TOPCON CORPORATION

FY2020 Financial Results

May 11, 2021

Event Overview

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Hirano:

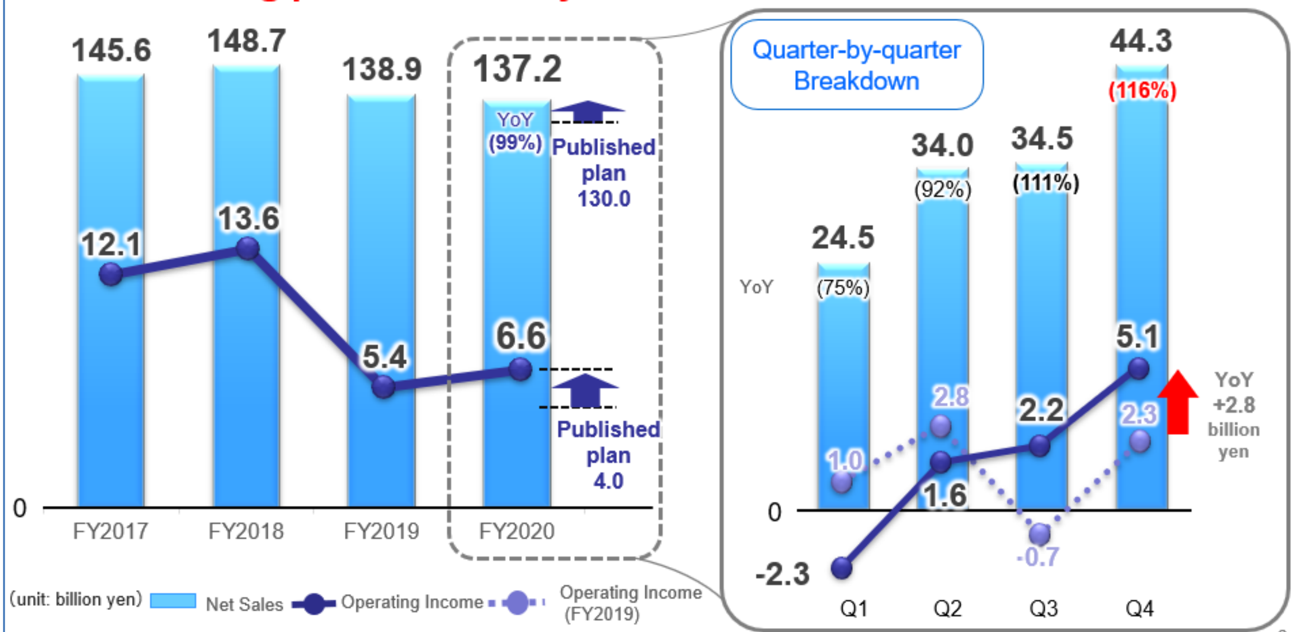
Hello everyone. Thank you very much for taking time to attend today's presentation.

Today, I will report financial results for the FY2020 followed by full year plan for FY2021, topics, and then the summary.

FY2020 Overview

Despite unprecedented COVID-19 pandemic,

- **Increased profit, exceeded the published plan**
  Proved our strength as an Essential Business
- **Q1 was the bottom and turning to profitable in Q2,**
  accelerating pace of recovery in Q3 onward



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This is an overview of our results for FY2020. I remember that I was afraid of the uncertain future when we were facing unprecedented COVID-19 outbreak a year ago and announced our financial results for the FY2019. However, as have been sharing in the past quarterly report, the situation has improved considerably day by day, since then we see definite signs of recovery.

We have been able to maintain such strong performance for the rest of FY2020, and posted increase in operating income YoY despite pandemic. We marked 6.6 billion yen operating income which surpassed previous year's of 5.4 billion yen, also beat the published plan of 4.0 billion yen. I am confident to say that we proved our strength as an Essential Business. In terms of the sales, it was almost flat with 99% YoY.

As the graph on the right shows, sales in Q1 dropped significantly. The sales were the bottom in April, approximately 60% YoY. Then, the sales started to improve gradually, and we marked sales 75% in Q1 followed by 92%, 111%, and 116% YoY respectively from 2nd to 4th quarter. Similarly, the operating income also accelerated the pace of recovery.

FY2020 Overview

Despite unprecedented COVID-19 pandemic,

- **Improved financial base**

Cash generation Generated a record-high cash of ¥19.4 billion

	FY2019	FY2020	YoY
Operating Cash Flow	¥7.9B	¥19.4B	+11.5B

Reduction of Interest-bearing liabilities Significant improvement in financial metrics, even under COVID-19

	FY2019	FY2020	YoY
Interest-bearing liabilities	¥57.4B	¥53.0B	-¥4.4B
D/E Ratio	0.91	0.76	-0.15

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Here is another overview in terms of balance sheet. We were able to improve our financial base despite COVID-19 pandemic. We generated 19.4 billion yen of operating cash flow, an improvement of 11.5 billion yen over FY2019.

The biggest contribution came from inventory reduction. When we first faced the unprecedented COVID-19, we were deeply concerned about financial embarrassments, however it turned out to be unnecessary anxiety. We are pleased to report that we finally generated record high cash flow.

FY2020 Financial Results

Increase in profit, exceeding published plan and hiking dividend

(unit: million yen)

		FY2019	FY2020			
		Actual	**Actual**	YoY	%	Announced on Jan. 29
Net Sales		138,916	**137,247**	-1,669	-1%	130,000
Gross Profit (Gross Profit Ratio)		72,632 (52.3%)	**67,895 (49.5%)**	-4,737		
SGA		67,251	**61,301**	-5,950		
Operating Income (Operating Income Ratio)		5,381 (3.9%)	**6,593 (4.8%)**	1,212	+23%	4,000 (3.1%)
Non-Operating Income (Expenses)		-2,486	**-1,006**	1,480		
Ordinary Income		2,895	**5,587**	2,692	+93%	2,000
Extraordinary Income (Loss)		17	**-667**	-684		
Income Before Income Taxes and Minority Interests		2,912	**4,919**	2,007		
Net Income		935	**2,376**	1,440	+154%	500
ROE		1.4%	**3.6%**			1%
Dividends		¥24	**¥10**			¥5
Payout Ratio		271%	**44%**			
Exchange Rate (Average)	USD	¥109.10	¥106.17	-¥2.93	(Assumed FX rate for 4Q)	¥105
	EUR	¥121.14	¥123.73	+¥2.59		¥123

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The Ordinary income improved significantly to 5.6 billion yen from the published plan of 2 billion yen, and the net income also increased almost 5 times from published plan of 0.5 billion yen to 2.4 billion yen. Based on these results, we’re projecting to increase the annual dividend from 5 yen to 10 yen.

FY2020 Financial Results by Business

- **Increase in sales for all business segments in Q4 alone**
- **Positioning Company and Smart Infrastructure Business drive profitability**

(unit: million yen)

		Q4 Actual			YTD Actual			
		FY2019	FY2020	YoY%	FY2019	FY2020	YoY	%
Net Sales	Positioning	21,443	22,357	+4%	73,989	71,416	-2,573	-3%
	Smart Infrastructure	9,689	10,179	+5%	33,398	33,982	584	+2%
	Eye Care	10,815	15,275	+41%	44,758	44,251	-507	-1%
	Others	279	329	+18%	1,319	1,165	-154	-12%
	Elimination	-4,037	-3,881		-14,549	-13,568	981	
	Total	38,191	44,257	+16%	138,916	137,247	-1,669	-1%
Operating Income (Operating Income Ratio)	Positioning	2,121 (9.9%)	2,978 (13.3%)	+40%	4,537 (6.1%)	6,064 (8.5%)	1,527	+34%
	Smart Infrastructure	2,042 (21.1%)	2,029 (19.9%)	-1%	5,027 (15.1%)	4,972 (14.6%)	-55	-1%
	Eye Care	-734 (-6.8%)	1,332 (8.7%)	Turns profitable	136 (0.3%)	122 (0.3%)	-14	-10%
	Others	-51 (-18.3%)	-196 (-59.6%)	-	-144 (-10.9%)	-536 (-46.0%)	-392	-
	Elimination	-1,058	-1,005		-4,175	-4,028	147	
	Total	2,319 (6.1%)	5,138 (11.6%)	+122%	5,381 (3.9%)	6,593 (4.8%)	1,212	+23%

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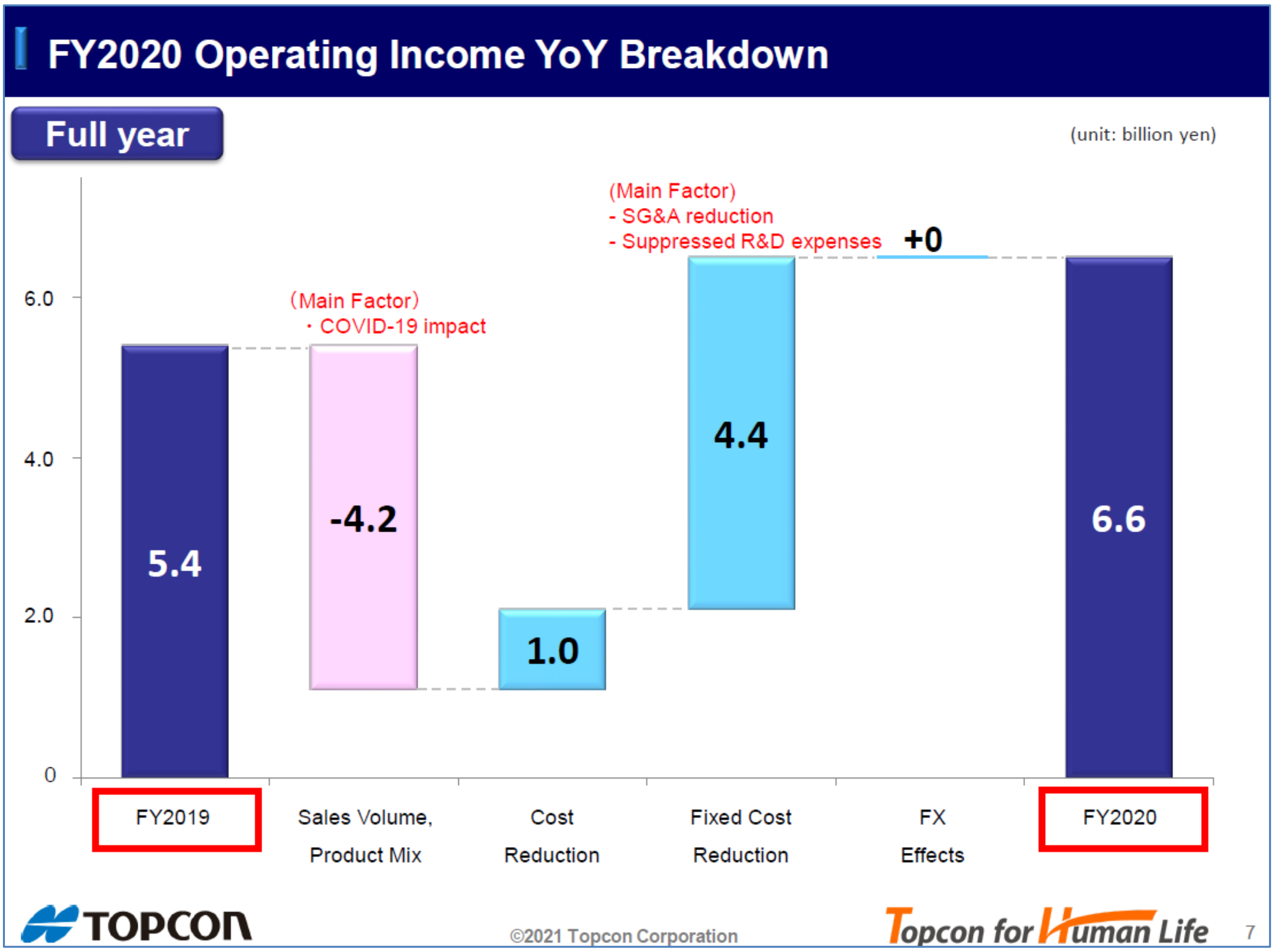
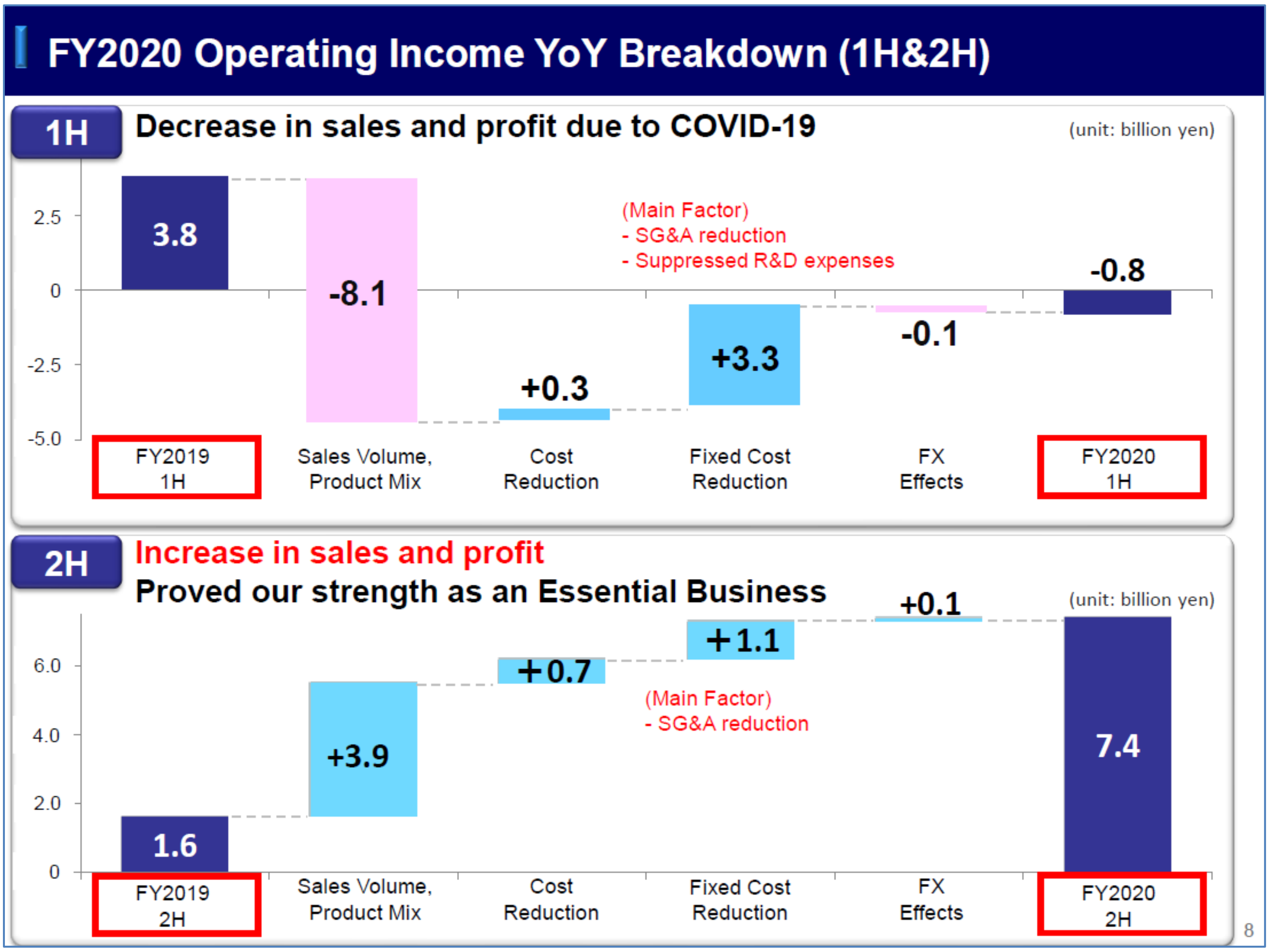
Here are the detailed figures by business segments. All businesses increased in sales in Q4 alone. Positioning Company and Smart Infrastructure Business drove profitability. I will explain in detail later.



Next is an analysis of operating income YoY.

Compared to FY2019 results of 5.4 billion yen, operating income increased 1.2 billion yen to 6.6 billion yen. Sales volume and product mix accounted for negative 4.2 billion yen, mainly by the negative impact of COVID-19. Cost reduction and fixed cost reduction contributed for positive 1.0 billion yen and 4.4 billion yen, respectively.

It looks like profit increase was achieved because sluggish sales were offset by fixed cost reduction. However, it does not explain the actual situation properly. Let me explain it by half year base in the next slide.



First half:

Compared to 1H of FY2019, operating income fell by 4.6 billion yen to negative 0.8 billion yen. Sales volume and product mix accounted for negative 8.1 yen. Cost reduction and fixed cost reduction accounted for negative 0.3 billion yen and 3.3 billion yen, respectively. FX effects were negative 0.1 billion yen.

Second half:

Compared to 2H of FY2019, operating income increased significantly by 5.8 billion yen to 7.4 billion yen. Sales Volume and product mix accounted for positive 3.9 billion yen. Cost reduction and fixed cost reduction accounted for positive 0.7 and 1.1 billion yen, respectively. Fixed cost reduced mainly due to decrease in SG&A expenses, such as travel expenses. FX effects were positive 0.1 billion yen.

Following the negative profit due to declining sales in 1H by COVID-19 pandemic, we gained large profits from strong sales in 2H.

Ⅰ. FY2020 Financial Results

Ⅰ-1. FY2020 Financial Results

Ⅰ-2. Overview of Each Business

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Next, I will discuss our results by business segment.

Overview of Each Business

Positioning

Significant increase in profit despite sales decrease

(unit: million yen)

	FY2019	FY2020				
	Full year actual	Actual 1H	Actual 2H	Actual Full year	YoY	%
Net Sales	73,989	32,141	39,276	**71,416**	-2,573	-3%
Operating Income (Operating Income Ratio)	4,537 (6.1%)	2,157 (6.7%)	3,907 (9.9%)	**6,064 (8.5%)**	1,527	+34%
Exchange Rate (Average) USD	¥109.10	¥106.68	¥105.60	¥106.17	-¥2.93	
Exchange Rate (Average) EUR	¥121.14	¥121.36	¥126.15	¥123.73	+¥2.59	

Review of FY2020 Financial Results

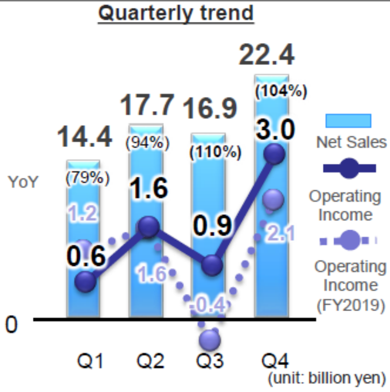
Overall
- Recovery from 2Q onward due to not only the strength as an Essential Business but also solid demand in the U.S. and Europe
- Achieved significant increase in profit thanks to cost containment, despite slight decrease in sales

IT Construction
- Aftermarket: Sales turned to positive YoY in Q3 and positive trend continues
- OEM: Sales recovered sharply since Q3 and annual sales ended up almost the same level as previous year

IT Agriculture
- Aftermarket: Significant sales growth thanks to strong investment appetite of farmers in the wake of rising crop prices
- OEM: Recovery trend from Q3 onward

Surveying and laser products
- Buoyant housing construction market in the U.S. and Europe due to increase of relocation demands to suburbs amid COVID-19

Quarterly trend



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These are the results of Positioning Company. There was significant increase in operating income, 6.1 billion yen, +34% YoY, despite slight sales decrease for full year.

Here we show the breakdown of sales and operating income by quarter on the bottom right. Despite significant sales decline in Q1 YoY with 79% YoY, the sales have been on a recovery trend since Q2 onward with 94%, 110%, and 104% YoY in each following quarter.

Overall, we proved our strength as an Essential Business and recovered sales since Q2 thanks to solid demands in the U.S. and Europe. Despite slight decrease in sales for full year, we achieved large increase in operating income primarily due to higher cost controls.

The aftermarket sales for IT Construction continued to be strong exceeding the previous year’s result since Q3, while OEM sales improved significantly from Q3 and recovered to the same level of sales as the previous year for the full year.

The aftermarket sales for IT Agriculture expanded significantly due to a recovery in farmers' sentiment led by higher crop prices. In terms of OEM sales, recovery trends continue since Q3 while OEM sales was yet to reach the same level as the previous fiscal year.

With regard to surveying and laser sales, as have seen in Japan, demands/trends of migration to a rural area increased in the U.S. and Europe due to COVID-19 that jerk up the demand of new housing construction. Our surveying and laser products are used for those construction works, thus sales are growing rapidly.

Overview of Each Business — Smart Infrastructure

Secured previous year's level in both sales and profit

(unit: million yen)

		FY2019	FY2020				
			Actual				
		Full year actual	1H	2H	Full year	YoY	%
Net Sales		33,398	14,886	19,096	**33,982**	584	+2%
Operating Income (Operating Income Ratio)		5,027 (15.1%)	1,777 (11.9%)	3,195 (16.7%)	**4,972 (14.6%)**	-55	-1%
Exchange Rate (Average)	USD	¥109.10	¥106.68	¥105.60	¥106.17	-¥2.93	
	EUR	¥121.14	¥121.36	¥126.15	¥123.73	+¥2.59	

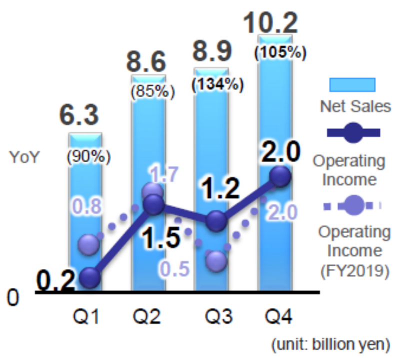
Review of FY2020 Financial Results

Overall
- Driven by domestic sales, where COVID-19 impact was limited
- Sluggish sales continues in Southeast Asia since it bottomed out

Japan
- i-Construction: Sales maintained at the same level YoY even under COVID-19
  Strong sales of 3D Layout Navigator "LN-150"
- IT Agriculture: Significant sales increase due to expansion of automation demand helped by subsidy effect

The U.S. and Europe
- Strong laser sales in the U.S. and Europe

Quarterly trend



Turning now to the Smart Infrastructure Business. Both sales and operating income secured previous year's level. Despite COVID-19, both sales and operating income were at the same level as the previous FY, and the OP margin was the highest among three businesses with 14.6%.

By quarter, sales declined in Q1 and Q2 YoY, but operating income remained at similar level YoY. Sales increased significantly in Q3 and remained steady in Q4, reflecting strong demands mainly from sales in Japan where the impact of COVID-19 was limited.

On the other hand, the economy in Southeast Asia is still heavily sluggish. Although there are some signs of recovery, it is still slow. The weak performance in Southeast Asia was offset by favorable demands in Japan, the U.S., and Europe.

In Japan, demands for i-Construction continued to be strong, and the timely launch of new products also contributed to the strong sales.

IT Agriculture sales in Japan increased thanks to not only the government subsidies to support the farmers but also the growing demands for automation technology.

Overview of Each Business

Eye Care

- **Sharp recovery in Q3 onward by living with COVID-19 environment, secured profit on full year base**

(unit: million yen)

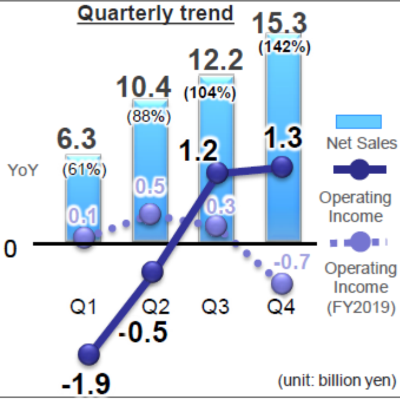
		FY2019	FY2020				
			Actual				
		Full year actual	1H	2H	Full year	YoY	%
Net Sales		44,758	16,785	27,466	**44,251**	-507	-1%
Operating Income (Operating Income Ratio)		136 (0.3%)	-2,388 (-14.2%)	2,509 (9.1%)	**122 (0.3%)**	-14	-10%
Exchange Rate (Average)	USD	¥109.10	¥106.68	¥105.60	¥106.17	-¥2.93	
	EUR	¥121.14	¥121.36	¥126.15	¥123.73	+¥2.59	

Review of FY2020 Financial Results

Overall
- Sharp recovery from serious COVID-19 impact in 1H
- Sales hit a **record high in Q3 and Q4**, respectively
- Secured profit on full year base

The U.S. and Europe
- Tele-optometry system: Sharp sales growth thanks to digital and remote technologies
- Screening business: Demands from major optical chain stores have recovered Sales of 3D OCT continue growing

China
- The market is normalized. Significant sales growth thanks to reorganization of our distribution network



Eye Care business suffered from the COVID-19. However, it recovered sharply from Q3 onward and posted a full year profit.

Sales hit the bottom in April and recovered somewhat in May and June in Q1. The quarterly sales were 61% YoY and operating loss was 1.9 billion yen as shown in the quarterly chart. Sales in Q2 were on a recovery trend at 88% YoY, but we still lost 0.5 billion yen.

Sales were 104% and 141% YoY in Q3 and Q4, respectively, and both were record highs in each quarter. Operating income were 1.2 billion yen and 1.3 billion yen, respectively. We then finally secured a profit for the full year by eliminating the deficit in 1H.

Specifically, in the U.S. and European markets, sales of optometry systems rose rapidly due to our remote features. With regard to the Screening Business, OCT sales expanded while demands from major optical chain stores are coming back.

In China, the markets have already returned to normal. We could record a substantial increase in sales for the full year thanks to the reorganization of our distribution network.

Ⅱ. FY2021 Full Year Plan

Ⅱ-1. Effect on the Third Mid-term Business Plan

Ⅱ-2. FY2021 Full Year Plan

Ⅱ-3. Strategic Plans for Each Business

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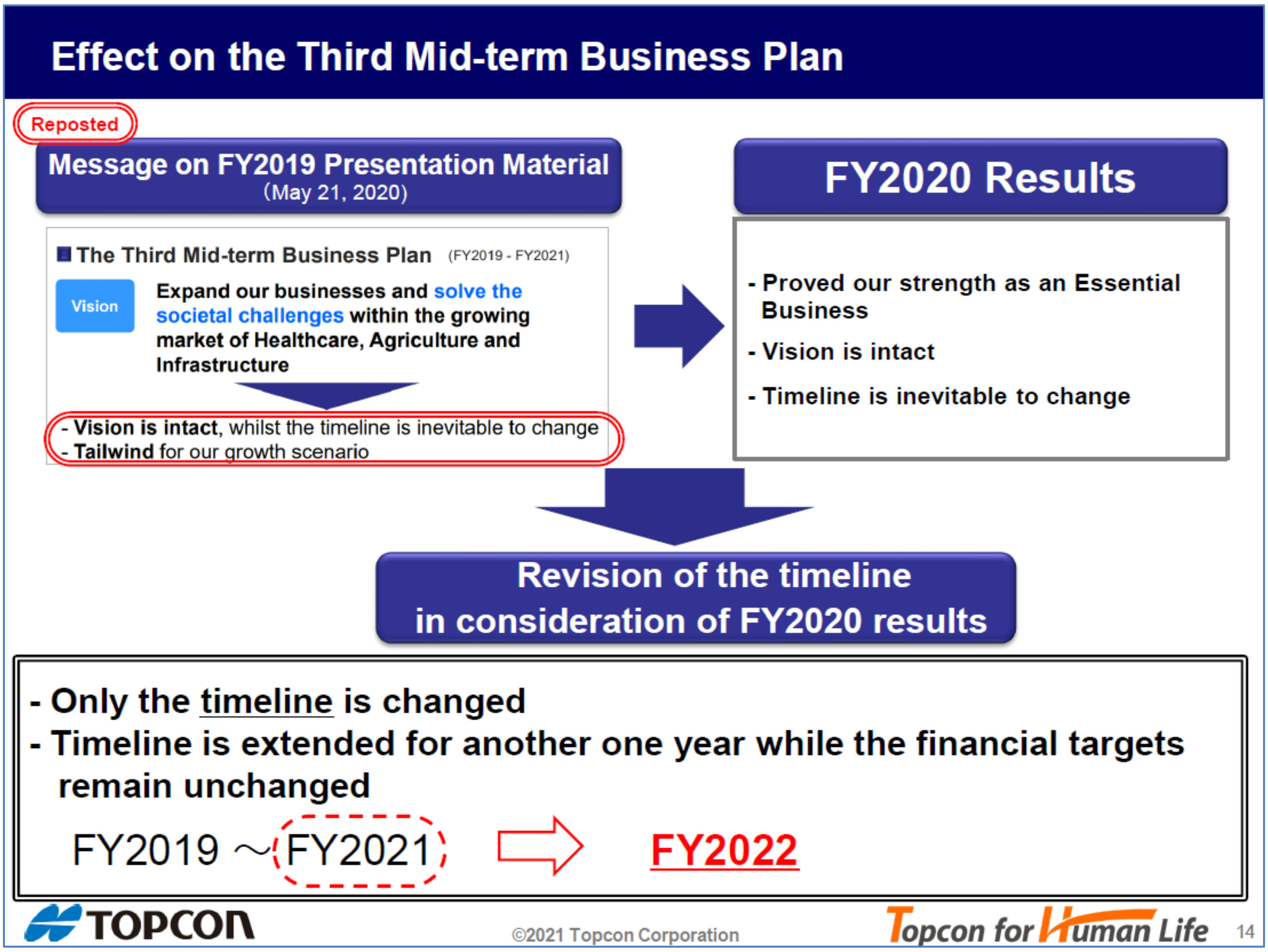
Next, let me explain our full year plan for FY2021 in the following order: “Effect on the Third Mid-term Business Plan”, “FY2021 Full Year Plan”, and finally “Strategic Plans for Each Business”.



As you may remember, FY2021 is the final year of our current Mid-term Business Plan. Here, on the upper left, we have reposted a slide that we showed you in FY2019 annual results presentation material on May 21, 2020. We stated that “Vision is intact, whilst the timeline is inevitable to change.”

Looking at FY2020 results, we proved that our vision is intact, it was underpinned by our strength as an Essential Business. At the same time, we also have to recognize that the impact on timeline is inevitable.

Therefore, although our current Mid-term Business Plan period will end in FY2021, we decided to extend it for another one year in order to successfully conclude the Plan, in light of FY2020 results of increase in operating income despite COVID-19, and the fact that “vision is intact, whilst the timeline is inevitable to change.” In other words, we will only change the timeline to extend the period for one year with leaving the financial targets unchanged.

Ⅱ. FY2021 Full Year Plan

Ⅱ-1. Effect on the Third Mid-term Business Plan

Ⅱ-2. FY2021 Full Year Plan

Ⅱ-3. Strategic Plans for Each Business

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Next, I will provide the full year plan.

First, let me touch on the macro outlook for our business environment. We're expecting robust growth in construction and agriculture economy as both are essential businesses, supported by vigorous demands in infrastructure investments and strong grain markets. Meanwhile, we are concerned about possible risks such as movement restrictions from resurgence of the infections due to the delay of COVID-19 vaccinations, especially in Japan and Asia. Semiconductor shortages could be another possible risk. Therefore, the overall outlook remains uncertain.

Concerning the business outlook by segment, in addition to buoyant U.S. housing construction market, the infrastructure investment initiative ($2 trillion budget over 8 years) is a tailwind for Positioning Company. In Europe, there are concerns that the impact of COVID-19 will be prolonged, but we expect that the impacts on the construction industry will remain limited. Furthermore, we expect farmers' appetite for capital investment is given impetus globally thanks to strong grain markets.

The Smart Infrastructure Business is expected to benefit from Japan's National Resilience Program and growing numbers of i-Construction works. For IT Agriculture, we assume steady demands for Auto Steering System will continue in Japan, which have expanded due to subsidies effect last year. Although it has been still sluggish in Asia, we expect a moderate recovery from COVID-19 impact.

There is still uncertainty in the Eye Care Business due to movement restrictions from resurgence of COVID-19 infections. However, at the same time, we reckon demands for tele-optometry system corresponding to social distancing will continue. Also, further growth can be expected in China.

FY2021 Full Year Plan

Investments for further growth

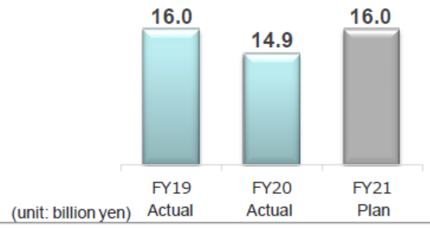
Making strategic investments in light of post COVID-19 growth

Strengthening to drive businesses

- Increasing sales force to capture the growing demands for IT Construction and IT Agriculture
- Recruiting capable personnel to promote “DX construction business”
- Strengthening monetization models to accelerate Screening Business

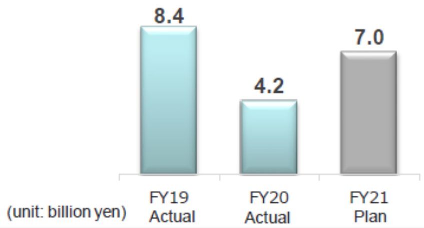
R&D investment

- Re-acceleration of R&D investment in light of post COVID-19growth; enhancing development speed for next-generation strategic products, mainly for Positioning and Smart Infrastructure Business



Capital expenditure

- Construction of a new factory in Europe (Positioning)
- Relocation and expansion of test site in the U.S. (Positioning)
- Reinforce logistics structure in Europe (Eye Care)



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We will talk about investments for future growth.

We were not able to make any overseas business trips, nor conduct any new business developments in FY2020. In FY2021, we will be making active investments along with growing sales in order to achieve the financial targets that has been extended for a year.

Regarding strengthening to drive businesses, we will increase sales force to capture the growing demands for IT Construction and IT Agriculture. Sales staff shortages have become more evident while demands are expanding

Also, we will grow DX for building construction business as a new pillar. We will diligently recruit qualified personnel who are familiar with this field. Moreover, we will strengthen our monetization models to accelerate Screening Business in the Eye Care Business.

Concerning R&D investment, we continue to invest in software development for Eye Care Business, on top of that, we will accelerate development investments for the Positioning Company and Smart Infrastructure Business.

With regard to capital expenditure, we will construct a new factory in Germany, where various displays’ units for construction and farming machinery are manufactured to cope with capacity shortage in the wake of growing demand.

We will also relocate and expand our test site in the U.S. to meet new demands. In addition, we aim to improve OP margin by reinforcing logistics structure in Europe for the Eye Care Business.

In FY2021, we will make aggressive investments in line with the sales growth and focus on how we can attain the target for the final year of our Mid-term Business Plan ending March 2023.

FY2021 Full Year Plan

Expect sales and profit growth with dividend increase

(unit: million yen)

	FY2020	FY2021	
	Full Year Actual	Full Year Plan	YoY (%)
Net Sales	137,247	149,000	+9%
Operating Income (Operating Income Ratio)	6,593 (4.8%)	10,000 (6.7%)	+52%
Ordinary Income	5,587	8,000	+43%
Net Income	2,376	5,000	+110%
ROE	3.6%	7%	
Dividends	¥10	¥20	
Payout Ratio	44%	42%	
Exchange Rate (Average) USD	¥106.17	¥108.00	
Exchange Rate (Average) EUR	¥123.73	¥128.00	

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Here are the detailed figures for the full year plan.

In FY2021, we're projecting net sales of 149 billion yen, operating income of 10.0 billion yen, ordinary income of 8.0 billion yen, net income of 5.0 billion yen, ROE of 7%, dividend increase from 10 yen to 20 yen, and dividend payout ratio of 42%. Therefore, we expect positive YoY growth both in sales and profit with dividend increase.

FY2021 Full Year Plan

Expect sales and profit growth for all businesses

(unit: million yen)

		FY2020	FY2021	
		Full Year Actual	Full Year Plan	YoY (%)
Net Sales	Positioning	71,416	78,000	+9%
	Smart Infrastructure	33,982	36,000	+6%
	Eye Care	44,251	50,000	+13%
	Others	1,165	1,000	-14%
	Elimination	-13,568	-16,000	
	Total	137,247	149,000	+9%
Operating Income (Operating Income Ratio)	Positioning	6,064 (8.5%)	7,000 (9.0%)	+15%
	Smart Infrastructure	4,972 (14.6%)	5,000 (13.9%)	+1%
	Eye Care	122 (0.3%)	2,500 (5.0%)	+1,949%
	Others	-536 (-46.0%)	-300 (-30.0%)	-
	Elimination	-4,028	-4,200	
	Total	6,593 (4.8%)	10,000 (6.7%)	+52%

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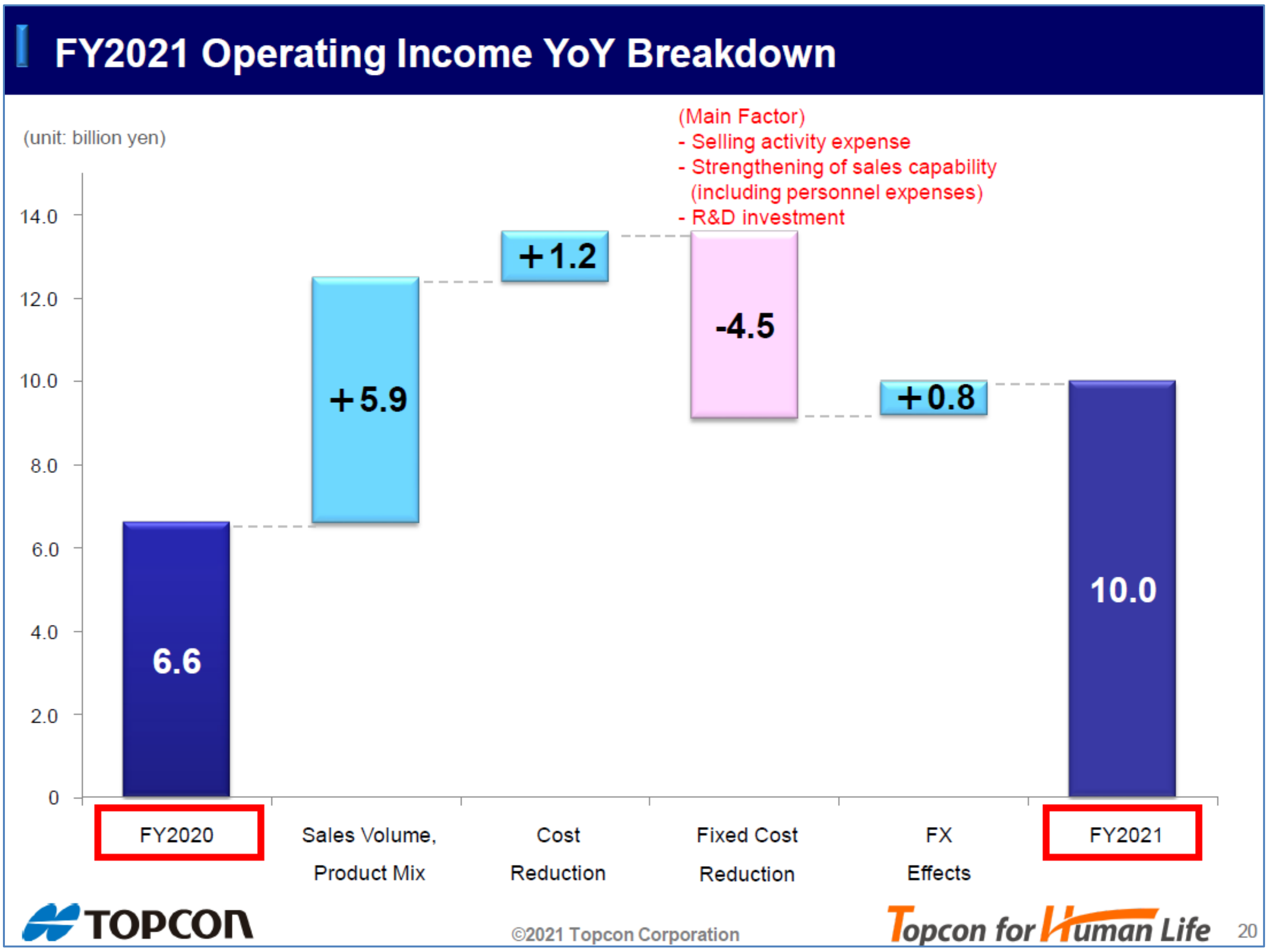
Here are the detailed figures by business segment. We expect sales and profit growth in all businesses.

Especially in the Eye Care Business, we're projecting substantial improvement in operating income from 122 million yen to 2.5 billion yen. We're expecting to achieve this income projection as we saw significant sales growth in Q3 and Q4 in FY2020.



Next is a YoY analysis of operating income.

The breakdown of positive 3.4 billion yen, increase in operating income from 6.6 billion yen in FY2020 to 10.0 billion yen in FY2021 are as follows;

sales volume and product mix account for positive 5.9 billion yen, cost reduction accounts for positive 1.2 billion yen, fixed cost mainly planned for personnel expense to strengthen sales capability and R&D investment accounts for negative 4.5 billion yen, and FX effects is positive 0.8 billion yen.

Ⅱ. FY2021 Full Year Plan

Ⅱ-1. Effect on the Third Mid-term Business Plan

Ⅱ-2. FY2021 Full Year Plan

Ⅱ-3. Strategic Plans for Each Business

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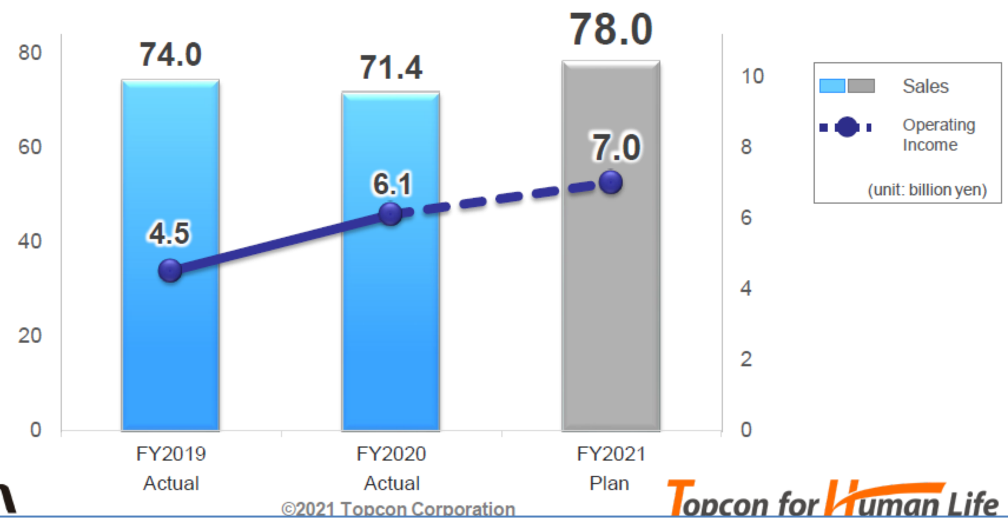
Next, I will explain our strategic plans for each business to achieve the full year plan.

Strategic Plans

Positioning

- **Steady demands continue as an Essential Business**
  - Construction: The market is back to normal economic cycle out from the passing COVID-19 crisis
  - Agriculture: Rising market sentiment thanks to high crop prices
- **Capture new business opportunities from increasing infrastructure investments for economic restoration**
  - IT Construction: Aggressively capturing new demands
- **Investments to strengthen sales capabilities looking at FY2022**
  - Enhancement of sales structure to meet the increasing demands for IT Construction and IT Agriculture



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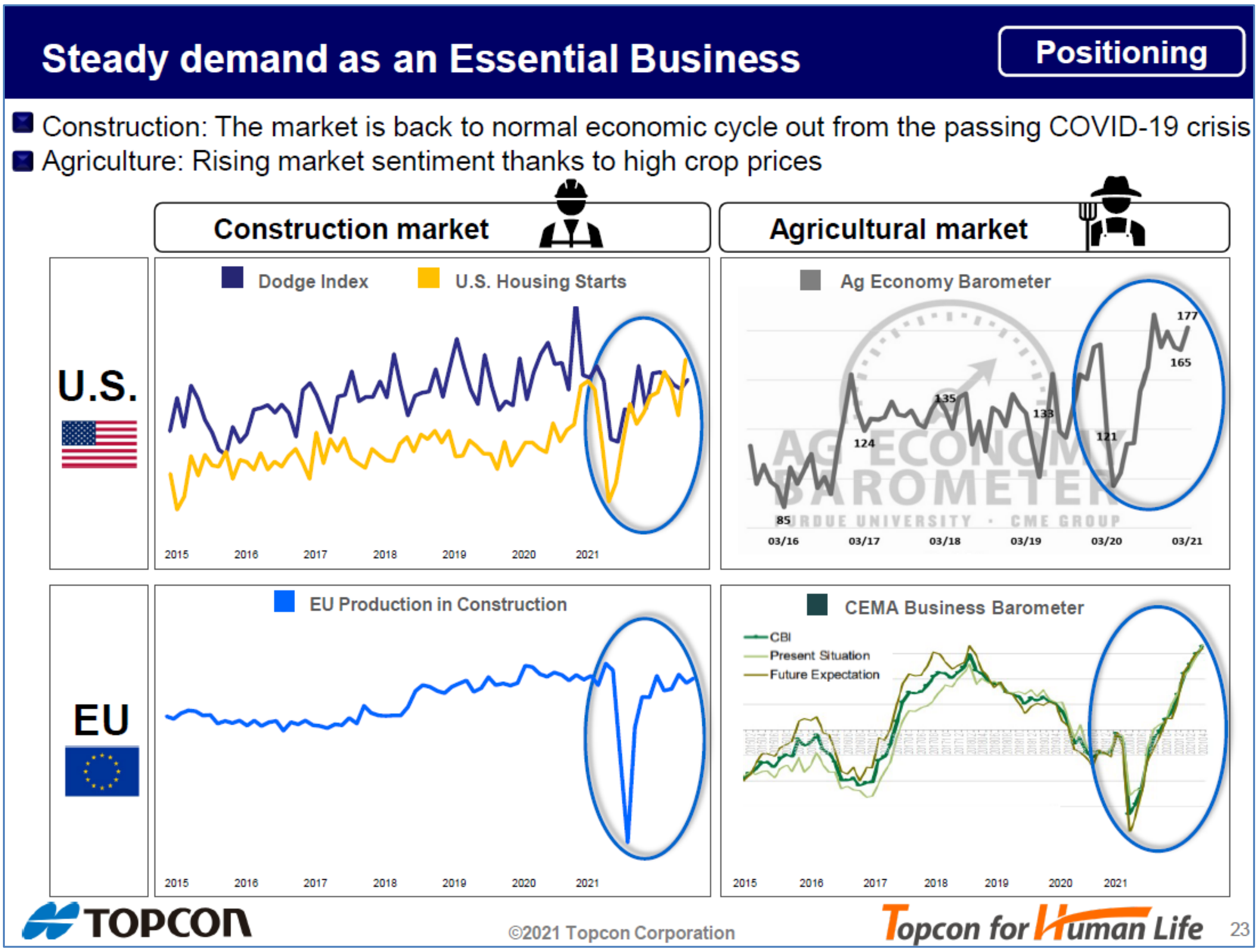
I will start with the Positioning Company. Steady demands continue as an Essential Business. In addition, we will strive to capture new business opportunities from increasing infrastructure investments for economic restoration, as well as make investments to strengthen sales capabilities looking at FY2022.

We're projecting net sales of 78.0 billion yen and operating income of 7.0 billion yen.



Now I would like to explain the background of my previous statement of there are steady demands as an essential business. The construction market is back to normal economic cycle out from the passing COVID-19 crisis. For the agricultural market, the market sentiment is rising thanks to high crop prices.

Here we provide “Dodge Index” and “U.S. Housing Starts” for the U.S. construction market, and “EU Production in Construction” for EU construction market as general market indicators. We would say that construction markets in both regions have completely recovered from the decline caused by COVID-19.

The agricultural market is also in uptrends. Thus, we expect favorable business growth.

Capture new business opportunities from increasing infrastructure investments for economic restoration

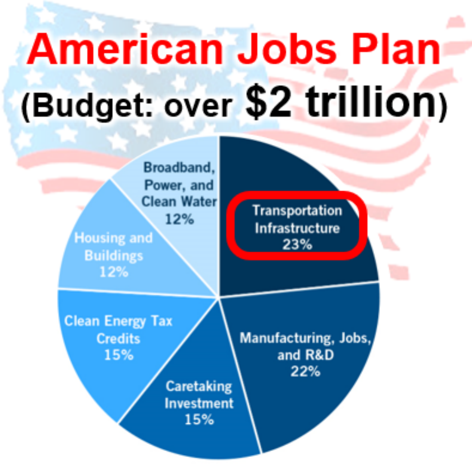
Positioning

IT Construction: Aggressively capturing new demands

U.S. infrastructure package

American Jobs Plan

(Budget: over $2 trillion)



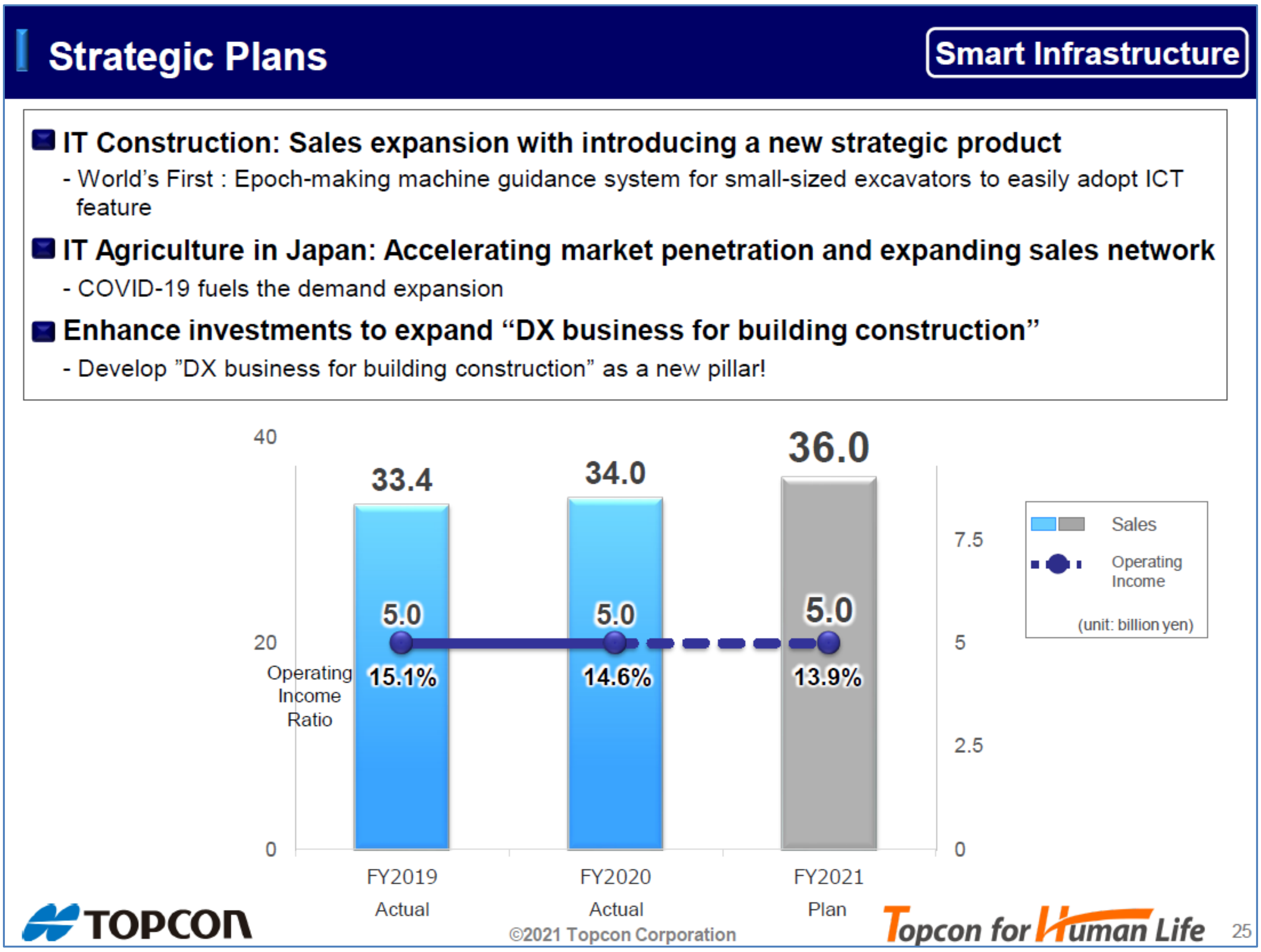
Expecting increase of public works
such as reworks of aging roads and bridges

Source: https://www.pgpf.org/blog/2021/04/what%E2%80%99s-in-bidens-infrastructure-plan-and-how-he-proposes-paying-for-it

IT Construction contributes for PRODUCTIVITY IMPROVEMENTS and LABOR SAVINGS

Photos of IT Construction at road construction sites

I would like to explain this slide next. There is a large budget for infrastructure investment in the U.S. The scale of investment is over 2 trillion dollars for 8 years for public investment, and our IT Construction solutions perfectly meet the demands for productivity improvements and labor savings. We will aggressively capture new demands to increase the sales for IT Construction.



Next is the strategic plans for the Smart Infrastructure Business. We plan to expand the sales by launching a new strategic product for IT Construction. With regard to IT Agriculture in Japan, we will accelerate market penetration and expand sales network. In terms of investments, we will enhance investments to expand “DX business for building construction”.

We're projecting net sales of 36.0 billion yen and operating income of 5.0 billion yen.

IT Construction : Sales expansion with introducing a new strategic product

Smart Infrastructure

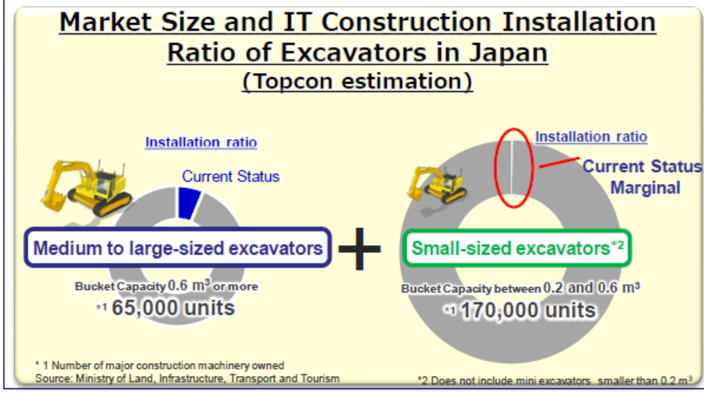
■ **World's First : Epoch-making machine guidance system for small-sized excavators to easily adopt ICT feature**

✓ **Reasonably priced**
3D machine guidance system suited for small-sized excavators to facilitate IT Construction

✓ Using our widely prevalent "LN-150 (layout navigator)" as the positioning sensor

Domestic Excavator Market

Large growth potential for small sized machine



Aiming to expand overseas market

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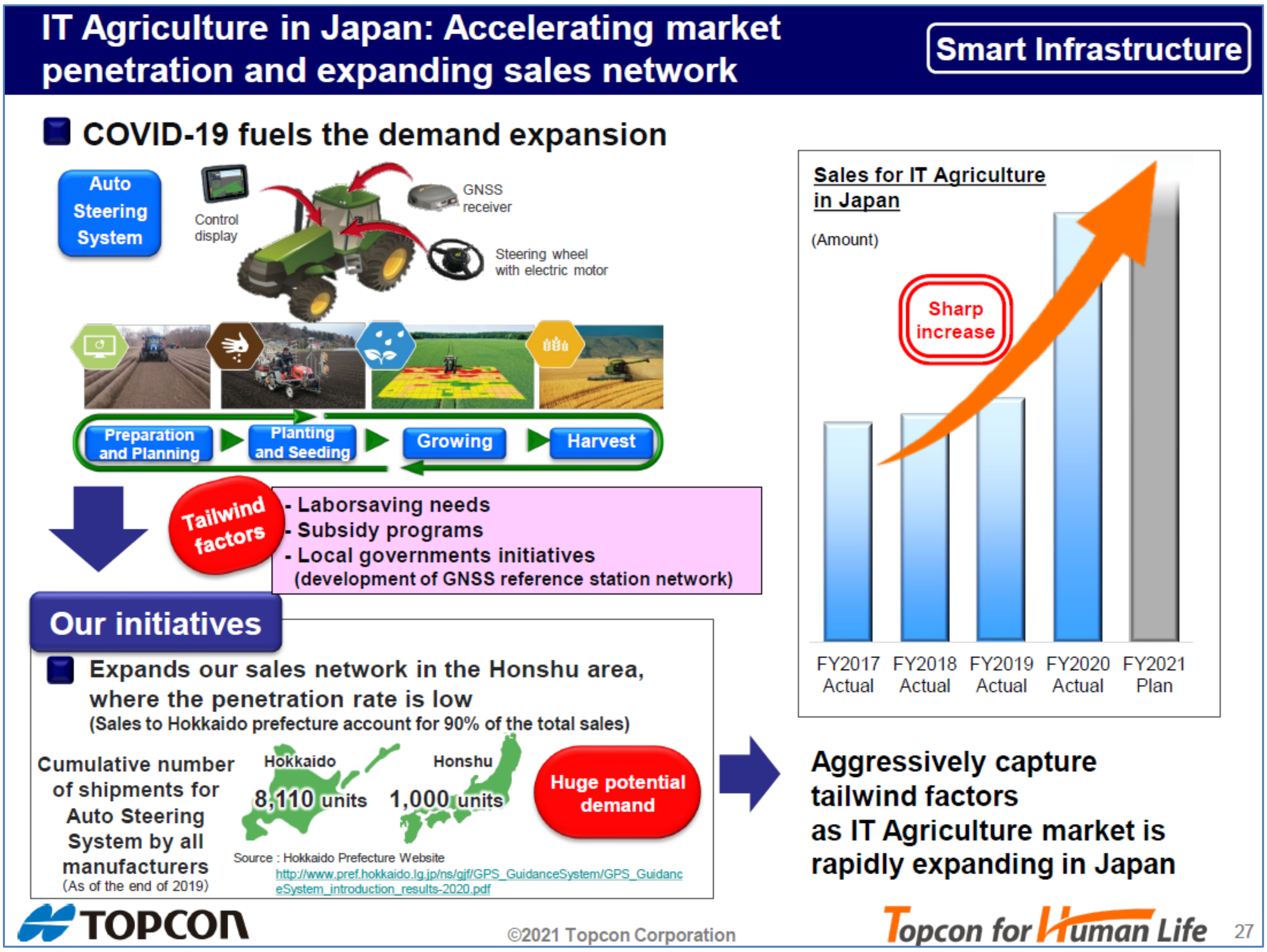
First of all, I will explain a new strategic product for IT Construction. We launched the epoch-making Machine Guidance system that facilitates ICT features for small-sized excavators at the end of last year. We start full-scale sales from this year and earned a good reputation so far.

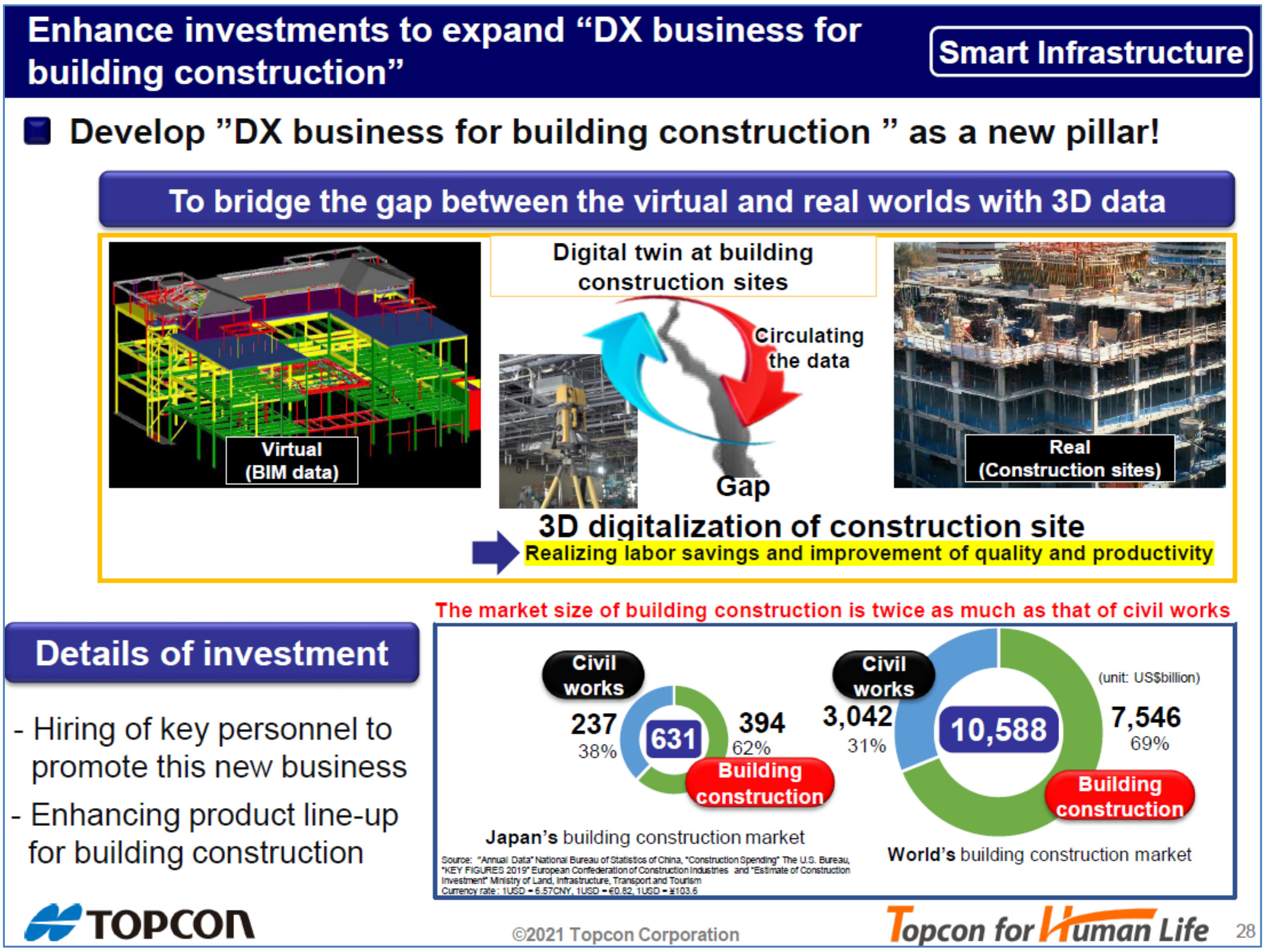
Let me explain the scale of demands. ICT feature for excavators have been primarily targeted at medium to large-sized machinery. As the graph shows, the Japanese market for these excavators is about 65,000 units. On the other hand, the market for small-sized excavators is 170,000 units, which is three times of medium to large-sized excavators. Currently, the penetration (installation) ratio is still low for medium to large-sized machinery. In terms of small-sized, the ratio is actually close to zero.

This product is targeting at the small-sized excavators' market, and we receive good reputation. We focus to expand the sales in Japan first, then aim to expand into overseas market.



I will talk about IT Agriculture business in Japan next. Our Auto Steering System can be retrofitted to any farm machinery regardless of model or manufacturer. In addition, the system can be widely used among various types of machinery depending on the purposes utilizing its shared-use feature.

Agriculture industry in Japan is rapidly aging. Therefore, there are critical needs for labor-saving technology. In addition, some local governments actively support for spreading IT technologies for the industry. Also, the Government subsidies help to grow IT Agriculture market in Japan. As the graph on the right shows, sales for IT Agriculture in Japan increased dramatically in FY2020. We aim for further growth by taking advantage of these tailwind factors.



Finally, I would like to discuss how we will develop “DX business for building construction” as a new pillar for Smart Infrastructure Business. There is a huge gap between the virtual world and real world. Topcon will connect each world using our hardware and software technologies to realize the digital twin for building construction sites. This solution has been already started to be used at building construction sites.

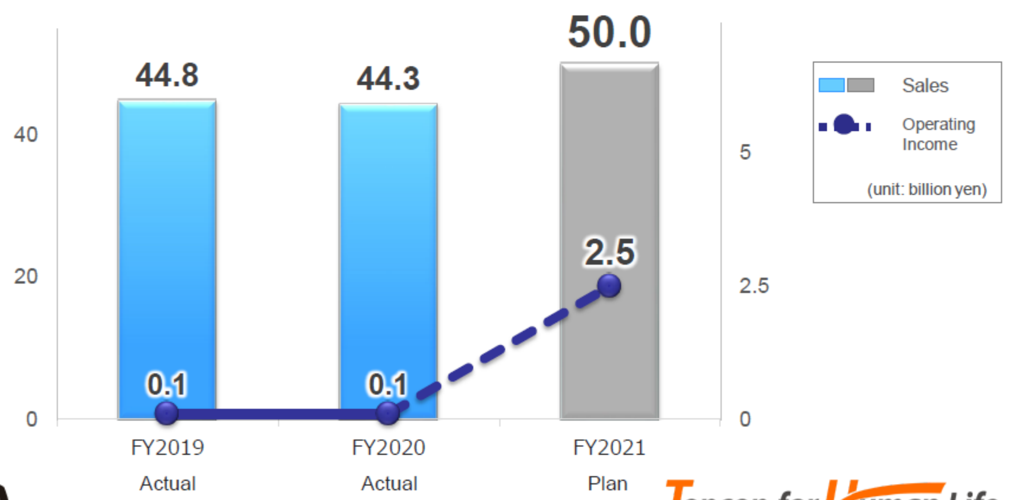
The market size of building construction is approximately twice of the civil works. IT Construction business is mainly focusing on productivity improvement for civil works while we are also providing ideal solutions for the building construction market. We call it “DX business for building construction.” We will make certain investment and let it become one of new pillars of our business.

The investments include hiring of key personnel to promote this new business and enhancing product line-up to fit building construction market. This is the reason why we expect operating income to remain flat despite sales growth in Smart Infrastructure Business.

Strategic Plans

Eye Care

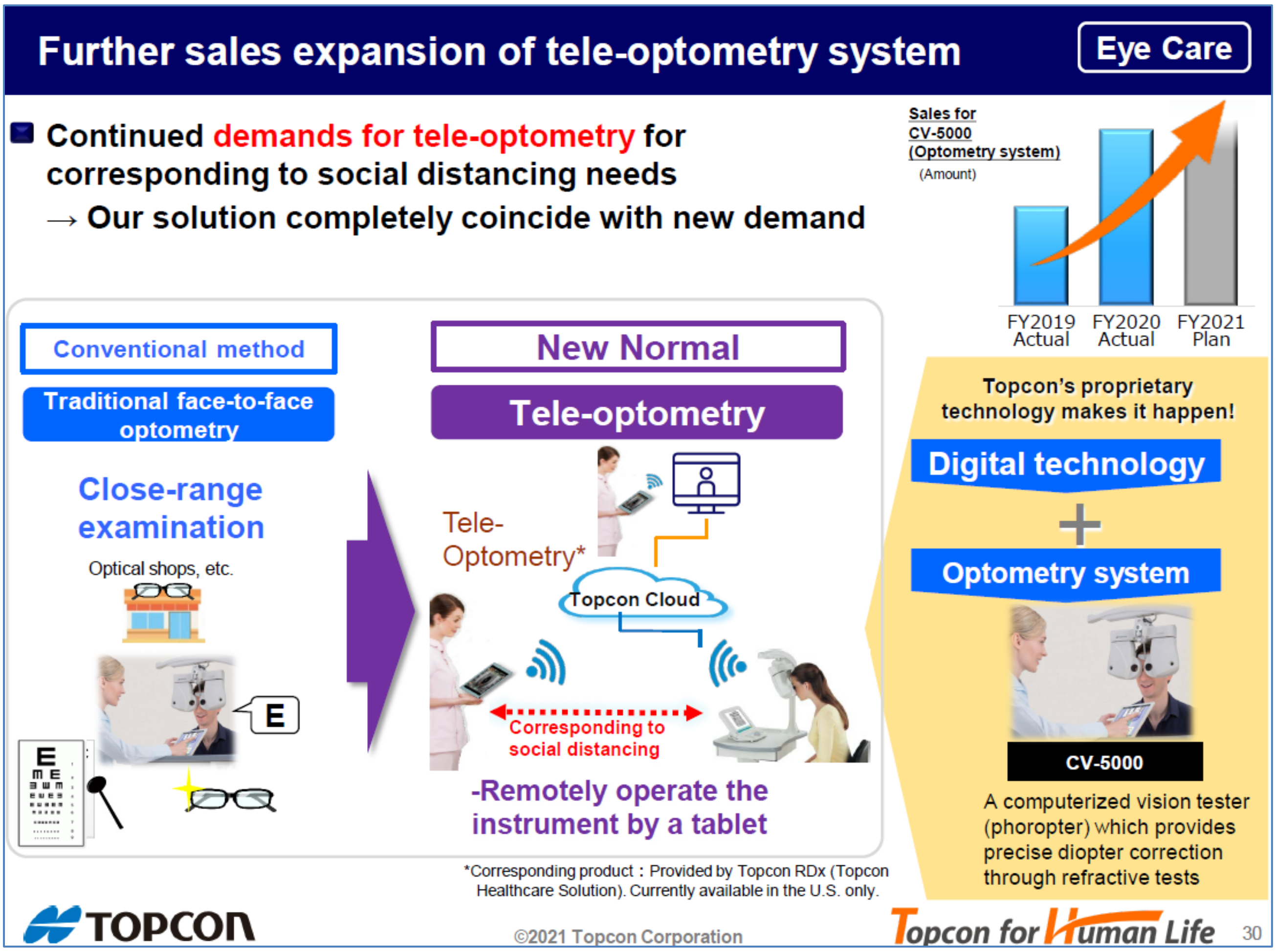
- **Further sales expansion of tele-optometry system**
  - Continued demands for tele-optometry for corresponding to social distancing needs
- **Further sales expansion of Maestro**
  - Screening Business is driving the sales growth
- **Scaling up the business in China**
  - Sales increases by enhancing sales network and improve market coverage
  - Expansion of Screening Business



This slide shows the Eye Care Business.

We're projecting to expand sales by following strategies; further sales expansion of tele-optometry system and Maestro, also scaling up the business in China.

Some impacts of COVID-19 may continue, but we're projecting sales of 50.0 billion yen and operating income of 2.5 billion yen, a significant improvement from FY2020.



I will talk about further sales expansion of tele-optometry system.

There are continued demands for tele-optometry systems which correspond to social distancing needs, and our solutions are perfectly aligned with these new needs. Despite the COVID-19, the sales of tele-optometry system grew significantly in FY2020, as shown in the graph on the upper right.

Unlike general optometry practices that conduct face-to-face, our tele-optometry solutions would allow either remote distancing operation within the store or the remote operation via network environment.

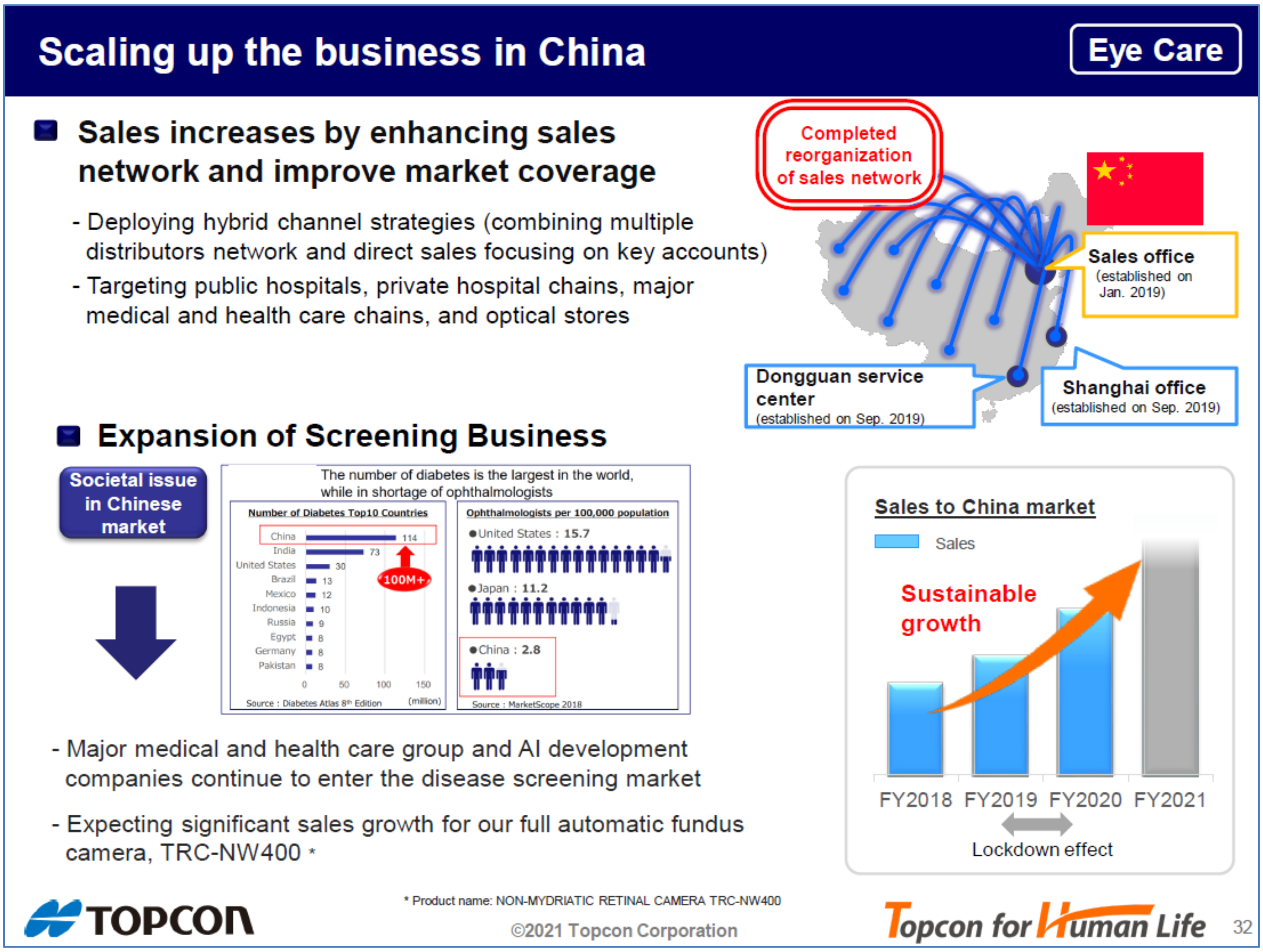
It is mandatory to have a qualified optometrist at an optical store in the U.S. and Europe. As a result of the shortage of optometrists, some optical store chains are facing difficulty to expand new stores where we see a business opportunity. Our solution could be of help for optical store chains to expand their business as they need less number of optometrists (Optometrists can be centralized at a remote office instead of stores located in various locations.).

We would like to promote this new solution mainly in the U.S. and Europe.

Here is a topic about further sales expansion of Maestro.

Sales of Maestro increased in FY2020 even under COVID-19 as you can see from the right graph. The sales growth was driven by Screening Business thanks to fully automatic functionality that is perfectly matched with screening purposes.

We have added additional functionality of remote operation by a tablet, which is good match for new needs for social distancing.



I will now discuss how we are planning to scale up the business in China.

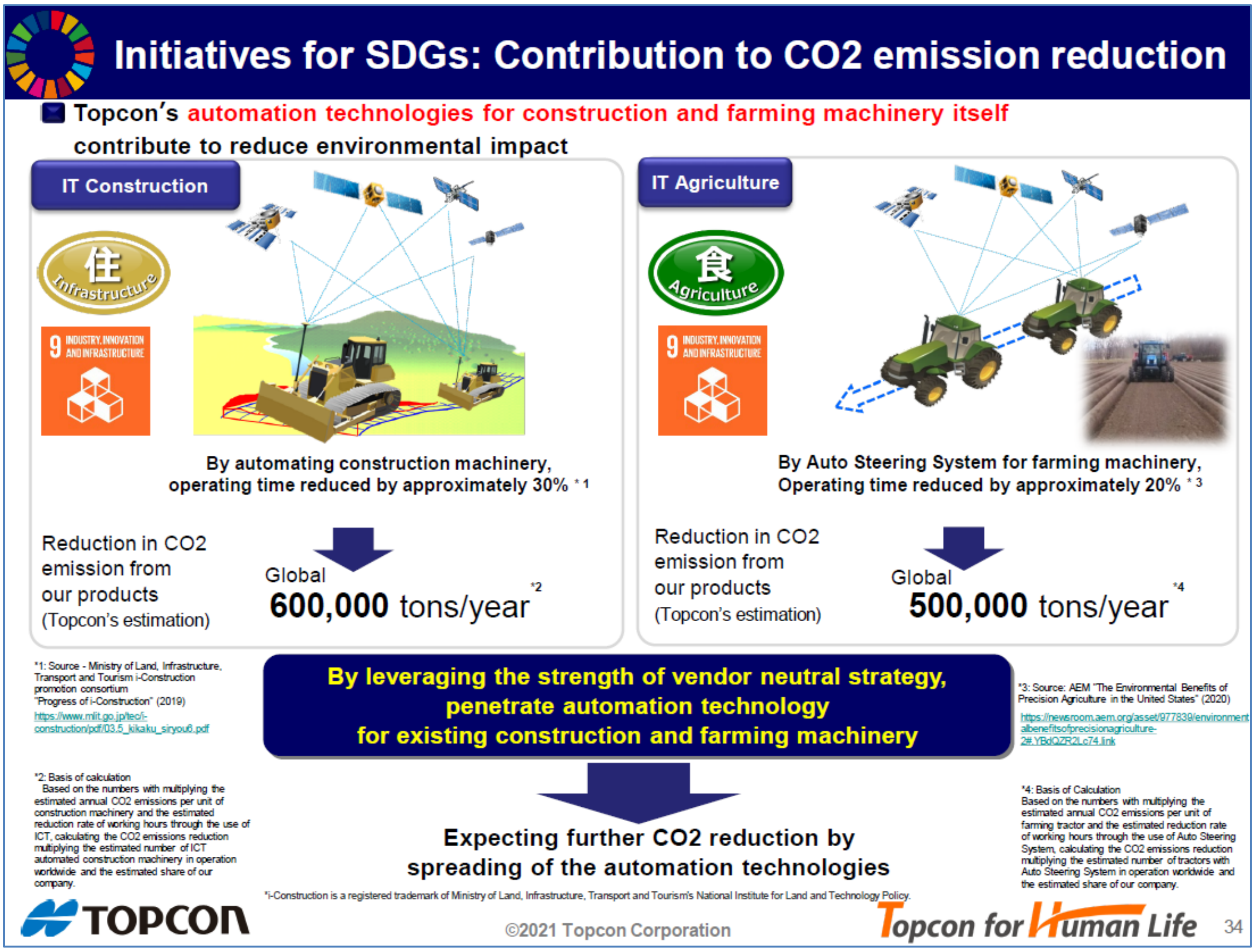
We have been working to enhance our sales network since we established own sales office in Beijing 2 years ago. Meanwhile, the sales were stagnant in February and March last year due to COVID-19. However, as you know, the Chinese market has quickly normalized thereafter, and our sales grew substantially in FY2020 as seen from the right graph.

In terms of screening market in China, the graph on the left shows that China has a very large number of patients with diabetes. One of the complicating diseases is diabetic retinopathy, which cause blindness in the worst case. Each patient of diabetes should take an exam for early detection of diabetic retinopathy, while as seen from the graph, there is a shortage of ophthalmologists in China. In contradiction to the largest population of diabetes in the world, there are only 2.8 ophthalmologists per 100,000 people in China, compared to 11.2 and 15.7 ophthalmologists in Japan and the U.S., respectively. As a result, large healthcare groups and AI development companies in China are successively entering the market for screening of illness including eye diseases.

Our fundus cameras, TRC-NW400, are being utilized for such screening purposes. Together with our enhancement of sales network to capture greater demands, we are expecting significant sales growth in China for FY2021.

Ⅲ. Topics

Here, I will share a topic.



We would like to share a topic about SDGs for the first time at the financial results presentation.

This time, we calculated our contribution to the reduction of CO2 emissions.

Our automation technology for construction and farming machinery itself contributes for reducing CO2 emissions. As you can see this slide, construction machinery on the left and farming machinery on the right.

We estimate that our construction solution could contribute to reduce 600,00 tons of CO2 a year globally. This is based on the verification result that “Operating time is reduced by approximately 30% due to automation of construction machinery” cited from MLIT. We then multiply the estimated number of construction machinery equipped with IT construction feature and our estimated share.

Similarly, we estimate that our Auto Steering System could contribute to reduce 500,000 tons of Co2 a year globally. This is based on the verification result that “Operating time is reduced by approximately 20% thanks to Auto Steering System” cited from AEM. We then multiply the estimated number of farming machinery equipped with Auto Steering System and our estimated share.

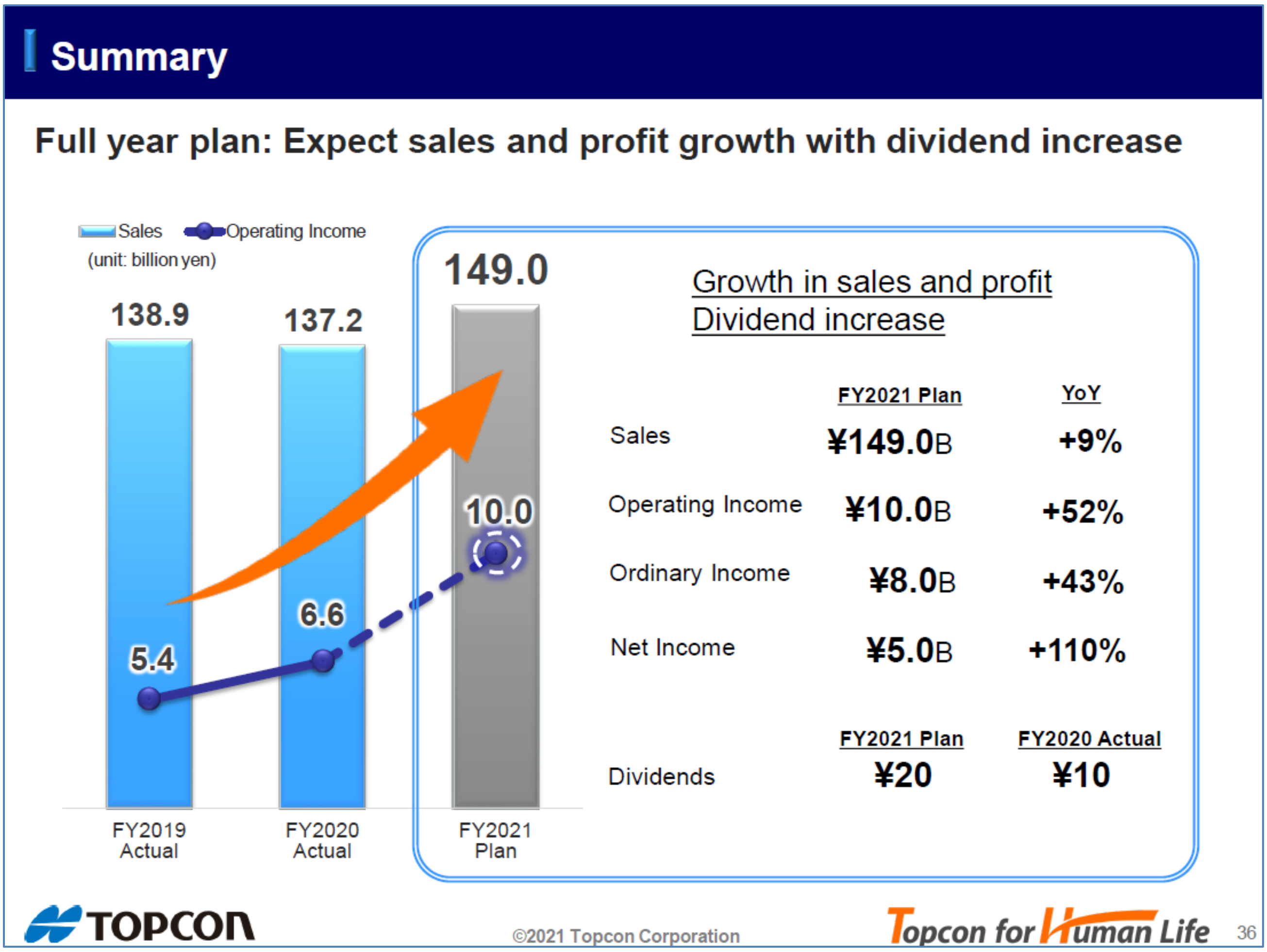
As we have been explaining, Topcon’s strength is that we have vendor neutral policy, which means our products are retrofittable to any construction and farming machinery regardless of the manufacturer. We can expect further reduction of CO2 along with the progress of penetration of the automation technology.

Ⅳ. Summary

TOPCON

Topcon for Human Life

In closing, I will summarize today’s presentation.



This is our closing summary.

We're projecting sales and profit growth with dividend increase.

Specifically, we project sales of 149.0 billion yen, operating income of 10.0 billion yen, ordinary income of 8.0 billion yen, net income of 5.0 billion yen, and dividends of 20 yen per share.

This concludes our report on our results for FY2020 and plans for FY2021. Thank you very much for your time.

Questions and Answers

＜Common subject matters＞

Q. Financial targets for Mid-Term Business Plan: Upon your explanation on Mid-Term Business Plan that only the timeline is extended for a year while the vision stays the same, is it correct to understand that the original financial target of operating income of 20.0 billion yen is now targeted in FY2022?

A. We have had a careful consideration on the extension of the timeline. We acknowledge that the financial target of Mid-Term Business Plan is a very high compared to financial targets for FY2021 with sales of 150.0 billion yen and operating income of 10.0 billion yen. FY2020 results which prove our strength as an essential business give us some confidence. On the other hand, COVID-19 impacts are yet to cease completely. By thorough consideration of these points, we decided to keep the financial targets unchanged for the final year of Mid-Term Business Plan at this point and will closely examine the progress of FY2021 targets.

Q. FY2021 operating income YoY breakdown (fixed cost): I think it's been a while hearing the investment plan for Smart Infrastructure Business who generates relatively high stable OP margin. Could you explain the breakdown of increase in fixed cost of 4.5 billion yen by businesses?

A. A breakdown of the increase of 4.5 billion yen in FY2021 is as follows;

- Breakdown by business segments: Positioning Company accounts for approximately half of 4.5 billion yen, and the remaining half for Smart Infrastructure and Eye Care Businesses, respectively.
- Breakdown by elements: Approximately half is attributable to the strengthening of sales capability and driving new businesses, and R&D investments. Another half is for the expense which we suppressed due to COVID-19 in FY2020 such as travels and exhibitions related expenses.

Q. Results and forecast of expense: SG&A expenses in Q4 were almost the same as the previous year and the ratio to sales was also low at 39%. Could you explain how it may change in FY2021 onward? Can we expect that you have created a robust structure that would enable to secure sales and profits under new sales model with/post COVID-19?

A. In FY2020, COVID-19 outbreak made us not to spend appropriate SG&A expenses such as business travels, that was significantly different from normal year. I don't think we'll be able to keep this expense level in FY2021. However, I also think some businesses can be operated with less expense than it used to be. Meanwhile, we also plan to increase other costs associated with strategic investments to accelerate business growth in FY2021.

Q. Breakdown of profits into 1H and 2H: Given the momentum in 2H of FY2020, we can expect strong performance to continue in 1H of FY2021. What is the outlook on the breakdown of profit in 1H and 2H?

A. We don't disclose the specific breakdown of profits into 1H and 2H this time, but sales and profits in 2H tend to exceed those in 1H under normal circumstances, and this trend is most likely to happen in FY2021.

<Positioning Company /Smart Infrastructure Business>

Q. Advantages in IT Construction: I understand that the automation of excavators has a high technological hurdle. Could you explain your overall technological advantages and the innovative point of the new ICT system for small-sized excavators?

A. Precise measurement of the position of excavators is needed for the automation. Key feature of this new system is using "LN-150 (layout navigator) ", a 3D surveying instrument, instead of GPS receiver. LN-150 has been widely prevalent in domestic construction market thanks to its easy-to-operate functions. GPS sometimes does not work well in the locations where it is difficult to receive GPS signals and correction information. This is a major distinction from car navigation system that the users can be ignorant of GPS. Taking this point into consideration, this new system is the world's first epoch-making system that utilizes “LN-150” which is easy-to-operate and widely used as a positioning sensor.

<Eyecare Business>

Q. Outlook for FY 2021: I understand that the sales growth is coming from tele-optometry system, growing demands of Maestro for screening purposes, and business in China. Do you have certain confidence for the growth in FY2021?

A. Many optical stores and ophthalmology clinics had closed around Q1 to Q2 last year due to the lockdown, but they gradually resumed operations in the latter half of Q2. While the impact of COVID-19 still remains, we feel confidence in further business growth. Assuming the impact of COVID-19 will not worsen any further, we don’t think it is difficult to recover the sales to the level of pre-COVID-19.

Q. Business in China: Do you proceed the business with local health centers and AI developers in the Chinese market? Is there any risk that Chinese local manufacturers will emerge and dominate the market after you develop and cultivate Screening Business?

A. Since Chinese AI companies are moving quickly and aggressively, we have decided to work with them. The Screening Business is getting bigger as our envisioned scenario is gradually becoming a reality. It is true that similar products at less cost are starting to appear in China. However, the reliability of data is important for screening while our products have been used by ophthalmologists who are keen on the reliability. We don’t’ think the similar local products targeting only screening become a threat because of their low reliability. In addition, we are preparing for a business scheme that screening data of potential patients can be used at ophthalmology clinics as well. As a result, our products will also be used more in the ophthalmology clinics.

Q. Earnings forecast: The growth rate of operating income in FY2021 appears to be very high. How are you confident with this forecast?

A. The results for Q3 and Q4 in FY2020 were definitely strong. Although there still remain uncertainties, we do not foresee any significant negative factors as of now. We believe that this financial target is achievable.

Q. Difference of impacts on optical boutiques and optical chain stores: According to information from other companies, major optical store chains are sluggish while optical boutiques are performing better in the U.S. and Europe. Is this the case for your Screening Business?

A. Our Screening Business started to produce successful results in optical store chains. We would say our business with them is better than the boutique stores. I guess one of the points would be that Screening Business is also a new business for optical store chains. That may be the reason why our situation is different from other companies.

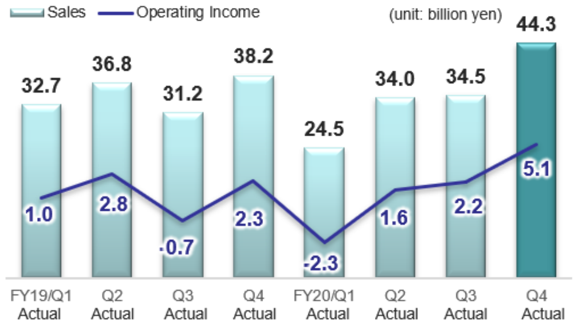
Q. Comparison between Q3 and Q4 in FY2020: Q4 results were sales increase of 3.1 billion yen and increase in operating income of 0.2 billion yen QoQ. Although the strong performance continued, what lead the smaller increase in operating income compared to that of sales in Q4?

A. While sales increased in North America, Europe, and China in Q4, operating income was slightly affected by increased expenses along with the sales increase. In addition, operating margin in Q3 was better than normal with some reasons including timing of recognition of some expense.

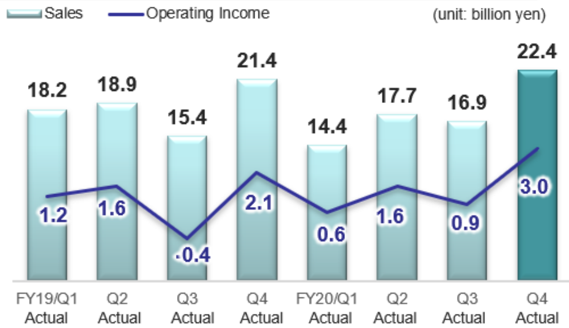
Ⅴ. Appendix

Financial Results (Quarterly)

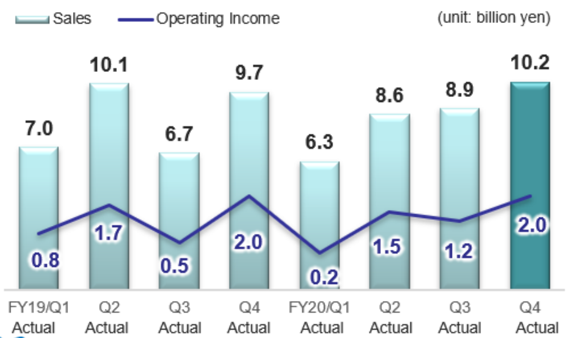
Consolidated



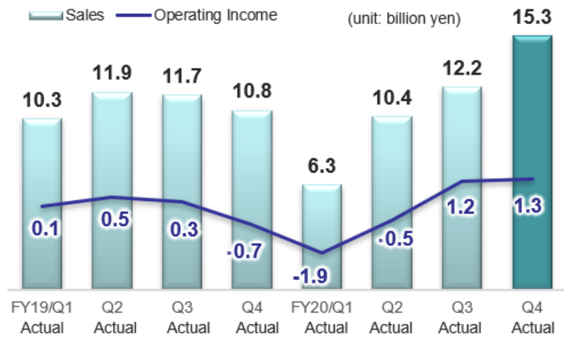
Positioning



Smart Infrastructure

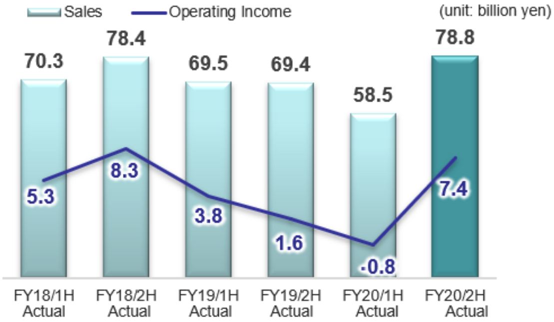


Eye Care

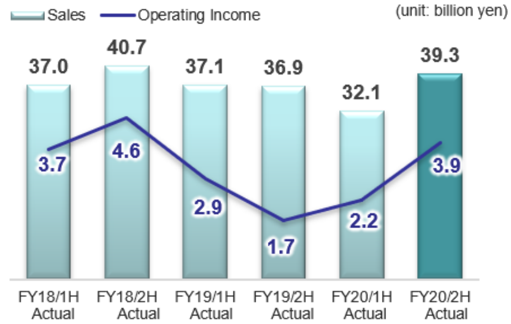


Financial Results (Semiannually)

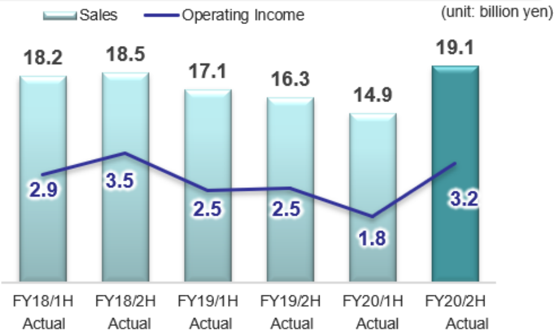
Consolidated



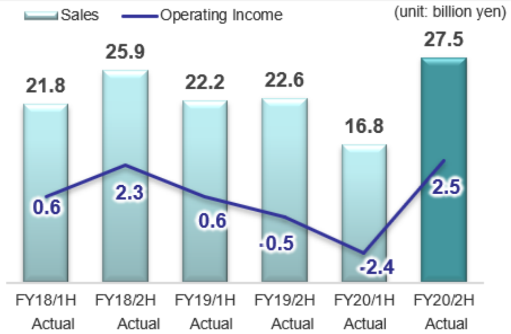
Positioning



Smart Infrastructure

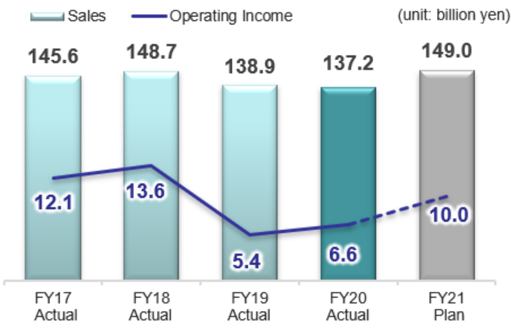


Eye Care

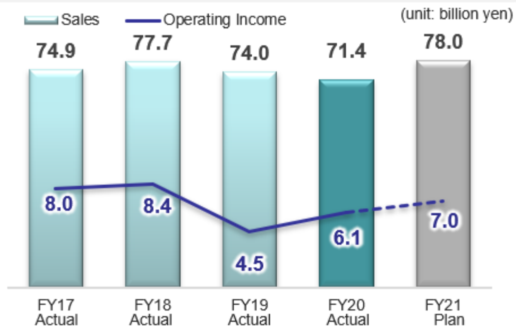


Financial Results and Plan (Annually)

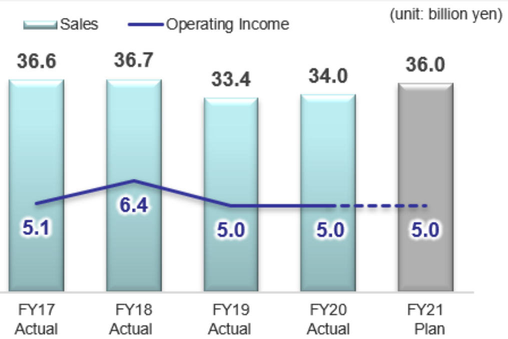
Consolidated



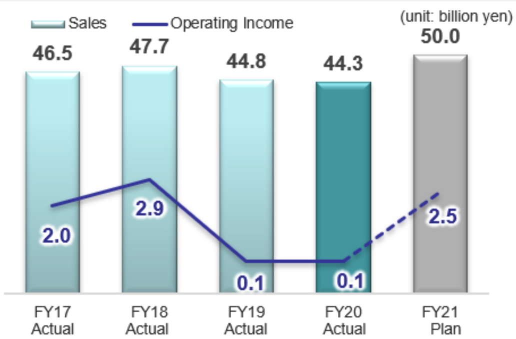
Positioning



Smart Infrastructure



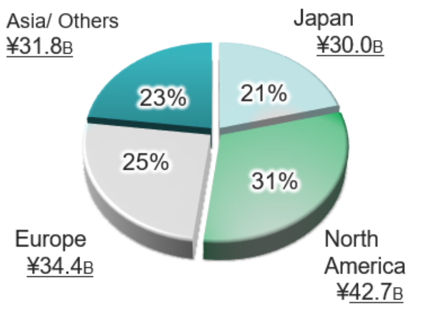
Eye Care



Sales by region

FY2019

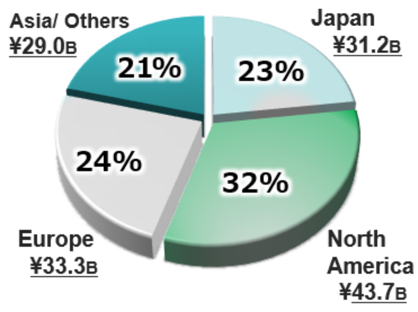
¥138.9B



YoY
-1%

FY2020

¥137.2B

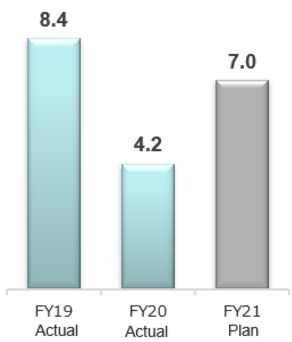


Capital Expenditure and R&D / Forex Sensitivity

Projections

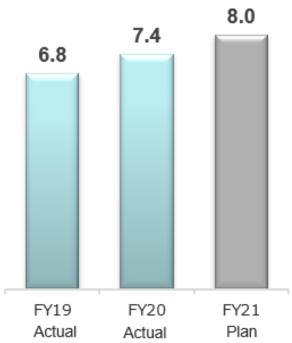
Capital Expenditure

(unit: billion yen)



Depreciation*

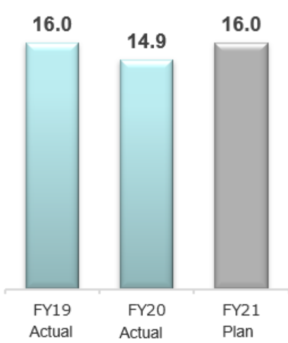
(unit: billion yen)



*Excluding Goodwill Amortization

R&D

(unit: billion yen)



Forex Sensitivity（impact by ¥1 change）

USD：Operating Income ¥0.15B - ¥0.2B

EUR：Operating Income ¥0.07B - ¥0.1B