



*Topcon for Human Life*

## TOPCON CORPORATION

FY2020 Q2 Financial Results

October 30, 2020

## Event Overview

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<b>[Company]</b>	TOPCON CORPORATION	
<b>[Event Type]</b>	Presentation of Financial Results	
<b>[Event Name]</b>	FY2020 Q2 Financial Results	
<b>[Reported Period]</b>	FY2020 Q2	
<b>[Date]</b>	October 30, 2020	
<b>[Time]</b>	3:30 – 4:20 PM (Total time: 50 minutes; Presentation: 35 minutes; Q&A: 15 minutes)	
<b>[Event Format]</b>	Online (streamed)	
<b>[Number of Speakers]</b>	3	
	Satoshi Hirano	Representative Director, President & CEO
	Haruhiko Akiyama	Director, Senior Executive Officer, General Manager of Accounting & Finance Div.
	Takaaki Hirayama	Executive Officer, General Manager of Corporate Communication Div.

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## **FY2020 Q2 Financial Results**

**I . FY2020 Q2 Financial Results**

**II . FY2020 Full Year Plan**

**III . Topics**

**IV . Summary**

**V . Appendix**



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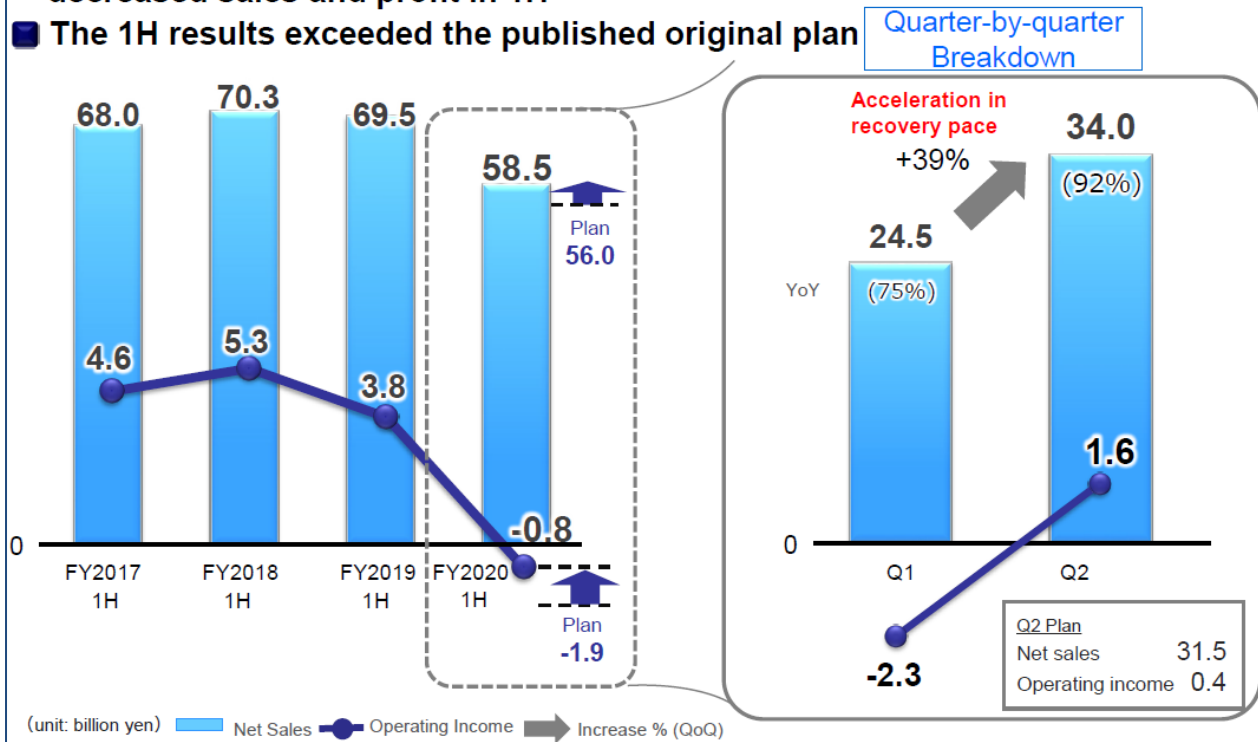
Hirano:

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

Today, I will report our financial results for the second quarter followed by full-year plan for fiscal year 2020.

## 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



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First of all, this is an overview of our results for the first half.

The graph on the left shows sales and operating income for the first half of fiscal year from 2017 to 2020. The graph on the right shows the quarterly breakdown of sales and operating income for the first half of this fiscal year.

In the first half, sales and income decreased year-on-year. This was mainly due to the significant impact of COVID-19 in the first quarter, resulting in the sales of 24.5 billion yen, 75% year-on-year and 2.3 billion yen of operating loss.

However, in Q2, sales were 34.0 billion yen, a sharp recovery of 92% year-on-year and posted a positive operating income of 1.6 billion yen. I am confident to say that the pace of recovery is accelerating.

Furthermore, both sales and operating income exceeded the published original plan.

## 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 1H Actual	FY2020				YoY	1H Plan *
		Actual		1H	*Announced on July 31 <sup>st</sup>		
		Q1	Q2				
<b>Net Sales</b>	69,527	24,493	33,971	<b>58,465</b>	-11,062 (-16%)	56,000	
<b>Gross Profit</b> (Gross Profit Ratio)	36,972 (53.2%)	11,680 (47.7%)	16,708 (49.2%)	<b>28,389</b> (48.6%)	-8,582		
<b>SGA</b>	33,161	14,003	15,154	<b>29,158</b>	<b>-4,003</b> Reduction of 12%		
<b>Operating Income</b> (Operating Income Ratio)	3,810 (5.5%)	-2,322 (-9.5%)	<b>1,554</b> (4.6%)	<b>-768</b> (-1.3%)	-4,579	-1,900 (-3.4%)	
<b>Non-Operating Income</b> (Expenses)	-1,049	-721	-308	<b>-1,029</b>	19		
<b>Operating Income</b>	2,761	-3,043	<b>1,245</b>	<b>-1,797</b>	-4,559	-3,100	
<b>Extraordinary Income</b>	-555	-31	-130	<b>-162</b>	393		
<b>Income Before Income Taxes</b> and Minority Interests	2,205	-3,074	1,114	<b>-1,960</b>	-4,165		
<b>Net Income</b>	895	-2,482	<b>444</b>	<b>-2,037</b>	-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	



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I will explain the figures in detail. Net sales fell 16% or 11 billion yen and operating income fell 4.6 billion yen mainly due to COVID-19.

Let me make it clear here. Net sales for the first half were 58.5 billion yen exceeding the published original plan of 56 billion yen. All of operating income, ordinary income, and net income exceeded the published original plan as well. This is because the pace of recovery accelerated in Q2.

As you can see in the chart, operating income, ordinary income and net income all became profitable in the second quarter. With regard to ordinary income in particular, although we had expected a loss of approximately 0.1 billion yen in Q2 when we announced our Q1 results, we posted a large surplus of 1.2 billion yen. Likewise, although we expected a net loss in Q2, we recorded a net income of 0.4 billion yen. The pace of recovery has accelerated significantly.

As you all know, we are yet to expect the containment of COVID-19. Both Japan and overseas are still in a chaotic situation.

However, we were able to accelerate to improve profitability because our business domains are in essential businesses, and on top of that, we have been agilely and successfully responding to new needs such as social distancing to capture demands.

## FY2020 1H Financial Results by Business

### Operating income exceeded the published original plan in all businesses

(unit : million yen)

		FY2019	FY2020			
		1H Actual	1H Actual	YoY	YoY%	*Announced on July 31 <sup>st</sup> 1H Plan *
<b>Net Sales</b>	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
	<b>Total</b>	<b>69,527</b>	<b>58,465</b>	<b>-11,062</b>	<b>-16%</b>	<b>56,000</b>
<b>Operating Income (Operating Income Ratio)</b>	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
	<b>Total</b>	<b>3,810 (5.5%)</b>	<b>-768 (-1.3%)</b>	<b>-4,579</b>	<b>-</b>	<b>-1,900 (-3.4%)</b>



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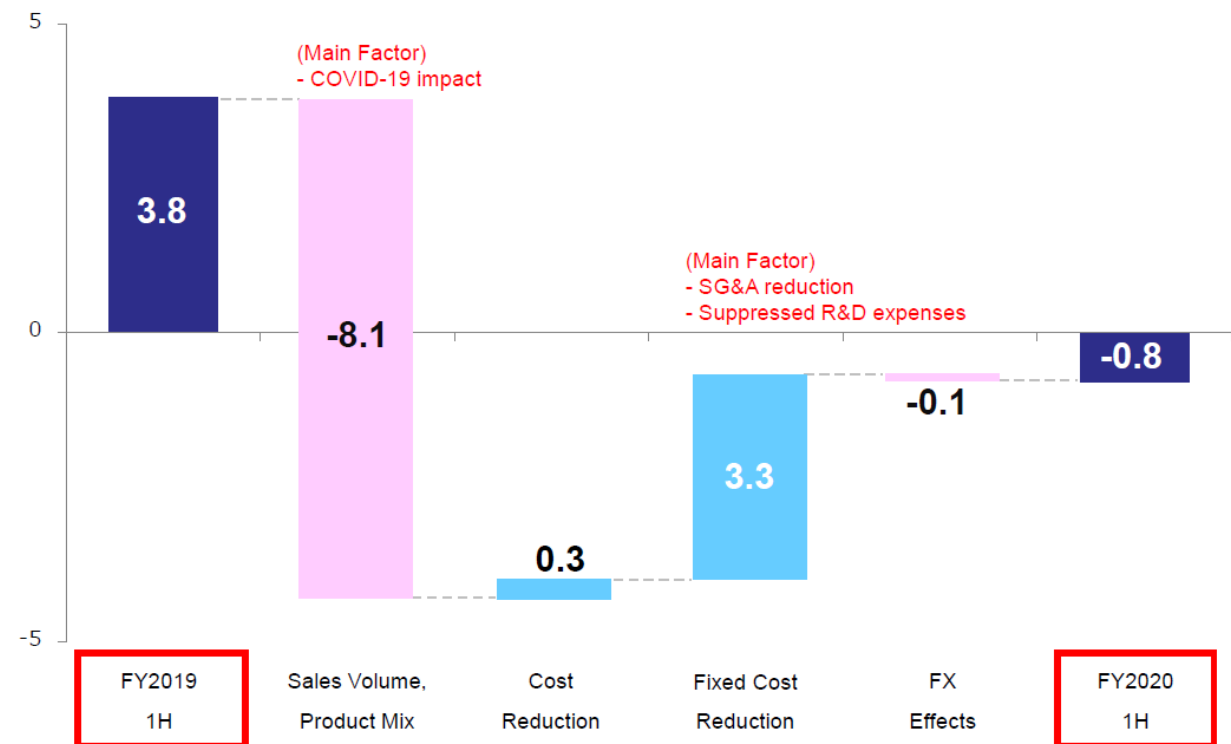
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This page shows net sales and operating income by business segment. All of our businesses exceeded the published original plan for operating income. I will discuss each business segment in detail, later.

## FY2020 1H Operating Income YoY Breakdown

(unit: billion yen)



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Next is an analysis of changes in operating income year-on-year.

Compared to an operating income of 3.8 billion yen in the first half of the previous year, sales volume and product mix accounted for negative 8.1 billion yen, mainly due to the impact of COVID-19. Despite decline in sales, our efforts at cost reduction yielded positive 0.3 billion yen. As for fixed cost reductions, reduction in SG & A expenses lead to positive 3.3 billion yen. Finally, FX effects accounted for negative 0.1 billion yen. As a result, we could minimize the operating loss of 0.8 billion yen thanks to improvement of management efficiency amid a severe business environment.

# I . FY2020 Q2 Financial Results

I - 1 . FY2020 Q2 Financial Results

I - 2 . Overview of Each Business



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I will now discuss our results by business segment.



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

(unit: million yen)

	FY2019	FY2020			
	1H Actual	1H Actual	YoY	%	*Announced on July 31st 1H Plan *
<b>Net Sales</b>	37,116	<b>32,141</b>	-4,975	-13%	29,700
<b>Operating Income</b> (Operating Income Ratio)	2,850 (7.7%)	<b>2,157</b> (6.7%)	-692	-24%	1,300 (4.4%)
Exchange Rate					
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 improve OP margin: Q1: 3.8%→Q2: 9.1%

#### IT Construction

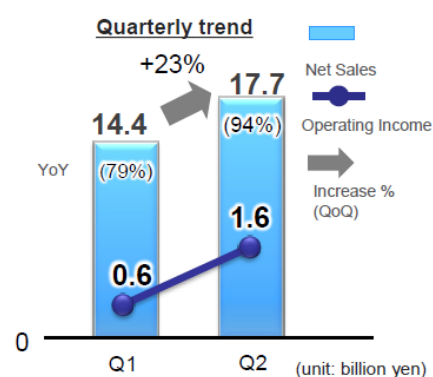
- Q2 sales in the aftermarket recovered to almost the same level as the previous year, OEM showing some signs of recovery as well

#### 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



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These are the results for our Positioning Company. Net sales and profits declined in the first half. As the breakdown by quarter is shown in the graph, net sales in the first quarter and second quarter were 79% and 94% of the same period last year, respectively, indicating a significant recovery. The sales grew 23% quarter-on-quarter and operating income improved accordingly. Consequently, we were able to significantly exceed the published original plan. Net sales were 32.1 billion yen, better than the plan of 29.7 billion yen, and operating income was 2.2 billion yen, also better than that of 1.3 billion yen. As an essential business, this business shows substantial recovery with solid demand. In line with sales growth, the operating margin ratio in Q1 recovered from 3.8% to 9.1% in Q2.

In the second quarter, sales in the aftermarket of IT Construction, which is the core business of Positioning Company, came back to almost the same level as the previous year. OEM is also showing some signs of recovery. In addition, the aftermarket for IT Agriculture grew strongly year-on-year, and the OEM is also in a gradual up trend. Beyond that, sales of laser products are growing, particularly in the United States on the back of the strong housing market.

### 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 <sup>st</sup> 1H Plan *
<b>Net Sales</b>	17,057	<b>14,886</b>	-2,170	-13%	14,300
<b>Operating Income</b> (Operating Income Ratio)	2,492 (14.6%)	<b>1,777</b> (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

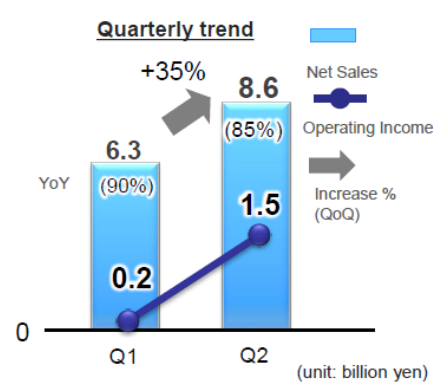
- Q2 sales steadily expanded compared to Q1 in the context of solid demands as an essential business
- Sales growth led to sharp recovery in OP margin: Q1: 3.7% → Q2: 18.0%

#### 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



\*"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. In the first half, net sales decreased by 13% and operating income decreased by 29%, but these figures exceeded the published figures of 14.3 billion yen in net sales and 1.5 billion yen in operating income. Sales increased significantly by 35% quarter-on-quarter.

There is no doubt that the Smart Infrastructure Business was also negatively affected by COVID-19, particularly in Asia (excluding Japan and China). However, since the sales ratio in the region are relatively low, the damage to the entire Business was not severe, the sales was 90% of the same period last year. In terms of YoY figures in the graph, 90% and 85% (in Q1 and Q2 respectively), we don't think there is meaningful difference as there were some delay of shipments. Accordingly, although the Smart Infrastructure was somewhat affected by COVID-19, it recovered steadily, and as a result, it exceeded the published figures.

On the back of solid demand as an Essential Business, similar to Positioning Company, Q2 sales recovered steadily and operating income showed rapid improvement, accordingly. We are pleased with the improvement of operating margin ratio to 18% in Q2 from 3.7% in Q1. In Japan, sales of IT Agriculture have increased significantly due to the subsidy effect. In addition, the demands have been expanding steadily as i-Construction works are increasing. And besides, sales for total stations grew year-on-year. So, you can see that this is a very solid business.

On the other hand, due to the long-lasting outbreak of COVID-19, Southeast Asia, particularly India, has not recovered at all, and the Middle East continues to experience a slump.

## Overview of Each Business

Eye Care

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

(unit: million yen)

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

### Review of 1H Financial Results

#### Overall

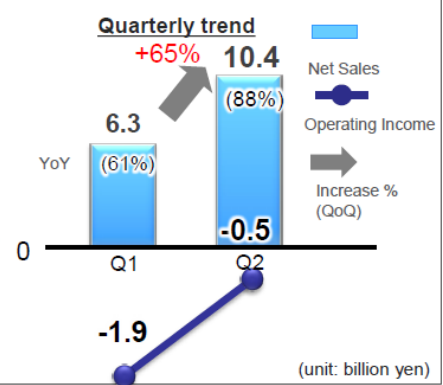
- The pace of recovery accelerated in major markets in the wake of the resumption of economic activity, Q2 sales up sharply compared to Q1
- Become profitable in September alone

#### 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



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Finally, the Eye Care Business. The sales decreased 24% year-on-year and posted a loss of 2.4 billion yen. Nevertheless, operating income has exceeded the published original plan and net sales almost achieved the plan.

As the graph shows, there was significant COVID-19 impact in Q1, with net sales of 61% of the same period last year and operating loss of 1.9 billion yen. However, in Q2, net sales returned to 88% of the same period last year and increased 65% quarter-on-quarter. Although it still posted loss in operating income, the deficit has decreased from 1.9 billion yen in Q1 to 0.5 billion yen in Q2 and is on a recovery trend. In addition, we achieved profitability in September alone.

In the U.S and European markets, we have recognized and agilely grabbed new needs for social distancing derived from COVID-19 as a special demand for tele-optometry systems. As a result, we achieved a significant sales growth in short term. We also successfully captured large orders from a major franchised optical stores chain in the U.S. It is also coming from our quick response to social distancing. In China, the negative impacts of COVID-19 have been diminished and our sales was more than the same period last year 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



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Next, I will describe the full year plan based on the results from the first half and the ongoing recovery trend.

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

Regarding our vision of "Expand our businesses and solve the societal challenges within the growing market of Healthcare, Agriculture and Infrastructure," the timeline is inevitable to change, impacted by COVID-19. However, the vision itself is intact.

Meanwhile, there are some tailwinds from COVID-19 to our mid-to-long term growth scenarios.

Here are new keywords relating to our businesses. As I mentioned earlier in my discussion of the Eye Care Business, new needs for "Corresponding to social distancing " have emerged. The "Essential Business" reaffirms our company's strong foundation in these business areas. All countries have large special budgets, and many of them include investment in infrastructure. We expect "economic reconstruction" to provide a tailwind for our businesses.

## **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

Next, I will provide the full year plan.

### 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)



Here is the premise of the plan.

As for the business environment, of course, we expect it will continue to be in a recovery trend. However, there are risks such as the re-spread of COVID-19 in the U.S and Europe and intensifying U.S-China friction. We think the future outlook still remains uncertain. In terms of the Positioning Company and Smart Infrastructure Business, solid demand in construction and agriculture underpins their performance. When you look at the U.S, the implementation of economic measures has been delayed due to presidential election. Furthermore, due to the long-lasting outbreak of COVID-19, we foresee markets in Southeast Asia, India and the Middle East to remain sluggish. In the Eye Care Business, while we expect special demand for tele-optometry solutions corresponding to social distancing to continue, we also see the resumption of lockdowns in major U.S and Europe countries as a significant risk.

In view of the plan of full year sales decrease amid COVID-19, we will continue the current cost reduction initiatives and keep striving to control and reduce costs.

The assumed exchange rates of 105 yen to \$1 and 123 yen to €1 are unchanged.

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

\* Q3 onward



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As I have explained thus far, our business results are on a strong recovery trend in Q2, but there are still unstable factors. So, we will leave the full year plan unchanged with net sales of 128 billion yen, operating income of 3 billion yen, ordinary income of 1 billion yen and dividends of 5 yen as we announced three months ago.



## 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			
	<b>Total</b>	<b>69,527</b>	<b>138,916</b>	<b>58,465</b>	<b>-16%</b>	<b>128,000</b>	<b>-8%</b>
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			
	<b>Total</b>	<b>3,810 (5.5%)</b>	<b>5,381 (3.9%)</b>	<b>-768 (-1.3%)</b>	<b>-</b>	<b>3,000 (2.3%)</b>	<b>-44%</b>



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This is by business.

As we have kept the full year plan unchanged, we do not provide plan for net sales nor operating income by business.

## **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**



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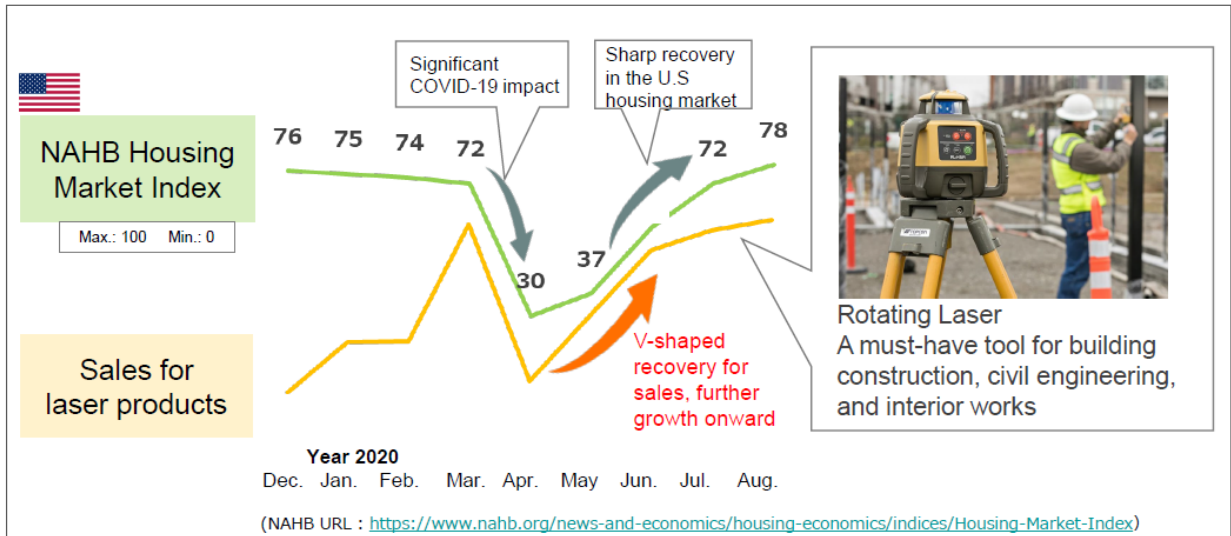
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Next, I will explain our strategies to achieve full year plan.



**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



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First is the Positioning Company. I would like to discuss the solid demand for infrastructure as an Essential Business. One example is strong sales of laser products in the U.S. This is because the U.S housing market is booming, fueled by the demand for migration to the suburbs triggered by COVID-19 as well as low interest rates. When the houses are built, the demand of the construction of roads, sewerage systems and other basic infrastructure will follow. We expect the appetite for all of our construction-related equipment including surveying and IT construction to increase, and will strive to capture them.

The line charts show the correlation between the U.S Housing Market Index and the sales of our laser products.

Sales of laser products used in housing construction declined temporarily due to the impact of COVID-19, but recovered in a V-shape with the booming housing market in the U.S.



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

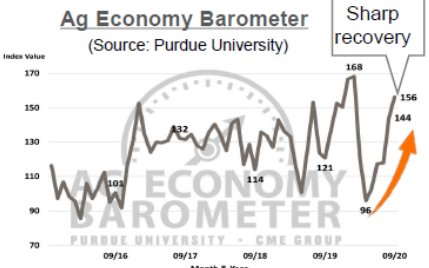


**U.S**

**Ag Economy Barometer**

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)

Sharp recovery

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

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

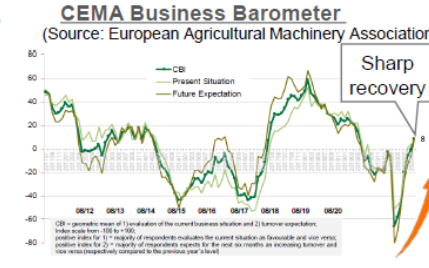


**Europe**

**CEMA Business Barometer**

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)

Sharp recovery

- Subsidize IT Agriculture in major countries

(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](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))

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



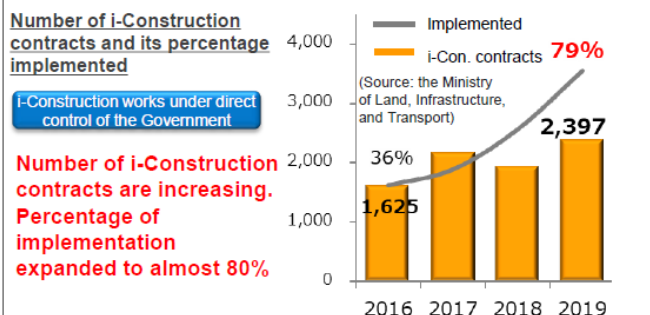
Next, I will discuss the agriculture market. It is rapidly improving in the U.S. and Europe as there are solid demands as an Essential business. In addition, there are tailwinds for IT Agriculture business with support from government, particularly in developed countries, who provide subsidies for introduction of IT technologies to farmers.

According to the "Ag Economy Barometer" index released by Purdue University in the U.S, farmers' sentiments, which had fallen significantly due to COVID-19, have recovered rapidly in the past few months. Consequently, the demand for our IT Agriculture system is also rapidly expanding. Furthermore, it is reported that farmers' income will increase by 23% from the previous year due to subsidies in the U.S. We expect farmers' mindsets for capital investment will improve further.

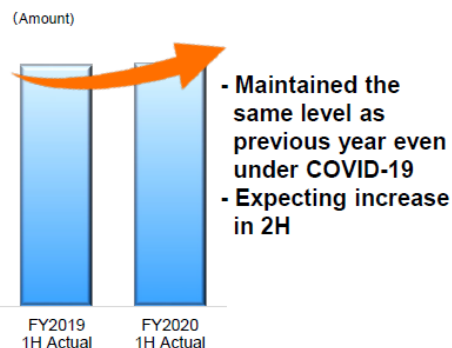
Likewise in Europe, as "CEMA Business Barometer" has shown, the sentiment in the agricultural machinery industry, which was also hit by COVID-19, is recovering rapidly. In addition, we expect the subsidies for the introduction of IT Agriculture technology in major countries to be tailwinds for our sales of IT Agriculture business.

On the other hand, agriculture is not completely immune to COVID-19. If the re-spread of COVID-19 becomes more serious, there will be certain downside risk. The uncertainty has not been completely eliminated, unfortunately.

**Increasing adoption of i-Construction**



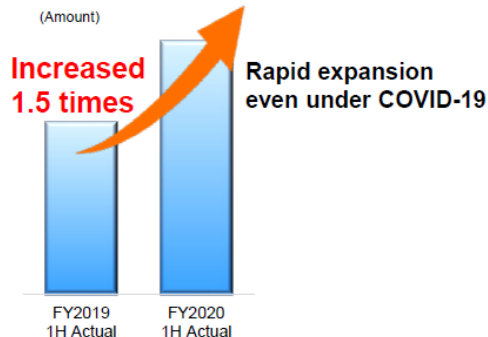
**Sales for i-Construction in Japan**



**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.

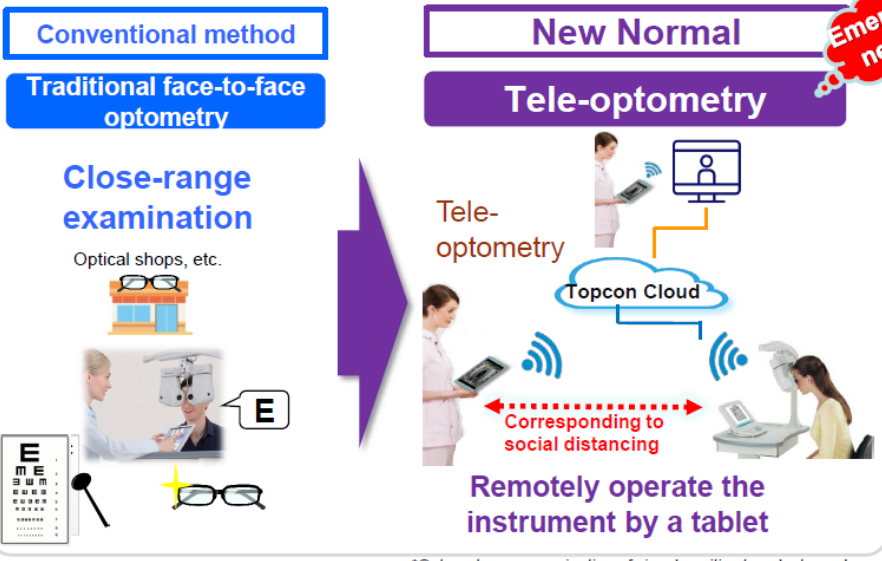
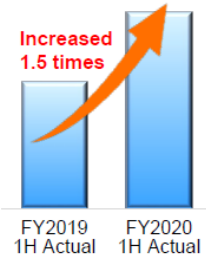
Turning now to Japanese market of the Smart Infrastructure Business.

In the infrastructure field, i-Construction is becoming increasingly popular. The number of i-Construction contracts has been rising. Also, the percentage of implementation has expanded to 80%, indicating that i-Construction is consistently penetrating for civil engineering works. Our sales for i-Construction-related products maintained the same level as previous year even amid COVID-19. We expect certain growth of sales in the second half.

Regarding IT agriculture, Auto Steering System has been gradually spreading. Then, subsidies are helping further expansion of the market. Special demand by Business Continuity Program led to the sales growth in Q2. We think this trend will continue thanks to additional 24 billion yen expenditure on Business Continuity Program approved by the Cabinet. Sales for IT Agriculture in the first half were 1.5 times compared with the same period last year, and we expect this momentum to last.

- 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

Sales for CV-5000 (Optometry system) (Amount)



Emerging needs

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

Finally, I will discuss the Eye Care Business.

Special demands related to social distancing are expanding. More specifically speaking, demands for tele-optometry systems are expanding globally. This tele-optometry systems have been originally developed for remote diagnosis but for social distancing.

The system has been corresponding to social distancing by minor modifications. We are increasing the sales by agilely capturing the demands. As a result, sales of tele-optometry systems increased significantly in the first half, and sales of our product, CV-5000, increased 1.5 times compared to the same period last year.

In addition, we are introducing new remote operational function with tablet computers for our core products, OCT.

Thus far, I have discussed how we will strive to meet our full year plan in respective business domains of Healthcare, Agriculture and Infrastructure”.

# III. Topics



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Now, I will share two topics.

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

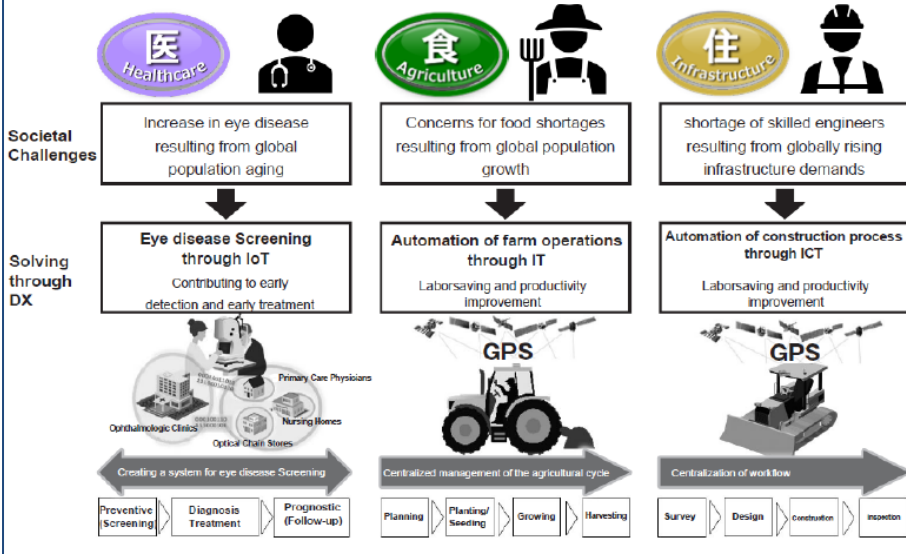
■ Solving the societal challenges within healthcare, agriculture, and infrastructure through **DX solutions** is highly acclaimed!

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



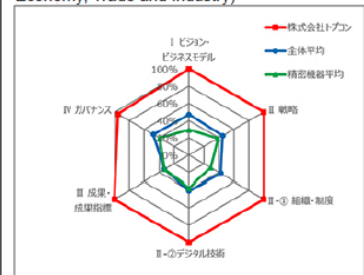
DX銘柄2020  
Digital Transformation

## Innovation in Healthcare, Agriculture, and Infrastructure through DX



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)



**\*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.



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First of all, Topcon was selected for “Digital Transformation Stocks (DX Stocks) 2020” as one of the 35 companies out of approximately 3,700 listed companies in Japan by the Ministry of Economy, Trade and Industry. Our initiatives to solve the societal challenges within healthcare, agriculture, and infrastructure through DX solutions were highly acclaimed.

Please refer to the overall rating of the Ministry of Economy, Trade and Industry shown at the bottom right. Our rating was high, lying on almost 100% on every category, whereas the average for all companies is indicated in the blue line near the middle.



## 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/en/news/20201022-28599.html>

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

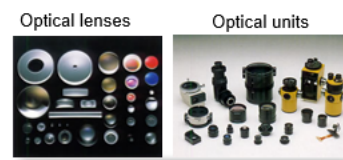


Ribbon-cutting ceremony

#### Our expectations

- ✓ Site area of the plant: approx. 35,000m<sup>2</sup> (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



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Here is the second topic. I mentioned earlier that our management vision and growth strategy will remain unchanged even under the environment amid COVID-19. We are happy to announce the completion of a new factory to strengthen production capacity of optical components in anticipation of further business expansion.

Our manufacturing subsidiary in Fukushima, Topcon Optonexus, has recently completed the construction of a new factory for world's leading-edge optical components. This new plant has a site area of 35,000 square meters, which is twice larger than the current one. We are aiming to increase production capacity by 4 times by improving productivity.

In recent years, production has been shifting to overseas in pursuit of cost reduction in various industrial fields. Under such circumstances, we established a new factory in Fukushima to commit to producing high quality optical components "made in Japan".

Leveraging our 51 years history of "master craftsmanship and quality", we manufacture key optical components for not only our company's core products, such as Maestro and Layout Navigator (LN), but also other end-product manufacturers, many of whom already placed certain amount of orders to us.

# IV. Summary



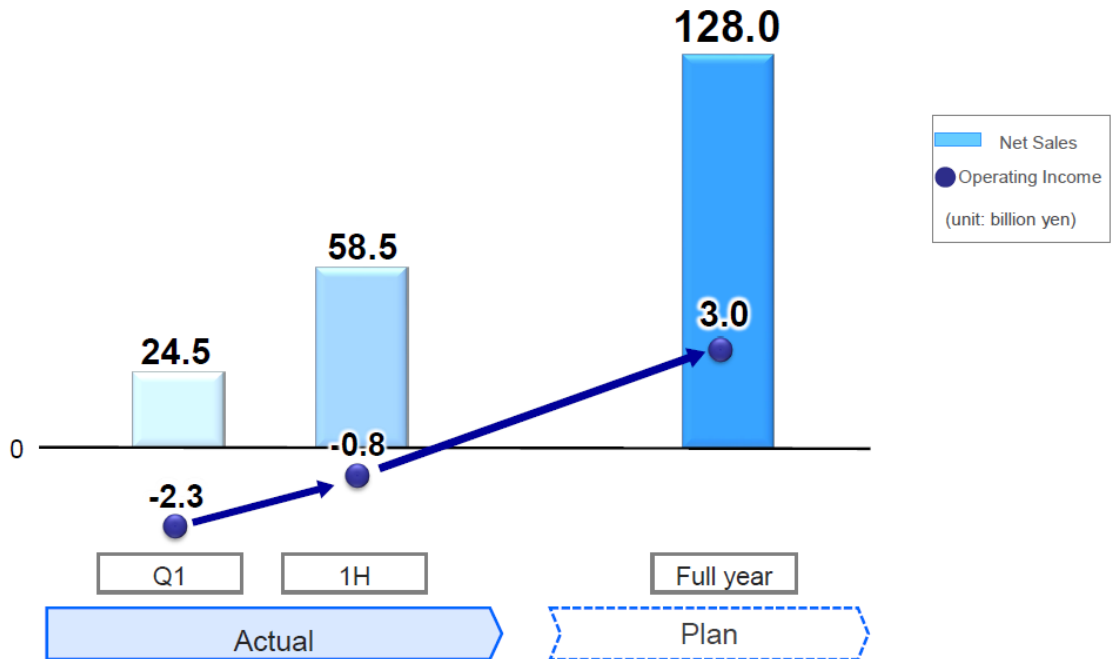
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In closing, I will summarize today's presentation.

## 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



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Although sales and income decreased year-on-year in the first half, there has been significant recovery in Q2 and becomes profitable, and the pace of recovery is accelerating. Nonetheless, we have decided not to change the full year plan of net sales of 128.0 billion yen and operating income of 3.0 billion yen, in light of uncertainty due to potential risks such as re-spread of COVID-19 and intensifying U.S-China trade friction.

This concludes my presentation on our results for the second quarter and our plan for the full fiscal year. Thank you very much for your time.

## Questions and Answers

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<Common subject matters>

Q. [Earnings forecast](#): Financial results for 1H exceeded the published original plan, but you have left the full year plan unchanged. Are you expecting any other major concerns besides re-spread of COVID-19 and intensifying U.S-China friction you mentioned in the presentation?

A. The only uncertain factor in 2H is COVID-19. We don't think it will have as much impact as it did in 1H although it is depending on the extent of re-implementation of lockdown in Europe.

Q. [Cost management policy](#): You have reduced considerable amount of fixed cost in 1H. Are there any changes in the full year plan?

A. We have announced fixed cost reduction of 3.8 billion yen for full year when we announced our Q1 results. 1H result slightly exceeds the plan, but we have left the plan unchanged.

<Positioning Company/ Smart Infrastructure Business>

Q. [IT Construction](#): Since the 2H of last year, the sales of OEMs have been weak. Is that coming back? What are your prospects, including a forecasts and/or indications of purchases from OEM customers?

A. I mentioned that the aftermarket of both IT Construction and IT agriculture are very strong and OEM is on the recovery trend. Current situation is that OEM is starting to follow the aftermarket which is in brisk performance. Here is our analysis of the reason for rapid recovery for aftermarket business compared to OEM. In the aftermarket, where you attach our IT Agriculture system onto existing farm machines, as such the demand on relatively small amount of investment is growing. On the other hand, users tend to refrain from big investment such as buying new machines in light of COVID-19 and unforeseen situation due to U.S presidential election and U.S-China friction.

In terms of the forecast from OEM customers, the portion of the firm order is not big while the majorities are subject to change. However, as mentioned above, OEM sales are generally on a recovery trend, and efforts are also being made to cultivate new customers.

Q. [Regional situation](#): What was the unexpected increase in sales by region and sub-segment?

A. North America was the first region to recover from the impact of COVID-19 in Q2, followed by Europe and China. Sales improved mainly at these three areas with more-than-expected sales for aftermarket of IT Construction and IT Agriculture. Other than that, IT Agriculture in Japan has continued to be strong since Q1.

<Eye Care Business >

Q. [Tele-optometry](#): Could you explain in detail, such as actual sales amount, penetration rate, and concrete needs?

A. I'm afraid we cannot disclose the detailed figures at this time. We are expecting further increase in demands for tele-optometry and screening corresponding to social distancing. The societal challenge that we address is increase in eye disease resulting from global population aging. We started the Screening business based on the idea that enabling eye Screening at various places with easier systems is necessary for early detection of eye diseases because there exist only limited numbers of ophthalmologists and hospitals. We have been receiving some positive feedbacks.

Q. [Tele-optometry](#): I have an image that the distance between a doctor and a patient has to be close, but do you think that the world will change in the future so that all examinations can be conducted remotely?

A. We don't believe that methods of detailed visual examination by ophthalmologists using slit lamps will disappear easily. However, as a manufacturer engaged in research and development, we will challenge to develop robotization such as remote diagnosis in future.

Q. [Screening Business](#): How is the shipping status of remaining orders from the chain stores before COVID-19? Has it been cancelled?

A. Although there has been no major progress in the shipment, the situation is gradually improving and we expect the shipment to be done in the second half. We have not lost the orders.

Q. [Inventory adjustments](#): For Eye Care Business, have you completed the inventory adjustments in Q2 and do you expect to become normal in the second half? The plan for the second half looks a little too bullish. Is it mainly due to the positive impact of the normalization of inventories?

A. At the end of the previous fiscal year, the inventories increased due to COVID-19 impact, and we continued production adjustments in Q1 and Q2. This resulted in sluggish performance of Eye Care Business with decline in sales and gross margin ratio. We think it will recover thanks to normalization of production in Q3 and onward. On a consolidated basis, sales in the second half are expected to increase by about 11.0 billion yen from the first half. Production volume will increase thanks to inventory adjustments so far. Operating income is expected to increase by about 4.0 billion yen, as expenses and fixed costs will increase due to sales growth.

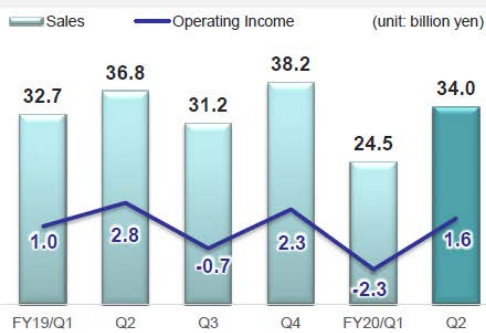
Q. [Earnings forecast](#): I think you receive orders from other than ophthalmologists. I guess those customers' business conditions have considerably affected by COVID-19. Are there any changes in customers' appetite for investment?

A. At the time of the lockdown, not only the hospitals but also the optical stores were completely closed. So, we could not do anything. However, we have not heard of the stories saying optical stores go bankrupt due to deterioration of the businesses as many of them belong to big chains.

# V. Appendix

## Financial Results and Plan (Quarterly)

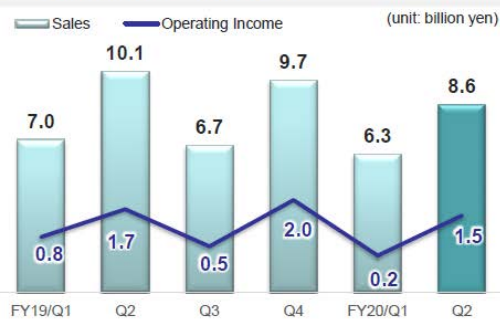
### Consolidated



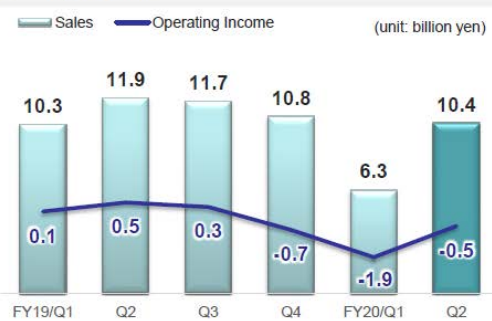
### Positioning



### Smart Infrastructure



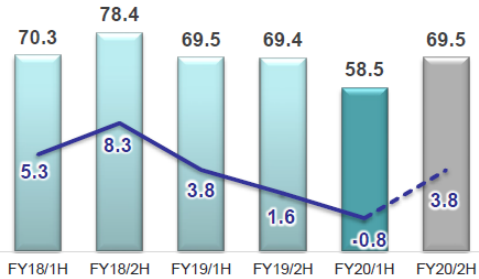
### Eye Care



## Financial Results and Plan (Semiannually)

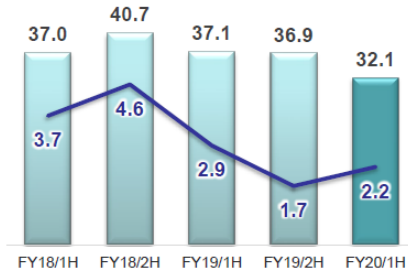
### Consolidated

Sales Operating Income (unit: billion yen)



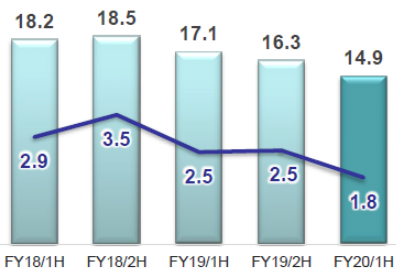
### Positioning

Sales Operating Income (unit: billion yen)



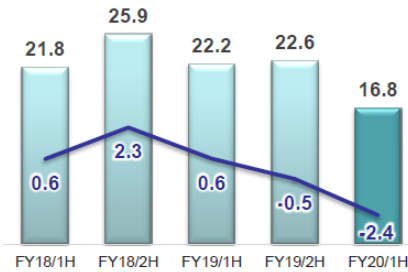
### Smart Infrastructure

Sales Operating Income (unit: billion yen)



### Eye Care

Sales Operating Income (unit: billion yen)



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## Financial Results and Plan (Annually)

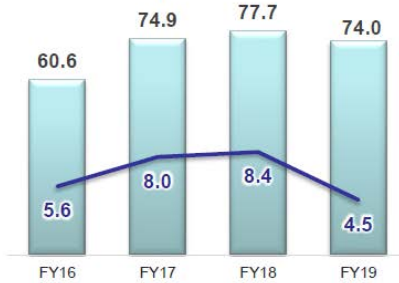
### Consolidated

Sales Operating Income (unit: billion yen)



### Positioning

Sales Operating Income (unit: billion yen)



### Smart Infrastructure

Sales Operating Income (unit: billion yen)



### Eye Care

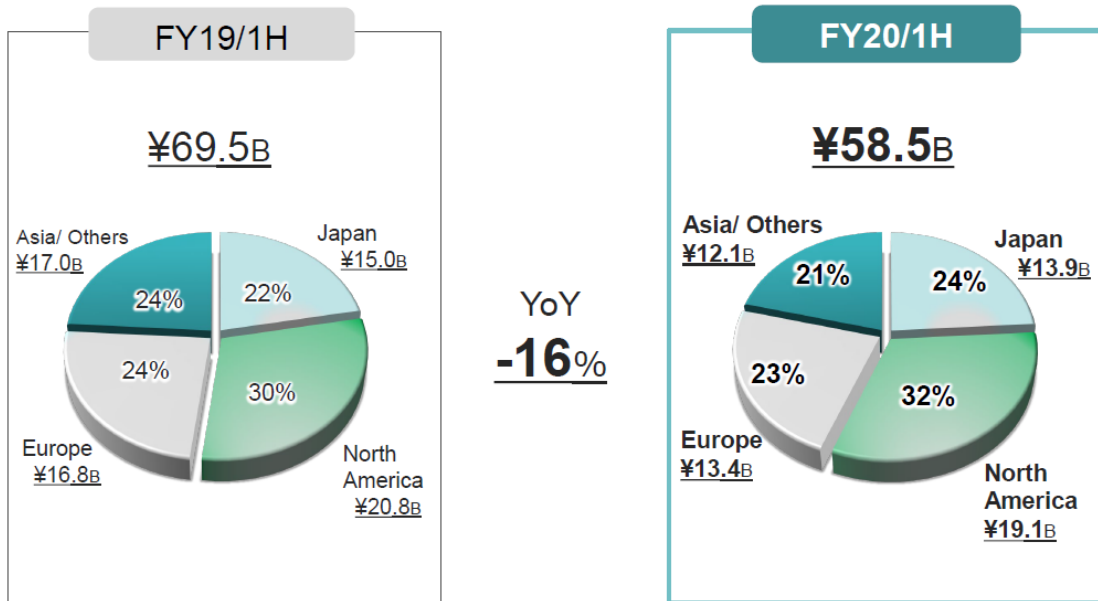
Sales Operating Income (unit: billion yen)



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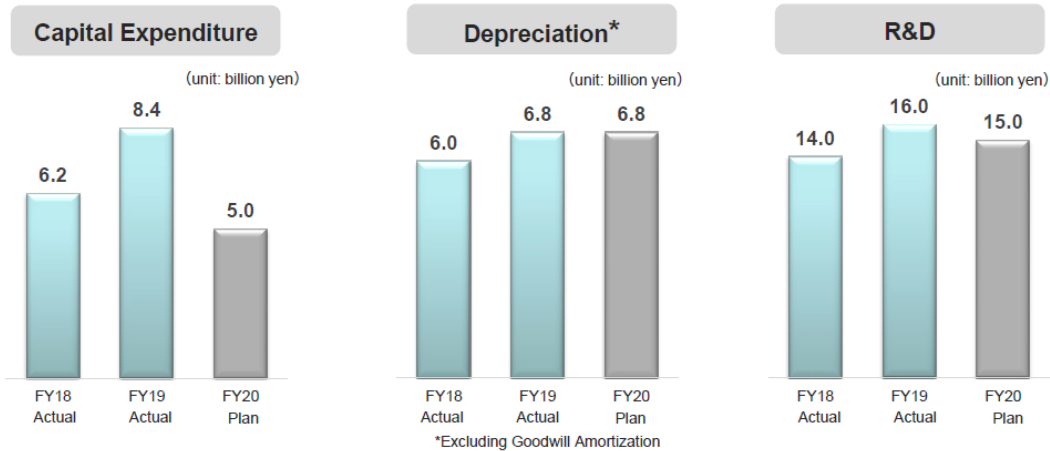
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## Sales by region



## Expenditure and R&D / Forex Sensitivity

### Projections



### Forex Sensitivity (impact by ¥1 change)

USD : Operating Income ¥0.15B - ¥0.2B

EUR : Operating Income ¥0.07B - ¥0.1B