



**FY2021 Q2
Financial Results**

October 29, 2021
TOPCON CORPORATION
President & CEO
Satoshi Hirano

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Infrastructure

医
Healthcare

食
Agriculture

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Company
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Topcon for Human Life

TOPCON CORPORATION

FY2021 Q2 Financial Results

October 29, 2021

Event Overview

[Company]	TOPCON CORPORATION	
[Event Type]	Presentation of Financial Results	
[Event Name]	FY2021 Q2 Financial Results	
[Reported Period]	FY2021 Q2	
[Date]	October 29, 2021	
[Time]	3:30 – 4:30 PM (Total time: 60 minutes; Presentation: 30 minutes; Q&A: 30 minutes)	
[Event Format]	Online (streamed)	
[Number of Speakers]	3	
	Satoshi Hirano	Representative Director, President & CEO
	Haruhiko Akiyama	Director, Managing Executive Officer, General Manager of Accounting & Finance Div.
	Takaaki Hirayama	Executive Officer, General Manager of Corporate Communication Div.

FY2021 Q2 Financial Results

I . FY2021 Q2 Financial Results

II . FY2021 Full Year Plan

III. Summary

IV. Appendix



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Thank you very much for taking time to attend today's briefing. I would like to begin my presentation for the second quarter of FY2021.

Today, I will report our financial results for Q2 followed by full year plan for FY2021 and the summary.

FY2021 1H Overview



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First of all, this is an overview of our results for the first half of FY2021. We marked record high sales of 81.3 billion yen for 1H with 139% YoY. In terms of operating income, it was 7.0 billion yen, a significant increase from the operating loss of the same period last fiscal year.

In comparison with pre-COVID-19 pandemic in FY2019, the sales and operating income increased to 117% and 183%, respectively. We have recovered from COVID-19, and we believe that it has gotten back on the track of growth.

FY2021 1H Financial Results

Record high sales, significant increase in sales and profit

(unit : million yen)

	FY2020	FY2021		
	1H Actual	1H Actual	YoY	%
Net Sales	58,465	81,251	22,785	+39%
Gross Profit (Gross Profit Ratio)	28,389 (48.6%)	41,583 (51.2%)	13,194	+46%
SGA	29,158	34,602	5,444	
Operating Income (Operating Income Ratio)	-768 (-1.3%)	6,980 (8.6%)	7,749	
Non-Operating Income (Expenses)	-1,029	-695	334	
Ordinary Income	-1,797	6,285	8,083	
Extraordinary Income (Loss)	-162	495	657	
Income Before Income Taxes and Minority Interests	-1,960	6,781	8,741	
Net Income	-2,037	3,883	5,921	
Dividends	-	¥10		
Exchange Rate (Average)				
USD	¥106.68	¥110.18	¥3.50	
EUR	¥121.36	¥130.97	¥9.61	



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We posted operating income of approximately 7.0 billion yen with 8.6% OP margin, substantial increase from the same period last fiscal year.

Net income improved by 3.9 billion yen to 5.9 billion yen from 2.0 billion yen loss of the same period last year.

We have decided interim dividend of 10 yen.

FY2021 1H Financial Results by Business

■ Significant increase in sales and operating income for all business segments

(unit : million yen)

		FY2020	FY2021		
		1H Actual	1H Actual	YoY	%
Net Sales	Positioning	32,141	45,279	13,138	+41%
	Smart Infrastructure	14,886	18,973	4,087	+27%
	Eye Care	16,785	25,252	8,467	+50%
	Others	500	600	100	+20%
	Elimination	-5,849	-8,854	-3,005	
	Total	58,465	81,251	22,785	+39%
Operating Income (Operating Income Ratio)	Positioning	2,157 (6.7%)	5,442 (12.0%)	3,285	+152%
	Smart Infrastructure	1,777 (11.9%)	3,242 (17.1%)	1,465	+82%
	Eye Care	-2,388 (-14.2%)	515 (2.0%)	2,903	Turns profitable
	Others	-255 (-51.1%)	-162 (-27.0%)	93	-
	Elimination	-2,060	-2,057	3	
	Total	-768 (-1.3%)	6,980 (8.6%)	7,749	-



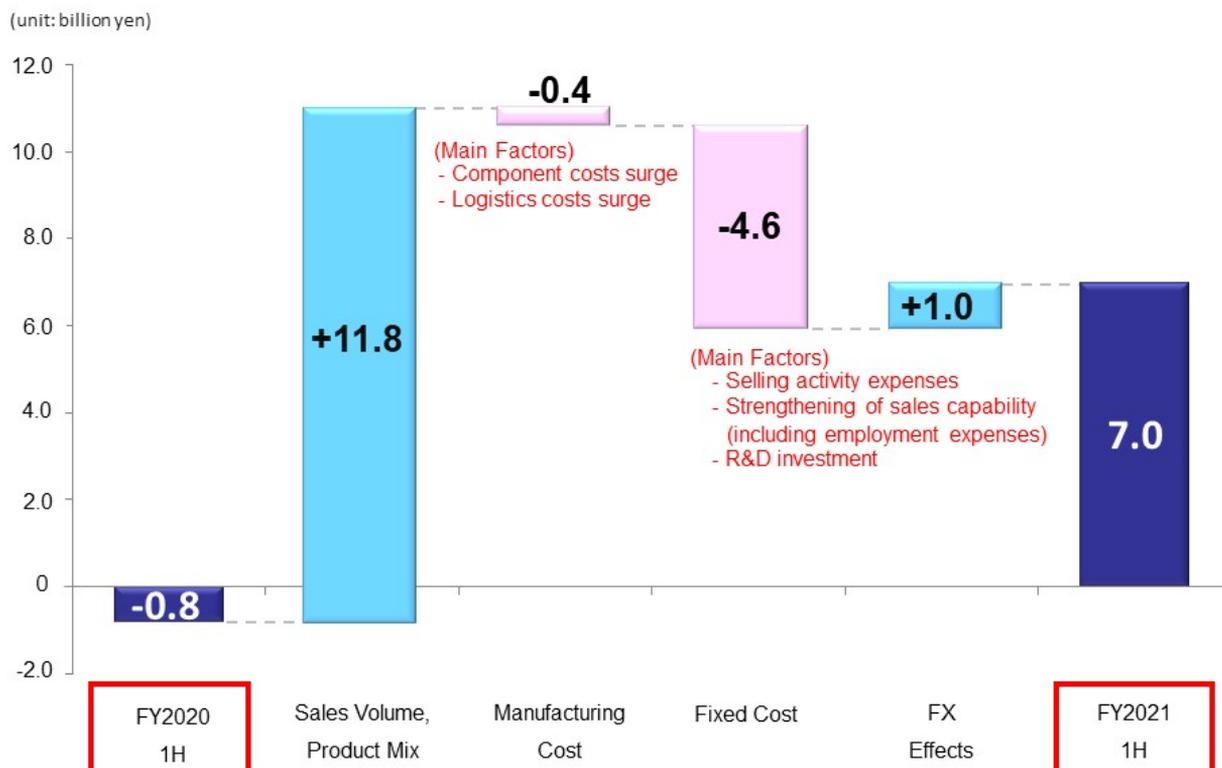
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Sales and operating income showed significant growth in all business segments. I will explain in detail later.

FY2021 1H Operating Income YoY Breakdown



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Next is an YoY analysis of operating income for the first half.

Compared to an operating loss of 0.8 billion yen in 1H of the previous fiscal year, we increased 7.8 billion yen of operating income this year.

Sales volume/Product Mix contributed for positive 11.8 billion yen. Manufacturing cost and fixed cost accounted for negative 0.4 billion yen and negative 4.6 billion yen, respectively. Main factors for manufacturing cost include surges of component and logistics costs, and main factors for fixed cost include selling activity expenses, strengthening of sales capability, and R&D investment. FX effects were positive 1.0 billion yen, bringing the total improvement to positive 7.8 billion yen. As a result, operating income became 7.0 billion yen.

I . FY2021 Q2 Financial Results

I -1. FY2021 Q2 Financial Results

I -2. Overview of Each Business



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Will explain our results by business segment next.

Record high sales and operating income for 1H

(unit: million yen)

	FY2020	FY2021		
	1H Actual	1H Actual	YoY	%
Net Sales	32,141	45,279	13,138	+41%
Operating Income (Operating Income Ratio)	2,157 (6.7%)	5,442 (12.0%)	3,285	+152%
Exchange Rate (Average)	USD	¥106.68	¥110.18	¥3.50
	EUR	¥121.36	¥130.97	¥9.61

Review of FY2021 1H Financial Results

Overall

- Significant increase in sales and profit on strong demands mainly in the U.S. and Europe
- Realizing the impact for surges of component and logistics costs after Q2

IT Construction

- Continuing strong sales for both aftermarket and OEM, substantially surpassed the pre-COVID-19 level

IT Agriculture

- Continuing strong sales for both aftermarket and OEM, substantially surpassed the pre-COVID-19 level

Surveying and laser products

- Booming housing construction market in the U.S. and Europe continues

1H trend

(unit: billion yen)



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These are the results of the Positioning Company. Both sales and operating income marked record highs for 1H.

Sales were up 41% YoY and the increase of operating income was even more significant with 2.5 times YoY to 5.4 billion yen.

Overall, strong demands in the U.S. and Europe continue which have led to strong sales and income, although the impact from surges of component and logistics costs began to be realized in Q2.

Both the aftermarket and OEM sales for IT Construction grew strongly, and have substantially surpassed the pre-COVID-19 level. Similarly, both the aftermarket and OEM sales for IT Agriculture expanded strongly. Surveying and laser sales continued to increase steadily thanks to booming housing construction market in the U.S. and Europe.

Record high sales and operating income for 1H

(unit: million yen)

	FY2020	FY2021		
	1H Actual	1H Actual	YoY	%
Net Sales	14,886	18,973	4,087	+27%
Operating Income (Operating Income Ratio)	1,777 (11.9%)	3,242 (17.1%)	1,465	+82%
Exchange Rate (Average)				
USD	¥106.68	¥110.18	¥3.50	
EUR	¥121.36	¥130.97	¥9.61	

Review of FY2021 1H Financial Results

Overall

- Sales are solid in Japan, while sales growth continues in the U.S. and Europe
- Realizing the impact for surge of the component costs after Q2

Japan

- Surveying instruments: Strong sales for total stations
- IT Construction: Full-scale growth of machine guidance system for small-sized excavators
- IT Agriculture: Temporary demand drop from the backlash due to the subsidies of last year

The U.S. and Europe

- Strong sales continues for surveying instruments and laser products for the booming homebuilding market

1H trend

(unit: billion yen)



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Turning now to the Smart Infrastructure Business which also marked record high sales and operating income in 1H. Operating income increased significantly up 82% YoY.

Solid demands continue in the domestic market, also the U.S. and European markets remain robust due to strong demands, which have boosted the operating income. On the other hand, the impact from the surge of the component costs which became apparent in Q2 depressed operating income.

In Japan, sales of total stations (surveying instruments) were strong. With regard to IT Construction, the machine guidance system for small-sized excavators is gradually gaining momentum. The demand for IT Agriculture temporarily drops due to backlash against the subsidies in last year. However, we expect it to recover in Q3 onward.

Sales of surveying and laser products, which are core products of the Smart Infrastructure Business, continue to be strong helped by the booming homebuilding markets in the U.S. and Europe.

Record high sales for 1H, turning profitable

(unit: million yen)

	FY2020	FY2021		
	1H Actual	1H Actual	YoY	%
Net Sales	16,785	25,252	8,467	+50%
Operating Income (Operating Income Ratio)	-2,388 (-14.2%)	515 (2.0%)	2,903	Turns profitable
Exchange Rate (Average)				
USD	¥106.68	¥110.18	¥3.50	
EUR	¥121.36	¥130.97	¥9.61	

Review of FY2021 1H Financial Results

Overall

- Continuing strong sales driven by the U.S., European, and Chinese markets
- Realizing the impact for surges of component and logistics costs after Q2

Screening business

- Growing demand from the large optical chain stores leading to the continuous sales growth of Screening equipment

Tele-optometry

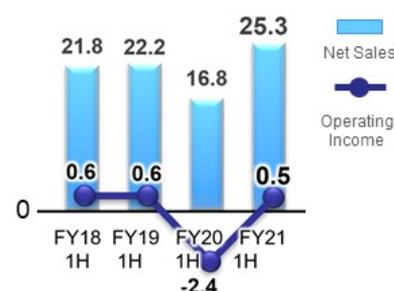
- Solid demand continue for remote eye-exam

China

- Continuing strong sales for capital investment and growing demand for eye screening
- Sales of fundus cameras continue to grow

1H trend

(unit: billion yen)



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Eye Care Business also marked record high sales of 25.3 billion yen for 1H, up 50% YoY. Operating income was 0.5 billion yen, turned profitable from the large operating loss of the same period last fiscal year. We are seeing signs of growth as sales keep on expanding.

Overall, sales continued to be strong mainly in the U.S., Europe, and China, while the impacts of soaring component and logistics costs began to be realized in Q2.

In the Screening Business, growing demands from the large optical chain stores have contributed to sales growth. In the field of optometry equipment, demands for tele-optometry systems continue to be robust.

The sales for China continue to be strong since 2H of the previous fiscal year due to increasing capital expenditure and growing demands for eye screening.

Ⅱ . FY2021 Full Year Plan

Ⅱ -1. FY2021 Full Year Plan

Ⅱ -2. Topics of Each Business



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Next, I will provide the full year plan.

FY2021 Full Year Plan

■ Upward revision of operating income to **125%** (**190%** YoY)

Outlook for the macro environment

- Solid demand for housing and civil infrastructure investment continues mainly in developed countries and crop price remain higher level
- Appetite for capital investment of ophthalmic and optical markets in the U.S. and Europe is improved While COVID-19 impacts have been relieved
- Expanding impacts for surges of the component and logistics costs
- Expanding the delays in shipments and sales due to component shortages to the production

Based on 1H results and above environment outlook, we revised the full year plan as below

Revised Plan Exchange rate assumptions of Q3 onward are unchanged: \$1=¥108/€1=¥128

	Previous Plan (As of July 30)	Revised Plan (As of October 29)	Change	FY2020 Actual	Change
Net Sales	¥149.0B	¥160.0B	+7%	¥137.2B	+17%
Operating Income	¥10.0B	¥12.5B	+25%	¥6.6B	+90%
Ordinary Income	¥8.0B	¥10.5B	+31%	¥5.6B	+88%
Net Income	¥5.0B	¥6.5B	+30%	¥2.4B	+174%
Dividends	¥20	¥20		¥10	



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We upwardly revised our full year plan this time based on the 1H results.

First of all, from the macro-environment perspective, housing and civil infrastructure investments appear to remain strong mainly in developed countries, and high level of crop prices benefit our IT Agriculture business.

As for the Eye Care Business, the market for ophthalmologists and optical stores in the U.S. and Europe has recovered from the impact of COVID-19 pandemic and is improving its appetite for capital investment. On the other hand, as I have touched upon in the review of 1H results, the impact from the surge of component and logistics costs is expanding. In addition, we are facing increasing delays in shipments and sales due to component shortages.

Despite these negative effects, we have revised our full year plan upwardly based on 1H results and favorable market conditions. Sales are revised to 160.0 billion yen, 117% YoY, and 107% compared to the previous plan. Operating income is 12.5 billion yen, 190% YoY, up 2.5 billion yen and 125% of the previous plan. Ordinary income is revised from 8.0 billion yen to 10.5 billion yen, and net income is revised from 5.0 billion yen to 6.5 billion yen, up 30% from the previous plan.

Component shortages and tightening supply chains

■ The impacts are inevitably expanding after Q3 despite our best efforts to mitigate the risks

	Current situation	Countermeasures	Impacts
Component shortages	<ul style="list-style-type: none"> - Tight supply of semiconductor-related components - Unstable delivery time and quantity 	<ul style="list-style-type: none"> ■ Timely adjustment of production and sales plans ■ Pre-Ordering of the components ■ Procurement of missing components from the market ■ Design changes for the alternative components 	<ul style="list-style-type: none"> ✓ Component costs surge ✓ Delays in shipments and sales
Tightening Supply chains	<ul style="list-style-type: none"> - Logistics costs surge due to container shortages - Fewer flights resulting in space shortage and higher logistics costs - Delay of cargo handlings at U.S. ports due to COVID-19 impacts 	<ul style="list-style-type: none"> ■ Pre-booking to secure containers and selecting Alternative ocean shipment routes ■ Using air freights to recover the Ocean Container shipment 	<ul style="list-style-type: none"> ✓ Logistics costs surge ✓ Delays in shipments and sales



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Today, I will dig a little deeper and explain the situation of component shortages and tightening supply chains.

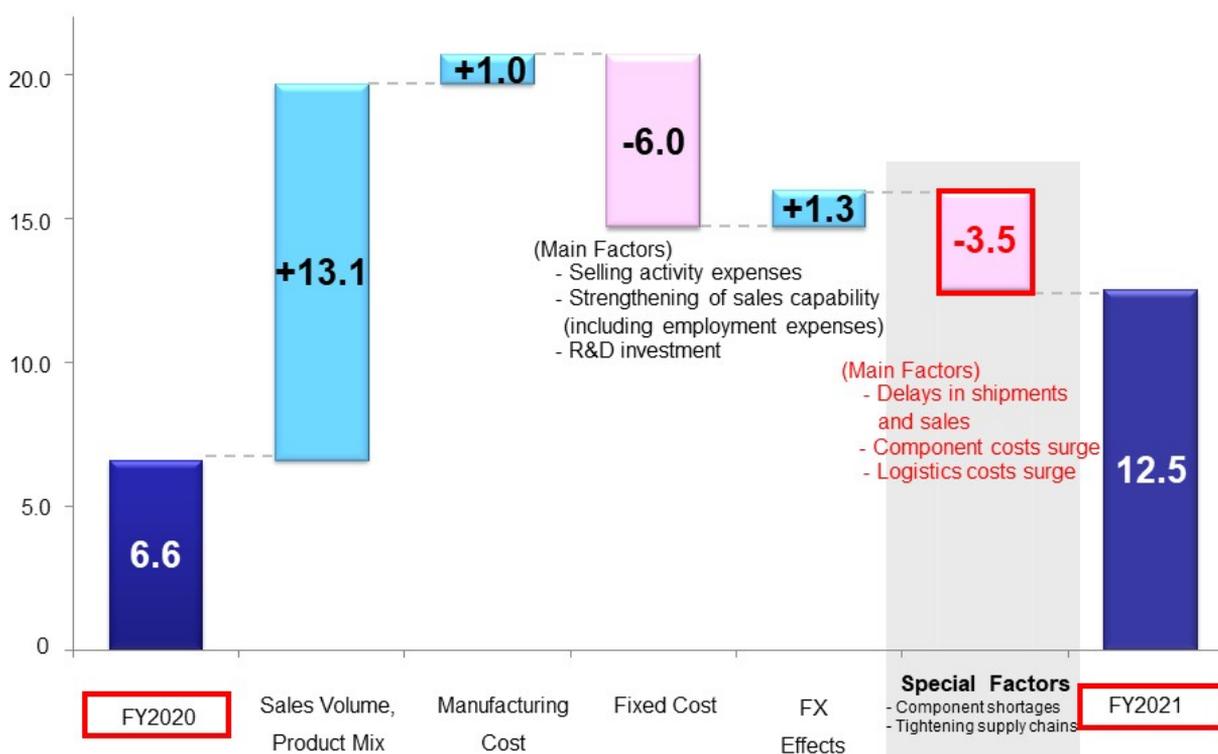
As in common with many other companies worldwide, we are facing unstable delivery time and quantity of components due to tight supply such as semiconductor and various electric components.

To tackle these challenges, we are making timely adjustment of production and sales plans, pre-ordering the components, procuring missing components from the market, and changing designs for the alternative components, etc. to secure revenue. Despite such efforts, we have been negatively impacted by surges of component costs and delays in shipments and sales.

Another problem we are confronting is the tightening supply chains. For example, there has been limited transportation space due to container shortages and fewer flights and delay of cargo handlings at U.S. ports due to COVID-19. Some of our countermeasures include pre-booking of containers and using air freights instead of ocean freights. However, the shift to air from ocean has led to surge in logistics costs. To sum up, we will be widely affected from rises in logistics costs and delays in shipments and sales in the 2H.

FY2021 Operating Income YoY Breakdown

(unit: billion yen)



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Next is a YoY analysis of operating income for the full year.

We're projecting operating income of 12.5 billion yen, up 5.9 billion yen from 6.6 billion yen in FY2020.

Sales volume and product mix and manufacturing cost contribute for positive 13.1 billion yen and 1.0 billion yen, respectively. Fixed cost mainly coming from selling activity expenses and R&D investment accounts for negative 6.0 billion yen, and FX effects is positive 1.3 billion yen.

In addition, we have taken into account of delays in shipments and sales, and surges of component and logistics costs as special factors that account for negative 3.5 billion yen. We're projecting operating income of 12.5 billion yen, which came from deduction of the 3.5 billion yen of the special factors from 16.0 billion yen.

FY2021 Full Year Plan

■ Sales 117% YoY, Operating Income **190%** YoY, Net Income **2.7 times**

(unit: million yen)

	FY2020		FY2021			* Announced on July 30 Full Year Plan*
	1H Actual	Full Year Actual	1H Actual	Full Year Plan	YoY (%)	
Net Sales	58,465	137,247	81,251	160,000	+17%	149,000
Operating Income (Operating Income Ratio)	-768 (-1.3%)	6,593 (4.8%)	6,980 (8.6%)	12,500 (7.8%)	+90%	10,000 (6.7%)
Ordinary Income	-1,797	5,587	6,285	10,500	+88%	8,000
Net Income	-2,037	2,376	3,883	6,500	+174%	5,000
ROE		3.6%		9%		7%
Dividends	-	¥10	¥10	¥20		¥20
Exchange Rate	USD	¥106.68	¥106.17	¥110.18	¥108	¥108
(Average)	EUR	¥121.36	¥123.73	¥130.97	(Q3 onward) ¥128	¥128



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Here are the detailed figures for the full year plan.

We're projecting OP margin 7.8% and ROE 9%, up from 3.6% in the previous fiscal year and 7% of the previously announced plan.

FY2021 Full Year Plan

* Announced
on July 30

(unit: million yen)

		FY2020		FY2021			
		1H Actual	Full Year Actual	1H Actual	Full Year Plan	YoY (%)	Full Year Plan*
Net Sales	Positioning	32,141	71,416	45,279	88,000	+23%	78,000
	Smart Infrastructure	14,886	33,982	18,973	37,000	+9%	36,000
	Eye Care	16,785	44,251	25,252	52,000	+18%	50,000
	Others	500	1,165	600	1,000	-14%	1,000
	Elimination	-5,849	-13,568	-8,854	-18,000		-16,000
	Total	58,465	137,247	81,251	160,000	+17%	149,000
Operating Income (Operating Income Ratio)	Positioning	2,157 (6.7%)	6,064 (8.5%)	5,442 (12.0%)	9,500 (10.8%)	+57%	7,000 (9.0%)
	Smart Infrastructure	1,777 (11.9%)	4,972 (14.6%)	3,242 (17.1%)	5,000 (13.5%)	+1%	5,000 (13.9%)
	Eye Care	-2,388 (-14.2%)	122 (0.3%)	515 (2.0%)	2,500 (4.8%)	+1,949%	2,500 (5.0%)
	Others	-255 (-51.1%)	-536 (-46.0%)	-162 (-27.0%)	-300 (-30.0%)	-	-300 (-30.0%)
	Elimination	-2,060	-4,028	-2,057	-4,200		-4,200
	Total	-768 (-1.3%)	6,593 (4.8%)	6,980 (8.6%)	12,500 (7.8%)	+90%	10,000 (6.7%)



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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 increase in operating income to 2.5 billion yen from 122 million yen in the last fiscal year.

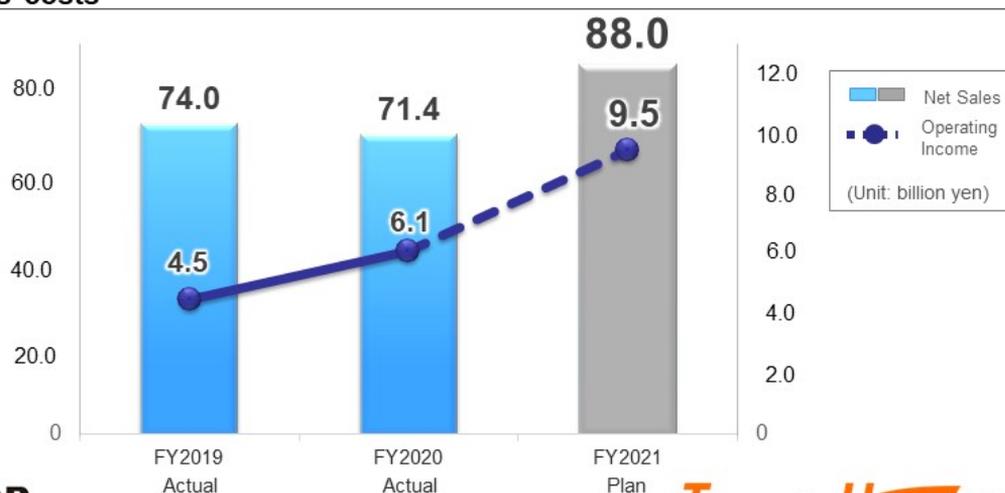
Ⅱ . FY2021 Full Year Plan

Ⅱ -1. FY2021 Full Year Plan

Ⅱ -2. Topics of Each Business

Next, I will show topics of each business.

- **IT Construction:**
Strong trend will continue while automation needs are increasing due to the shortages of construction workers/engineers
- **IT Agriculture:**
Farmers' strong appetite for capital investment will continue thanks to high level of crop prices
- **Expansion and relocation of U.S. test site**
- **Expanding impacts of component shortages, and surges of component and logistics costs**



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Let me start with the Positioning Company. We keep up the efforts to boost sales of IT Construction and IT Agriculture taking advantage of current favorable market situation. Although the component shortage has become a major issue, we try our best to minimize the impacts.

We're projecting net sales of 88.0 billion yen and operating income of 9.5 billion yen. Both were upwardly revised by 10.0 billion yen and 2.5 billion yen from the previously announced plan, respectively.

I will discuss the expansion and relocation of our U.S. test site on the next slide.

Expansion and relocation of U.S. test site

Positioning

Facilitating cutting-edge R&D activities and improving evaluation capabilities for IT Construction and IT Agriculture

Location: Livermore, California

Significant expansion of test site for R&D

- Site area: approx. 60 acres
Available for use in 2022
- Adjacent to TPS* Headquarters

*TPS: Topcon Positioning Systems, Inc

Size x 5 Larger



Expectations for new site

By enhancing leading-edge R&D and put better evaluation environment in place.....

- ✓ Further acceleration of new products development
- ✓ Expand partnership with OEM's and accelerating joint development activities



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Let me talk about the relocation and expansion of U.S. test site.

In 1994, Topcon acquired a venture company in California. It opened the door to the IT Construction and IT Agriculture businesses. Having said that, I would like to emphasize that there had been virtually no market for automating construction machinery at that time, and we were the ones who pioneered a brand-new market with disruptive innovation and revolutionary technologies.

What played a key role in the expansion of the technologies was the test site owned by the venture company. The test site is so called "temporary construction site" that replicate the environment of real construction site, and the R&D was carried out by actually operating the construction machinery there. It was also a facility where first-time visitors could see, experience, and recognize the value at a glance.

We will expand the test site space 5 times to 60 acres. It is scheduled to be completed in 2022. Our expectations for the new facility include accelerating the development of new products and expanding partnership with new OEMs. In addition, the site will serve as a place for people to have a better understanding of our technological capabilities.

- Increase for investments in “DX business for building construction”
- Expanding impacts of component shortages, and surges of component and logistics costs
- IT Construction in Japan: Expanding sales of machine guidance system for medium to small sized construction sites
- IT Agriculture in Japan: Launch of strategic new products



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Next is a topic of Smart Infrastructure Business.

We're projecting net sales of 37.0 billion yen, up 3.0 billion from the previous fiscal year and operating income to remain flat at 5.0 billion yen. This contradiction between the increase in sales and flat operating income is partly due to expanding impacts of component shortages, and surges of component and logistics costs. More importantly, we are expanding investments in “DX business for building construction”, which we plan to grow as a new pillar for Smart Infrastructure Business. Although the investments may have slight negative impact on operating income temporarily, we think it is essential for our future business growth.

Increase for investments in “DX business for building construction”

Smart Infrastructure

- Strengthening human resources, product lineup and interactive experience-based facility to make official launch

Strengthening human resources

- ✓ Hiring highly skilled professionals including first-class architect



Enhancement of product lineup

- ✓ Continuous development of new products for building construction



Newly developed an interactive facility of building construction solutions

- ✓ Provides education for building construction solutions utilizing our cutting-edge technologies
- ✓ Reproduces various construction processes in an indoor space
Enables experience for “DX business for building construction” in an environment similar to real construction site
- ✓ A facility for solution proposal, demonstration, education, and innovation creation

Japan's first!

Located in headquarters:
Itabashi, Tokyo



Seminars and events are held on regular basis
Visitors from 80 companies are expected in FY2021



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I will talk about increase for investments in “DX business for building construction”.

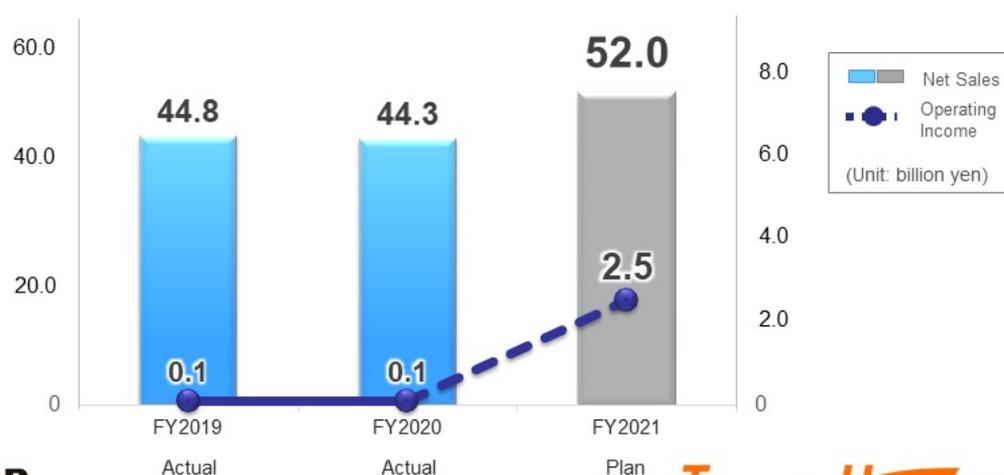
We have recently hired a first-class architect from the outside, and also increase recruitment of highly skilled professionals from construction consultants, construction material companies, and CAD/BIM software companies as the know-how of these professionals from outside is essential for launching the new DX business.

In addition, we are developing a wide range of new products including hardware and software to enhance our product portfolio for the building construction.

Furthermore, like the U.S. test site as I introduced earlier, it is necessary to make our clients understand the new values/solutions in the building construction practices. Therefore, we have established a new interactive demo/education facility at our headquarters in Itabashi, Tokyo. We can call it a building construction version of the test site by creating a facility where various construction processes are replicated. We aim for our clients to experience and recognize new values that we offer.

By making it a hub for solution proposals, demonstrations, education, and innovation creation, we hope to create new values in the field of building construction as we succeeded in the field of civil engineering and agriculture.

- Sales expansion of new strategic product “Chronos”
- Expanding Screening Business with Maestro2 and NW400
- Some uncertainty in China despite uptrend in business activity
- Expanding impacts of component shortages, and surges of component and logistics costs



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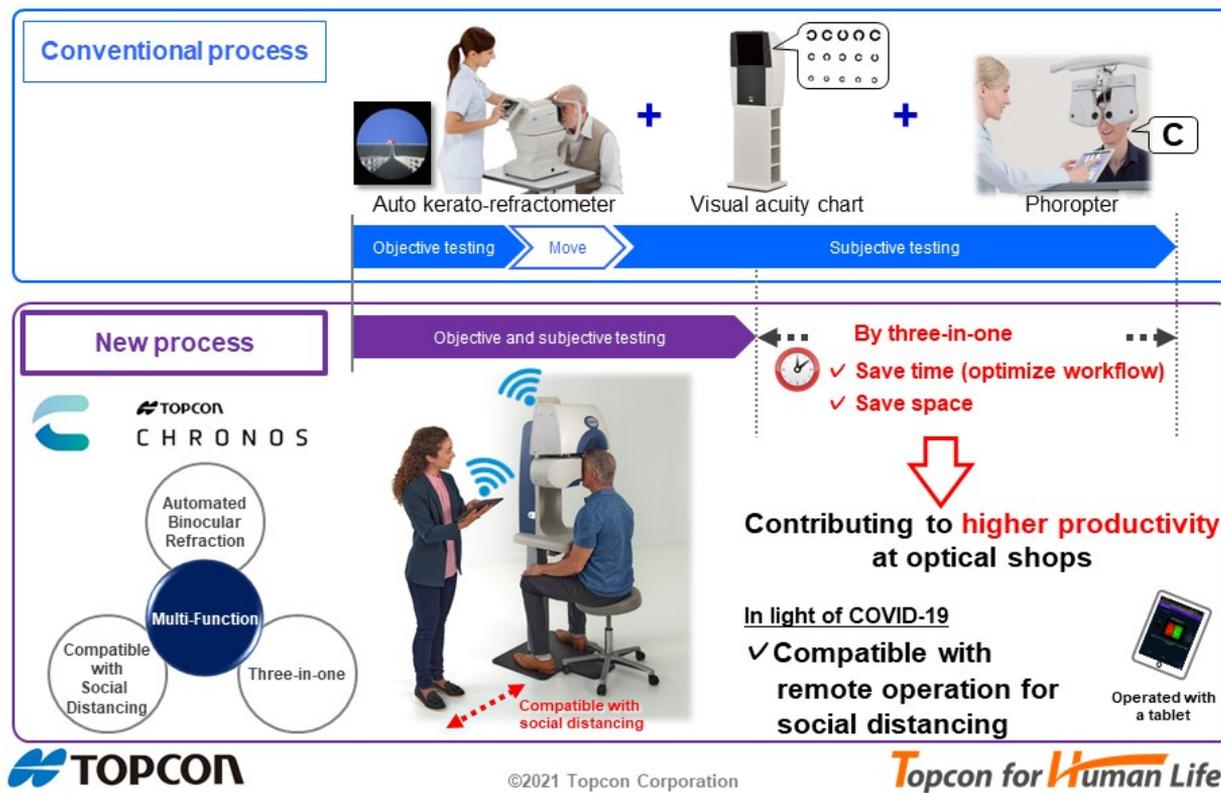


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This slide shows the Eye Care Business.

We expect sales expansion of new strategic product "Chronos" I will touch on the next slide. We also see the prospect of further expansion in the Screening Business with 3D OCT Maestro 2 and fundus camera NW 400. Although our business in China is expanding, there are some uncertainties going forward. In addition, we have to prepare for expanding negative consequence from component shortages, and surges of component and logistics costs like other businesses.

Improvement of the productivity by three-in-one technology



Here is a topic about sales expansion of new strategic product “Chronos.”

The most distinctive feature of this product is its three-in-one function that highly contributes to productivity improvement. When you make eyeglasses, it is needed to determine power of the lenses. Let me explain the process. First, you undergo an objective test, which automatically inspects the presence of myopia, farsightedness, and/or astigmatism. Then, you have to take a subjective test, in which you are asked to indicate the direction in which the letter "C" or "E" is pointing to. Lastly, the lenses are selected by using a phoropter.

The newly launched “Chronos” offers a revolutionary new process. It can measure both eyes simultaneously which contribute to a timesaving. In addition, it integrates three processes (auto kerato-refractometer, visual acuity chart, and phoropter) into a single unit for space-saving and can contribute to significantly improve productivity at optical shops.

We expect the sales of Chronos to increase in 2H.

Expanding Screening Business with Maestro2 and NW400

Eye Care

- Expanding markets in the focusing markets in the U.S., Europe, and China
- Growing sales despite unprecedented COVID-19 pandemic

Maestro2 ^{*1}



Fully automatic

- Fundus photography
- OCT scanning
- Reference data installed ^{*3}

^{*3} Comparison with a database of healthy eyes enables physicians to support diagnosis



- Won the large orders from optical chain stores in Europe
- Resuming business talks with certain orders at shows in the U.S.

NW400 ^{*2}



Fully automatic

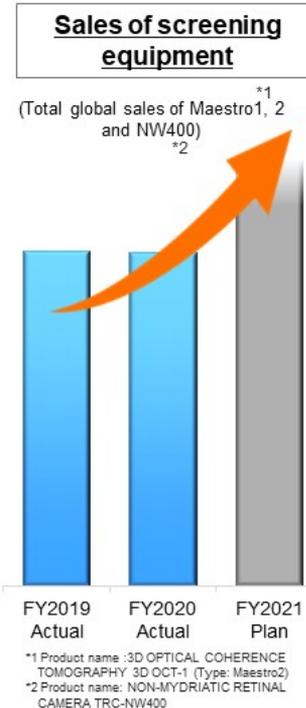
- Fundus photography
- Reading services ^{*4}
- AI diagnosis ^{*5}

^{*4} Diagnostic support services at reading centers, offered in the U.S. only as of now

^{*5} AI-based diagnostic services supported by AI companies



- Won the large orders from medical and health care group utilizing AI in China
- Won the large orders from optical chain stores in the U.S.



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Now I would like to discuss about the progress of the Screening Business.

Just to give you a quick review, Maestro2 is a fully automatic screening equipment for fundus photography and OCT scanning, and can support the diagnosis of doctors with installed reference data base of healthy eyes.

NW 400 is also a fully automatic screening equipment that has simple fundus photography function. In addition, NW400 has scalability such as image reading services (which is offered in the U.S. only as of now) or AI diagnosis supported by other AI vendors.

What we call "Screening Business" is to increase install base of screening equipment in the space of non-eye clinics, such as optical shops, drug stores, and primary physicians' clinics, and offer examinations by optometrists and primary physicians for early detection of eye diseases.

The business has been significantly expanding and has contributed to our sales growth. As the graph shows, the sales in FY2020 remained almost unchanged YoY despite COVID-19 environment. Then, the sales are sharply growing YoY in 1H of FY2021, and thus we expect a significant sales increase for the full year.

Based on these measures, we're projecting a full-year operating income of 2.5 billion yen for the Eye Care.

III. Summary



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In closing, I will summarize today's presentation.

Summary

- Upward revision: net sales 117% YoY, operating income 190% YoY, net income 2.7 times from FY2020

Net sales
Operating income
(unit: billion yen)



160.0

+11.0
Increase from the plan previously announced *

12.5

+2.5
Increase from the plan previously announced *

* Announced on July 30

FY2021 Plan

Increase Sales · Profit · Dividend

	FY2021 Plan	YoY
Net Sales	¥160.0B	+17%
Operating Income	¥12.5B	+90%
Ordinary Income	¥10.5B	+88%
Net Income	¥6.5B	+174%
Dividends	¥20	FY2020 Actual ¥10



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In summary, we revised up net sales by 11 billion yen and operating income by 2.5 billion yen. It means we're projecting net sales of 117% YoY, operating income of 190% YoY and net income of 2.7 times compared to the previous fiscal year.

This concludes my presentation of our results for FY2021 Q2 and plans for the full year.

Thank you very much for your time.

Questions and Answers

<Common subjects>

Special factors (component shortages and tightening supply chains):

Q. Special factors were negative 3.5 billion yen for the full year. How much of this is attributable to 1H and what is the breakdown by segments?

A. The impact in 1H was limited to only several hundred million yen.

The Positioning Company accounts for roughly half of the 3.5 billion yen, and the remaining half is divided between the Smart Infrastructure Business and the Eye Care Business.

Q. Is the 3.5 billion yen of special factors based on the maximum consideration for risk, or an average assumption with the current situation?

A. As there are many uncertain factors, the negative 3.5 billion yen is a figure based on our best estimate as of now. We acknowledge that there could be greater cost burdens in some cases.

Q. OP Margin: What are the reasons for the deteriorating OP margin in 2H compared to 1H? Is it due to component shortages and the surge of logistics costs, or do you expect any changes in demand or the sales mix?

A. This is mainly due to problems in supply chains, and factors such as demand and changes in the sales mix are minimal. In addition to the supply chain problems, we assume that investment in the construction DX business will push down profits for smart infrastructure in the second half.

Q. Outside Director: What role do you expect Mr. Yoshiharu Inaba will play, and what contributions do you expect from him?

A. The primary reason for appointing him as an Outside Director is his knowledge of the systematization of industrial machinery. FANUC introduced computer-aided control in general-purpose lathes and machine tools for factory automation 50 years ago. I would like such a great business professional with this knowledge and experience to advise us on our products for the automation of machinery, so that we can accelerate the expansion of our IT Construction and IT Agriculture businesses.

<Positioning Company>

Q. 2H forecast: Concerning the slight drop in sales forecast in 2H compared to 1H, could you explain whether the problem lies in the supply or the demand factor? Do you expect an inability of some shipments in 2H or a reactionary decrease due to a surge in 1H sales?

A. We see no downturn in demand, but we expect some delay in shipments and sales due to the tightening supply chains.

Q. Demand outlook: With regard to demand prospects, is it correct to understand that customers' investment appetite continues to fluctuate cyclically in response to economic fluctuations, or is it better to understand that demands are expanding thanks to certain change in introducing automation technology in the wake of COVID-19?

A. It is true that COVID-19 pandemic has led to an increase in demands for introducing the automation technology. However, we think it's because of significant demands for infrastructure globally.

Q. Expanding OEM partners and joint development: I think the construction machinery market is an industry with little changes in OEM relationships. Are there any negotiations in progress with the new partners?

A. Since there are still many manufacturers those who do not have lineup of machinery with IT Construction feature, the number of joint development projects are increasing.

<Smart Infrastructure Business>

Q. OP margin: Why was the OP Margin for Q2 alone so high?

A. The margin tends to fluctuate in a short period of time due to factors such as differences in sales mix and unrealize gain/loss. We would highly appreciate if you could look at our performance in a longer period such as six months.

Q. Investments in DX business for building construction: Do you plan to cease the investments by the end of this fiscal year, or continue towards the next fiscal year?

A. We plan a certain amount of investment in the next fiscal year and onward with consideration of cost-effectiveness.

Q. IT Construction & IT Agriculture: Could you explain in detail about "expanding sales of machine guidance system for medium to small sized construction sites" and "launch of strategic new products" (ref. p20) and what are your expectations?

A. We have already launched "KUI-NAVI SHOVEL", a machine guidance system for medium to small sized construction sites, and the sales trend is favorable. With regard to strategic new products, we are going to launch a new Auto Steering System for IT Agriculture on November 1. I'm afraid we have to refrain from announcing the details before the official release. The product will be a successor to the current product with some improvements.

<Eye Care Business>

Q. Screening Business: What are the prospects for sales in the next fiscal year and onward? Also, how do you see the expansion of recurring business hereafter?

A. We would say that the sales for current fiscal year is entering a growth mode rather than recovery mode. We believe we can keep it up in the next fiscal year. We are confident that our differentiating factors of the IT solutions based on our IoT platforms will continue to play a huge role in winning orders from new optical chain stores. The profit contribution from the recurring revenues is not large yet in the next fiscal year. However, it is certainly effective as a differentiating factor, and will greatly contribute to the growth of the Screening Business.

Factors for OP margin deterioration:

Q. I understand that the business is entering a growth phase, but what is the cause of the decline in OP margin over the past five to ten years compared to other business segments? Is it attributable to structural changes and/or changes in sales mix and COGS due to the impact of COVID-19?

A. There have been no significant changes in the market between before and after COVID-19, rather we receive a tailwind from increasing demands for social distancing and automation. Although there has been negative impact from our upfront investment in new organization development to enhance our IT solution capabilities back in 2017 in New Jersey, U.S., the positive effects of the investment are beginning to appear. We expect our profits to grow in line with the sales growth.

Q. When do you expect the OP margin to exceed 10% as before? Will it be in a few years after the upfront investment is over?

A. We cannot give you clear answer because we have not even announced the guidance for the next fiscal year. We see the sales are steadily growing, and the sales forecast for this fiscal year is record high with 52 billion yen. As we do not plan to make significant upfront investments in the near future, we expect the profit to increase in line with the sales growth.

Q. Large Orders: How long will it take to recognize the sales for the large orders of Maestro 2 and NW 400 (ref. p24)? Will it be mainly in Q3, until Q4, or to the next fiscal year?

A. The sales of this large order were already recognized in Q2. We have been constantly receiving orders not only from large optical chain stores, but also from small and medium size chain stores.

Q. Factors for the recovery in 2H: Is it correct to understand that the factors for the recovery in 2H are the expansion of sales of Chronos and the accumulation of various orders?

A. Yes.

IV. Appendix

Issuance of Topcon Report 2021

- We issued an integrated report with enhanced non-financial information in September

■ Website: <https://global.topcon.com/invest/library/integration/>

Message from the CEO

A Venture Company with 89 Years of Tradition

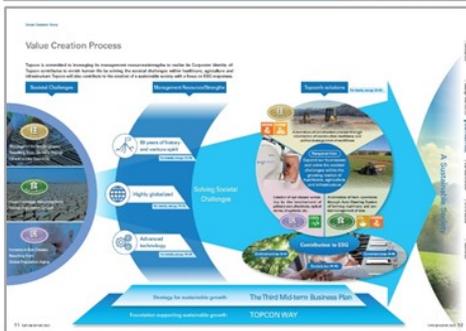
— The History and Future of Creating New Markets —

Satoshi Hirano President & CEO

We offer our heartfelt sympathy to all those who have been affected by COVID-19, and would also like to express Topcon's sincere gratitude to the healthcare professionals working on the front lines of treatment and vaccination.

The impact of the COVID-19 pandemic placed significant restrictions on our business activities all over the world in FY2020. However, as we see a clear recovery trend, we are ready to take bold steps again toward the future. President Satoshi Hirano discusses herein the current situation and future of Topcon, as well as the history and the detailed background of our business in the domains of healthcare, agriculture and infrastructure.



Interview with an Outside Director

The Future of Topcon through the Eyes of a Legend of the Manufacturing Industry

Yoshiharu Inaba Chairman (Representative Director) of TANAKA CORPORATION, and Outside Director of TOPCON CORPORATION

Yoshiharu Inaba was born in 1940 in Torokai, Prefecture. He graduated from the Department of Mechanical Engineering, School of Engineering, Tokai Institute of Technology (TIT), and after working for Shimizu Seiki, he joined TANAKA in 1965. He is a former chairman of industrial robots that produced the precision of machine tools and is not limited to that day in the development of a new member of industrial robots with an exceptionally large share of the global market. He became Senior Executive Vice President, Representative Director in 2010, President and CEO Representative Director in 2013, followed by Chairman and CEO in 2016, and then assumed his current position as Chairman (Representative Director) in 2019. In 2020, he assumed the current position of Outside Director.

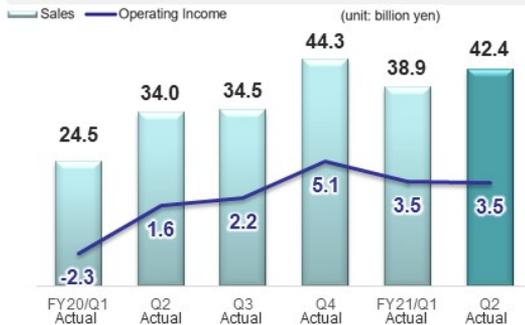
TANAKA CORPORATION
It is a pioneering company in CNC of machine tools (Factory Automation market). In the field of FA, it has high market share of more than 10% in both global and domestic markets. It has net sales of 400.13 billion and operating income of 49.12 billion for the fiscal year ended March 31, 2021.



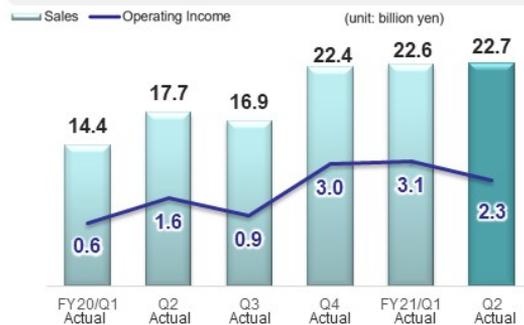
■ Website: <https://global.topcon.com/invest/library/integration/>

Financial Results (Quarterly)

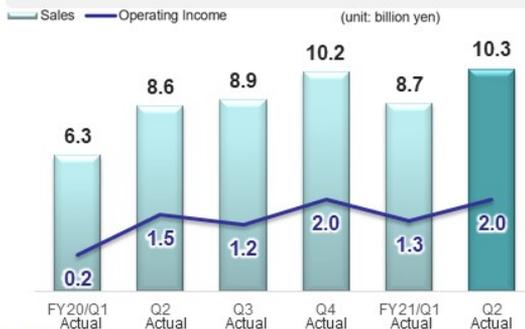
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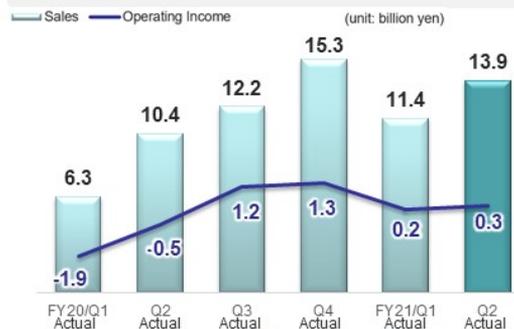
Positioning



Smart Infrastructure



Eye Care



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Financial Results and Plan (Semiannually)

Consolidated



Positioning



Smart Infrastructure



Eye Care



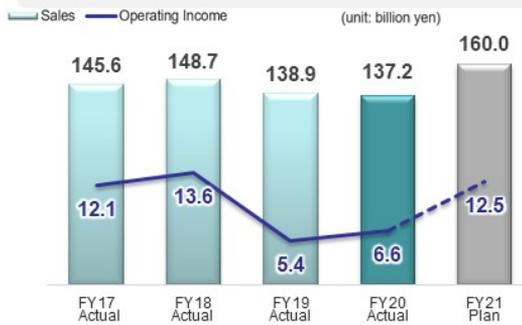
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Financial Results and Plan (Annually)

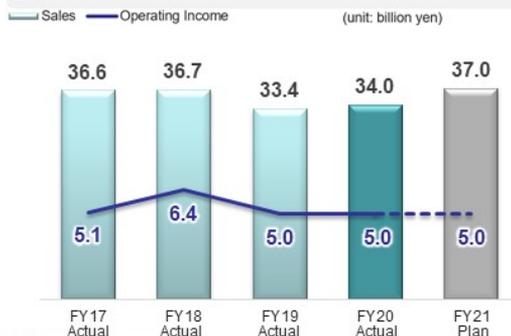
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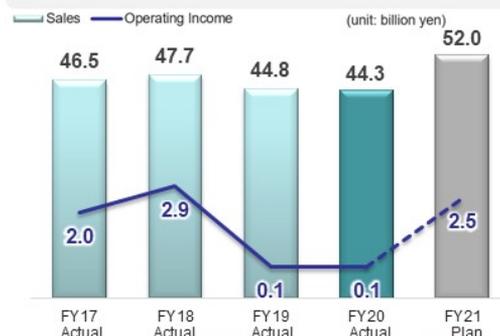
Positioning



Smart Infrastructure



Eye Care

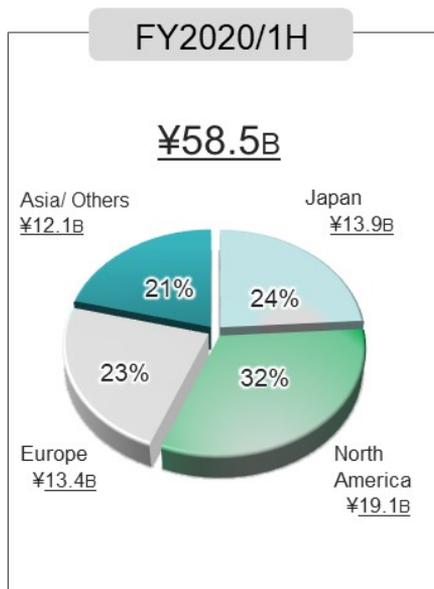


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Sales by region



YoY
+39%



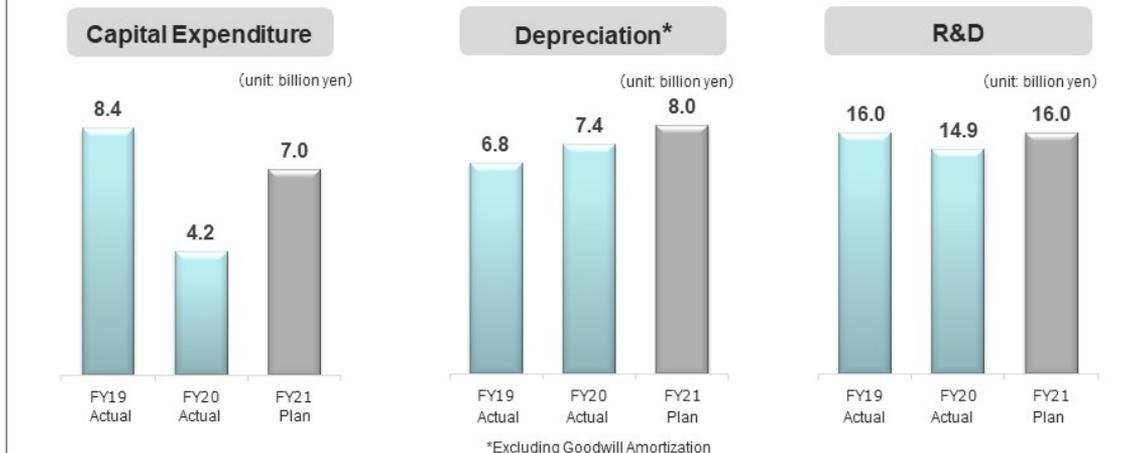
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Capital Expenditure and R&D / Forex Sensitivity

■ Projections



■ Forex Sensitivity (impact by ¥1 change)

USD : Operating Income ¥0.15B - ¥0.2B

EUR : Operating Income ¥0.07B - ¥0.1B

