What will the scale of the business be in 2021 and 2025?

A. Tele-optometry primarily targets large optical store chains. We expect to make sales through selling systems and subscriptions. One contract can yield sales ranging from several hundred million to one billion yen. Some customers may need to level the load on the optometrists in their chains nationally, and there may be cases where our on-staff optometrists provide optometry services. In that sense, we offer our customers flexible options, and the size of our sales will vary greatly depending on their choices. We are confident that this business can become a pillar for us, and while we have been advancing tele-optometry by making upfront investments, life with COVID-19 has created a need for social distancing. Until now, optical stores have generally worked to bring customers into the store; however, they have now switched to appointment systems. There is a real sense that there is an extremely strong demand to conduct business as efficiently as possible, within their limited capacity. In this sense, although it may be indelicate to say, COVID-19 has actually accelerated the switch to currently available digital services, and we feel that digitalization will be achieved sooner than we originally expected. I will refrain from commenting on the concrete size of the business in 2021 and 2025.

Q. [Screening Business](#): Patients are avoiding visits to ophthalmologists due to COVID-19. Don't you think that this will increase the demand for services offering cloud-based telemedicine?

A. Exactly. In addition to the demand from customers to avoid visiting clinics, no matter how much more efficient optical stores can become, their customer capacity will certainly be lower. Under these circumstances, a key management challenge for these stores is to increase sales per customer, and I think screening services are attracting attention for just this reason. While it is true that sales of our "3D OCT-1 Maestro" for Screening Business were not as active in the first quarter as previously, demand has recently become extremely strong.

Q. [Screening Business](#): In response to COVID-19, there have also been moves to loosen regulations on telemedicine in Japan. Are there any signs of insurance related matters to advance Screening Business?

A. "IDx-DR," which is the first U.S. FDA approved AI software for diagnosing diabetic retinopathy requires the use of our retinal cameras. We expect an insurance reimbursement code to be assigned in January of next year. We predict that once it is covered by insurance, AI diagnostic software will be adopted in the U.S., for example by physicians, drug stores, and optical stores. In response to COVID-19, in April the FDA announced and introduced a fast-track process for

regulations relating to telemedicine. In this manner, governments in Europe and the U.S. are promoting equipment and services for telemedicine.

Q. Screening Business: What is your sales forecast given the delay of large sales? Am I correct in understanding that the number of units that you ship this fiscal year will remain unchanged?

A. Outstanding shipments currently remain delayed due to COVID-19. On the other hand, we are gradually beginning to see movement in business talks for the 3D OCT-1 Maestro for Screening purpose.

Q. 3D OCT: What is your forecast for sales of the Maestro, compared to the previous fiscal year?

A. I believe that we will sell close to the same number of units as in the previous year.

Q. Earnings forecast: In the second quarter, you expect net sales and operating income to each decrease by roughly 1 billion yen year-on-year. Will fixed costs increase significantly? In the first half, you expect net sales to fall by roughly 5 billion yen year-on-year, and operating income to fall by roughly 3 billion yen year-on-year. What is the reason for the large decrease in income?

A. The Eye Care Business was particularly hard-hit by COVID-19 in the fourth quarter of the previous year, and sales fell significantly. As a result, a large amount of inventory was left over at the end of the last fiscal year, and we have been performing inventory adjustments in the first and second quarters of this year. This has declined production operating ratio, leading to a decline in operating income.