TOPCON CORPORATION

FY2022 Financial Results

May 12, 2023

Event Overview

Company	TOPCON CORPORATION
Event Type	Presentation of Financial Results, Presentation of Mid-term Business Plan
Event Name	FY2022 Financial Results Mid-term Business Plan 2025
Report Period	FY2022
Date	May 12, 2023
Time	3:30-4:40 PM (Total time: 70 minutes; Presentation: 50 minutes; Q&A: 20 minutes)
Venue	Sapia Tower 5F 1-7-12 Marunouchi, Chiyoda-ku, Tokyo (On-site only)
Number of Speakers	4 Satoshi Hirano — Representative Director, Chairman of the Board of Directors Takashi Eto — Representative Director, President & CEO Haruhiko Akiyama — Director, Senior Managing Executive Officer, General Manager of Accounting & Finance Div. Takaaki Hirayama — Executive Officer, General Manager of Corporate Communication Div.

Contents

FY2022 Financial Results

Ⅰ. FY2022 Financial Results

Ⅱ. The Third Mid-term Business Plan Review

Ⅲ. Appendix

TOPCON

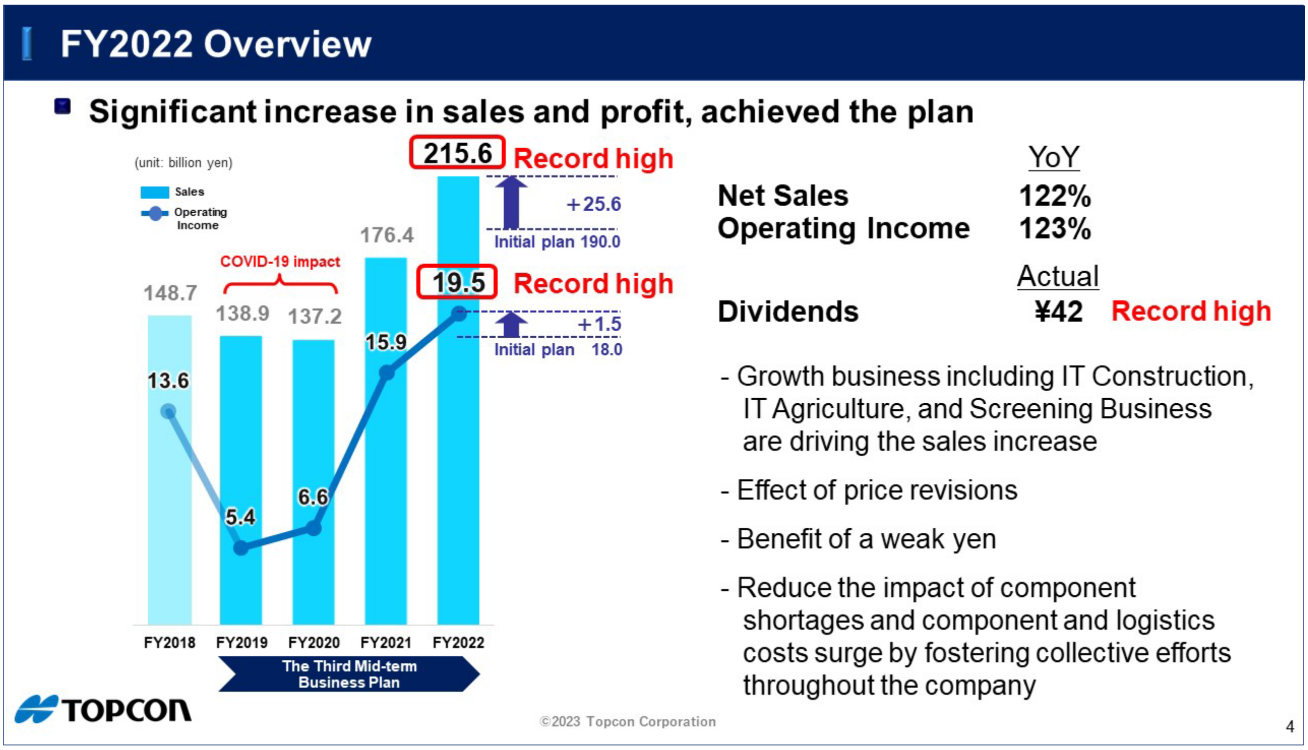
Hello, I am Satoshi Hirano, and I have been the chairman since April of this year. Thank you very much for taking the time to attend today’s briefing. I would like to report our financial results for FY2022 during my tenure as president and CEO.

Today, I will explain our financial results for FY2022, followed by a review of the Third Mid-term Business Plan and the review of the 10 years that I was president and CEO.

Ⅰ. FY2022 Financial Results

I-1. FY2022 Financial Results

I-2. Overview of Each Business



This is an overview of our results in FY2022. We posted significantly increased sales and operating income of 215.6 billion yen and 19.5 billion yen, respectively. The result is very favorable with sales increasing 122% YoY and operating income increasing 123% YoY.

We plan to pay a record high dividend of 42 yen per share. The key points of the results are shown on the slide and they are almost the same as those for Q3.

FY 2022 Financial Results

(unit: million yen)

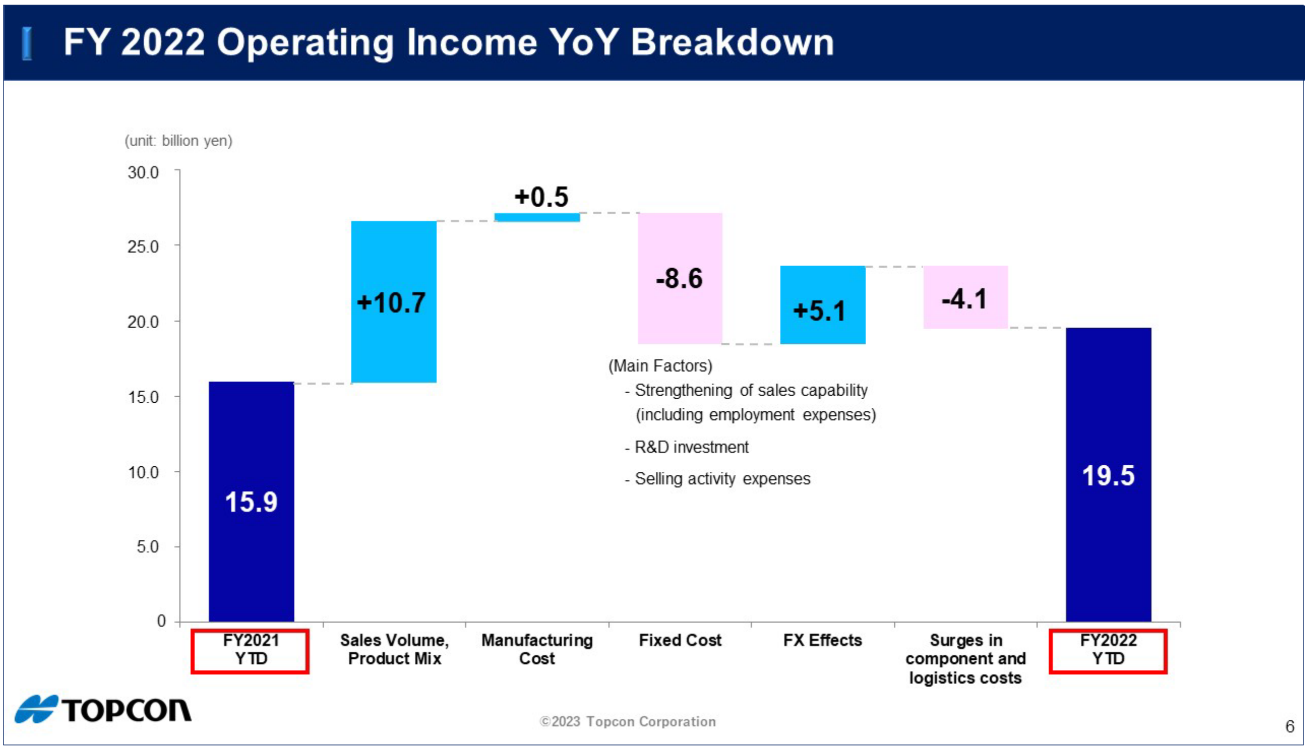
	FY2021	FY2022			
	Actual	**Actual**	YoY	%	Plan* *Announced on January 30
Net Sales	176,421	**215,625**	39,204	+22%	205,000
Gross Profit (Gross Profit Ratio)	90,093 (51.1%)	**112,401** (52.1%)	22,308		
SGA	74,178	**92,864**	18,685		
Operating Income (Operating Income Ratio)	15,914 (9.0%)	**19,537** (9.1%)	3,622	+23%	19,500 (9.5%)
Non-Operating Income (Expenses)	-1,094	**-1,707**	-612		
Ordinary Income	14,820	**17,829**	3,009	+20%	18,000
Extraordinary Income (Loss)	-174	**-1,791** *	-1,616		
Income Before Income Taxes and Minority Interests	14,645	**16,038**	1,392		
Net Income	10,699	**11,806**	1,106	+10%	12,500
ROE	14.0%	**13.2%**			14%
Dividends	¥36	**¥42**			¥42
Payout Ratio	35%	**37%**			
Exchange Rate (Average) USD	¥112.86	¥134.95	¥22.09		(Q4 Assumption) ¥130
Exchange Rate (Average) EUR	¥131.01	¥141.24	¥10.23		¥135

*Impairment loss on certain development expenses and Asbestos-related expenses, and settlement money

5

I will discuss major points here in the detailed figures. Extraordinary losses amounted 1.8 billion yen. The negative 1.6 billion yen from the previous fiscal year consists of an impairment loss on certain development expenses, costs for the disposal of asbestos discovered during the demolition of old company buildings, and its settlement money.

As a result, we nearly achieved the previously announced sales, operating income, and ordinary income, but unfortunately, it was a little short of net income. We recorded an ROE of 13.2% slightly below the previously announced target of 14%.



Next is a YoY analysis of changes in operating income for FY2022. The sales volume/product mix contributed +10.7 billion yen including the price revisions. Manufacturing cost reduction also contributed +0.5 billion yen.

Fixed costs mainly associated with investments totaled -8.6 billion yen. Although FX effects were favorable due to the weaker yen, they were offset by surging component and logistics costs. They all add up to 19.5 billion yen.

Ⅰ. FY2022 Financial Results

I-1. FY2022 Financial Results

I-2. Overview of Each Business

I will now discuss our results by business segment.

Overview of Each Business

Positioning

Record high sales and operating income

(unit: million yen)

	FY2021	FY2022			
	Actual	**Actual**	YoY	%	Plan* *Announced on January 30
Net Sales	96,692	**124,731**	**28,039**	**+29%**	118,000
Operating Income (Operating Income Ratio)	11,548 (11.9%)	**15,427** (12.4%)	**3,878**	**+34%**	14,500 (12.3%)
Exchange Rate (Average) USD	¥112.86	¥134.95	¥22.09		
Exchange Rate (Average) EUR	¥131.01	¥141.24	¥10.23		

Review of Financial Results

Overall

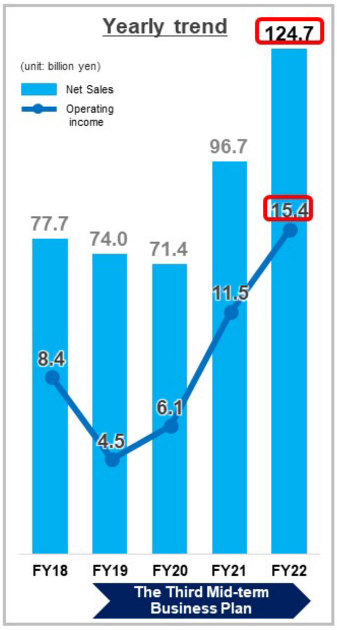
- Significant sales and operating income growth by capturing strong demand despite component shortages
- Continued impacts of component and logistics cost surges

IT Construction and IT Agriculture

- Continuing strong sales for both aftermarket and OEM

Surveying and laser products

- Sales decrease due to component shortages for surveying and decreasing residential investment for laser



8

First is Positioning Company. Net sales and operating income reached record highs. Sales and operating income were 129% and 134%, respectively, indicating very favorable results.

The trend that materialized in Q4 was a decline in housing starts in the U.S. leading to a slight decline in sales of laser products which are necessary for housing construction. Overall, we can say that we achieved a certain amount of growth.

Overview of Each Business

Smart Infrastructure

Record high sales

(unit: million yen)

	FY2021	FY2022			
	Actual	Actual	YoY	%	Plan* *Announced on January 30
Net Sales	39,040	**42,163**	**3,122**	**+8%**	42,000
Operating Income (Operating Income Ratio)	5,821 (14.9%)	**5,037** (11.9%)	**-784**	**-13%**	5,000 (11.9%)
Exchange Rate (Average) USD	¥112.86	¥134.95	¥22.09		
Exchange Rate (Average) EUR	¥131.01	¥141.24	¥10.23		

Review of Financial Results

Overall
- Solid sales in Japan, sales growth in Asia and the Middle East
- Continued impact from the decline in production for surveying instruments due to component shortages

IT Construction and IT Agriculture in Japan
- Significant growth in sales of automation systems for small to medium-sized construction and agricultural machinery

Investment for growth
- Building construction DX: Increase sales force for sales network and development of new business partners, and large orders from major home construction groups
- Asia: Recruiting talented resource and strengthening organization for market development

Yearly trend

9

Next is Smart Infrastructure Business. We posted net sales of 42.2 billion yen and operating income of 5.0 billion yen. Net sales increased by 3.1 billion yen and the decrease in operating income was in line with our plan.

The decrease in income is attributable to investments. The Business had a fairly high operating margin ratio before FY2021 during the Mid-term Business Plan. However, we are investing to develop larger businesses, especially in building construction DX to enable us to flourish in the future. We are also investing to develop markets for IT Construction and IT Agriculture in Asia. As a result, we posted an operating income of 5.0 billion yen as per our plan.

Overview of Each Business

Eye Care

Record high sales

(unit: million yen)

	FY2021	FY2022			
	Actual	**Actual**	YoY	%	Plan* *Announced on January 30
Net Sales	57,352	**66,899**	**9,547**	**+17%**	65,000
Operating Income (Operating Income Ratio)	3,203 (5.6%)	**3,968** (5.9%)	**765**	**+24%**	5,000 (7.7%)
Exchange Rate (Average) USD	¥112.86	¥134.95	¥22.09		
Exchange Rate (Average) EUR	¥131.01	¥141.24	¥10.23		

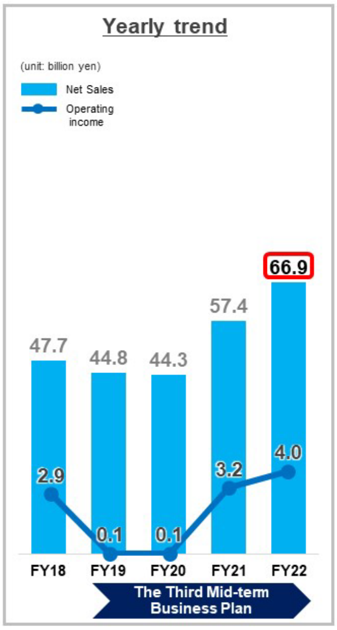
Review of Financial Results

Overall

- Significant increase in sales thanks to strong revenue in the U.S., Europe and Asia despite component shortages
- Sales decline in China due to the prolonged impact of COVID-19
- Continued impact of component and logistics cost surges
- Upfront investment for new businesses

Screening equipment, digital optometry system

- Continued high level of sales for major optical chain stores in the U.S. and Europe



10

In Eye Care Business, sales and operating income increased significantly. It was mainly thanks to the strong growth of the Screening Business. Meanwhile, we posted operating income of 4.0 billion yen, which is 1.0 billion less than the previously announced 5.0 billion yen. This is partially due to a sudden unexpected expense. As the expense was one-time, we believe that it will not adversely affect our business operations.

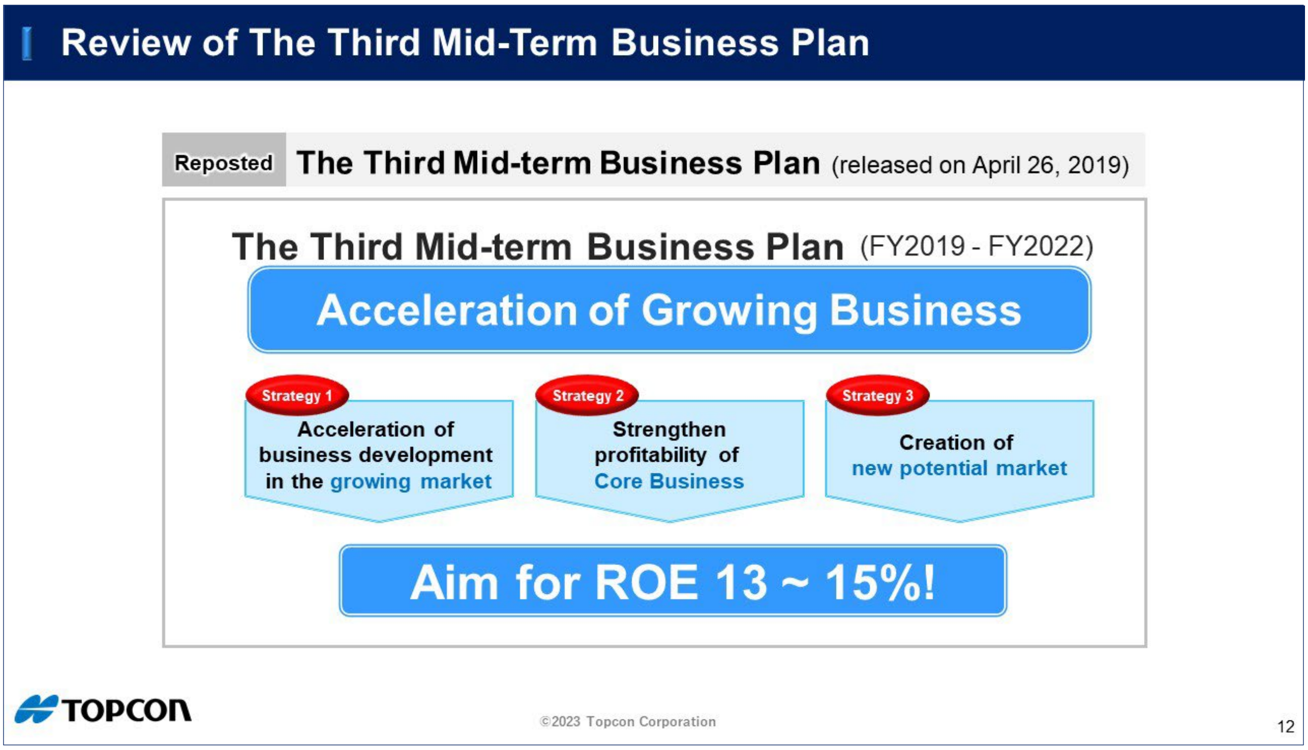
Ⅱ. The Third Mid-term Business Plan Review

Ⅱ-1. The Third Mid-Term Business Plan Review

Ⅱ-2. Review by Business

Ⅱ-3. Summary

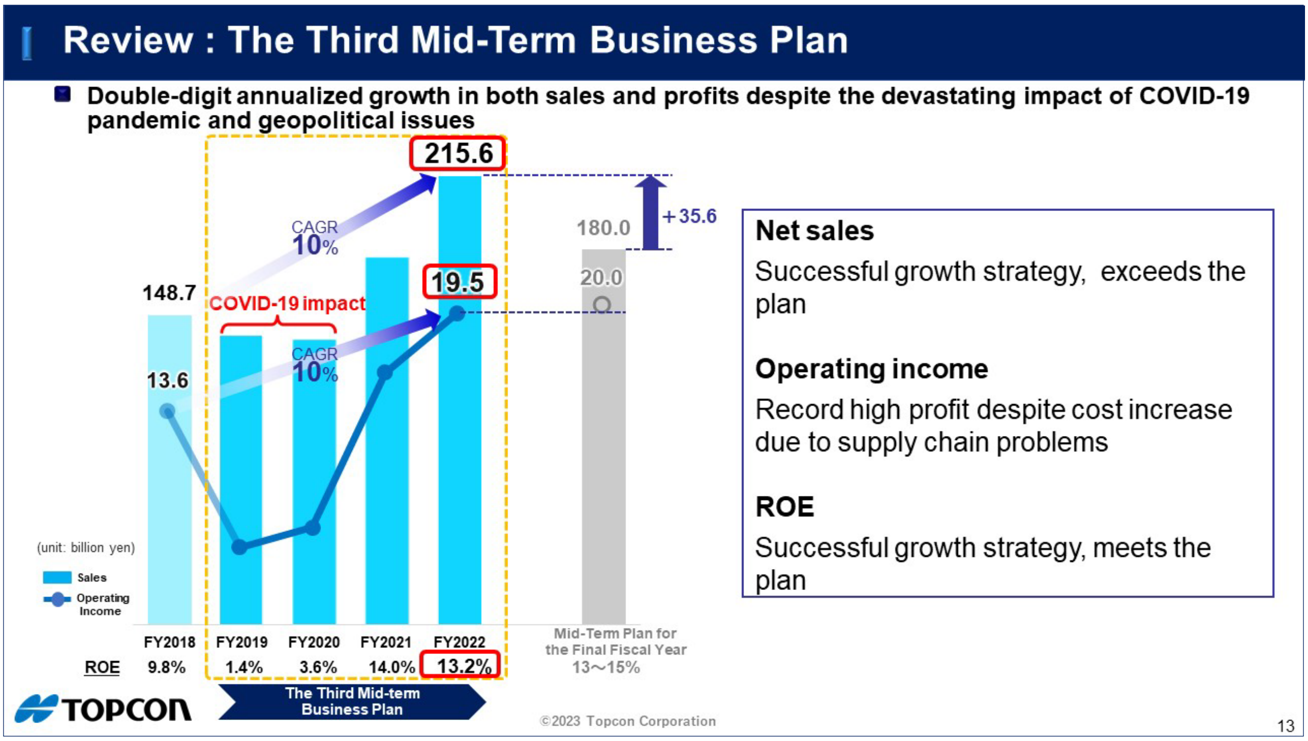
Let me review the Third Mid-term Business Plan.



We would like to review the four-year period of the Third Mid-term Business Plan which was extended one year from the original three-year plan due to the COVID-19.

The slide is a reposted from the presentation announced on April 26, 2019. Under the Third Mid-term Business Plan, the three pillars for the acceleration of growing business were to achieve an ROE of 13-15% by implementing three strategies:

1. Acceleration of business development in the growing market
2. Strengthen profitability of Core Business, and
3. Creation of new potential market.



We will first examine the plan from a numerical perspective. While the targets for the final fiscal year of the plan were net sales of 180 billion yen and operating income of 20 billion yen, we generated strong sales that significantly exceeded the plan.

Regarding operating income, we have nearly accomplished our plan and would have fully achieved it if we had not incurred a sudden unexpected expense mentioned earlier. In terms of the average annual growth rate, we achieved a double-digit CAGR of 10% in both sales and operating income.

We also achieved an ROE of 13.2% when we had planned 13-15%.

Ⅱ. The Third Mid-term Business Plan Review

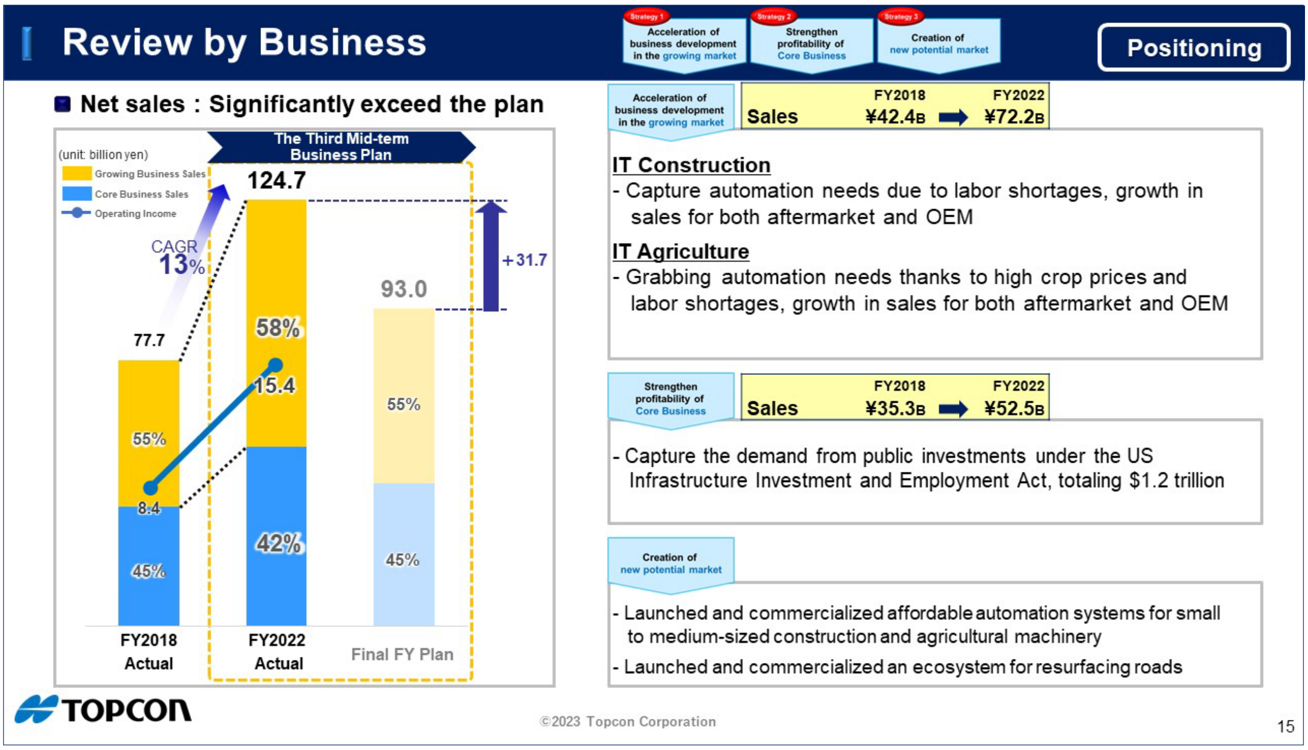
Ⅱ-1. The Third Mid-Term Business Plan Review

Ⅱ-2. Review by Business

Ⅱ-3. Summary

TOPCON

Here, we will present a detailed review of our business.



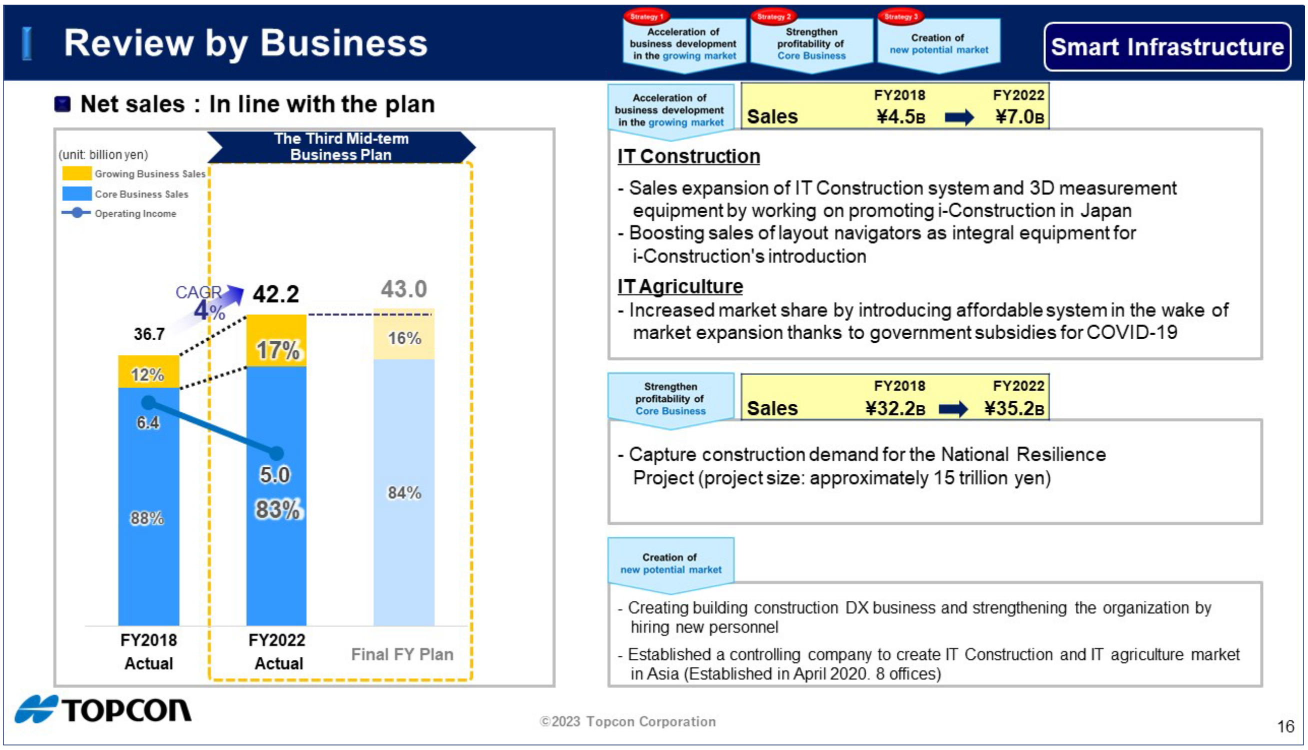
First is Positioning Business. The graph on the left side of the slide shows the results for FY2018 and FY2022 as well as the targets set out in the Mid-term Business Plan.

The net sales target was set at 93 billion yen, The net sales target was set at 93 billion yen, with 55% of net sales from Growing Businesses and 45% from Core Businesses. The actual results demonstrated remarkable growth, with an achieved CAGR of 13%. Notably, sales in our Growing Businesses surged from 42.4 billion yen to 72.2 billion yen, resulting in their increase to 58% of net sales.

Within our Core Businesses, sales steadily increased from 35.3 billion yen to 52.5 billion yen, primarily attributed to effectively capturing the demand coming from public investments in infrastructure.

In addition to the growth observed in the aforementioned Growing and Core Businesses, we have also ventured into creating new potential markets. Alongside the high-end systems tailored for mid-to-large sized construction and agricultural machinery, which we have focused on, we introduced inexpensive automated systems designed for small-to-mid sized construction and agricultural machinery. These initiatives have now started to flourish.

Regarding pavement-related activities, our company introduced the world's first proprietary ecosystem for resurfacing. Subsequently, we have been making progress toward commercialization, which has resulted in the development of new markets.



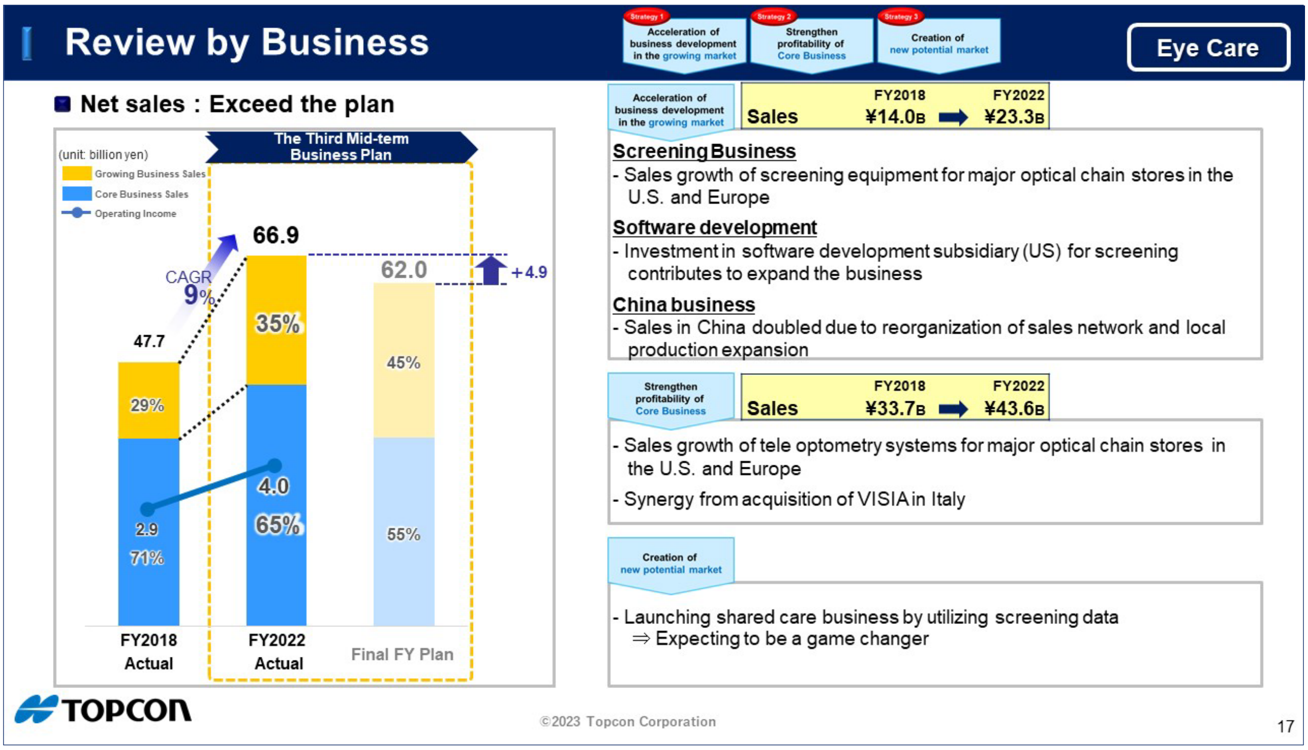
In Smart Infrastructure Business, net sales were 42.2 billion yen, which is close to the 43 billion yen target in the Mid-term plan, and the CAGR remained steady at 4%.

In Growing Businesses, we can say that IT Construction and IT Agriculture in Japan grew steadily. In Core Businesses, we achieved consistent growth by capitalizing on the demand generated by the National Resilience Program.

In terms of investments in Smart Infrastructure Business, we have successfully established the building construction DX business which did not exist merely three years ago. And now it has indeed flourished

We also established a company focused on creating markets for IT Construction and IT Agriculture within the Asian market and are making ongoing investments.

Sales growth is in line with our plan, and operating income is down from FY2018. While we do not disclose specific operating income figures for each business under the Mid-term Plan, it has remained in line with our expectations.



In Eye Care Business, we have achieved significant growth, with sales of 66.9 billion yen against the planned sales of 62 billion yen. I believe we are demonstrating the transition of Eye Care Business from its investment phase to a payback phase.

Above all, Screening Business is expanding very rapidly. Things that didn't exist at all ten years ago are growing today. Businesses including software development and the introduction of new products are experiencing notable growth.

Our China business experienced a temporary decline due to the COVID-19 pandemic, but it has grown significantly over the past four years as we reorganized our distribution network and expanded local production.

Within our Core Businesses, the adoption of our company's digital optometry system by major optical chain stores in the U.S. and Europe led to a significant increase in sales. The increase was primarily driven by the increased demand for remote optometry services during the pandemic, which served as a tailwind for the digitalization efforts we have been actively promoting.

As for the “Creation of a new potential market,” we are now able to acquire large amounts of data by promoting Screening Business, which we had been investing in.

Utilizing the data, the shared care business is emerging.

We expect this business to be a game changer. Please look forward to the future of Eye Care Business.

Ⅱ. The Third Mid-term Business Plan Review

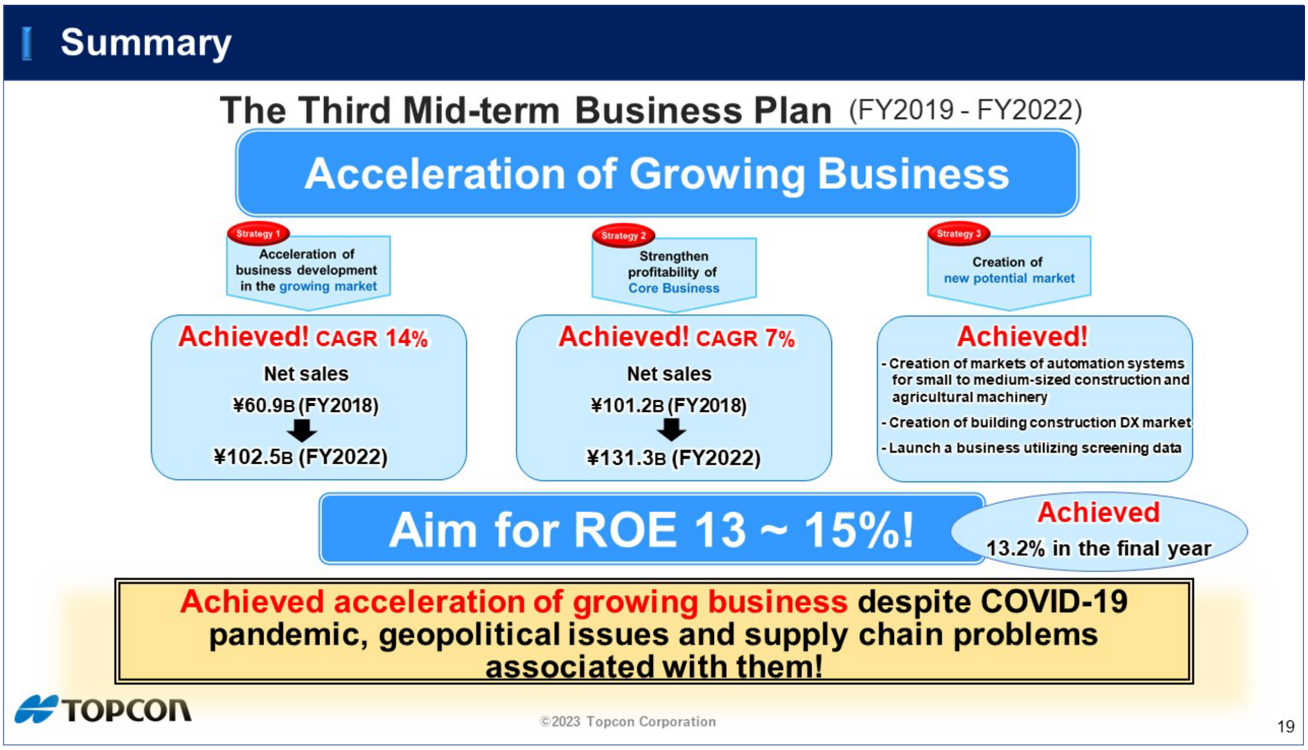
Ⅱ-1. The Third Mid-Term Business Plan Review

Ⅱ-2. Review by Business

Ⅱ-3. Summary

TOPCON

Finally, a summary.



All three strategies for the acceleration of Growing Businesses, the theme of the Third Mid-term Business Plan, were successfully achieved.

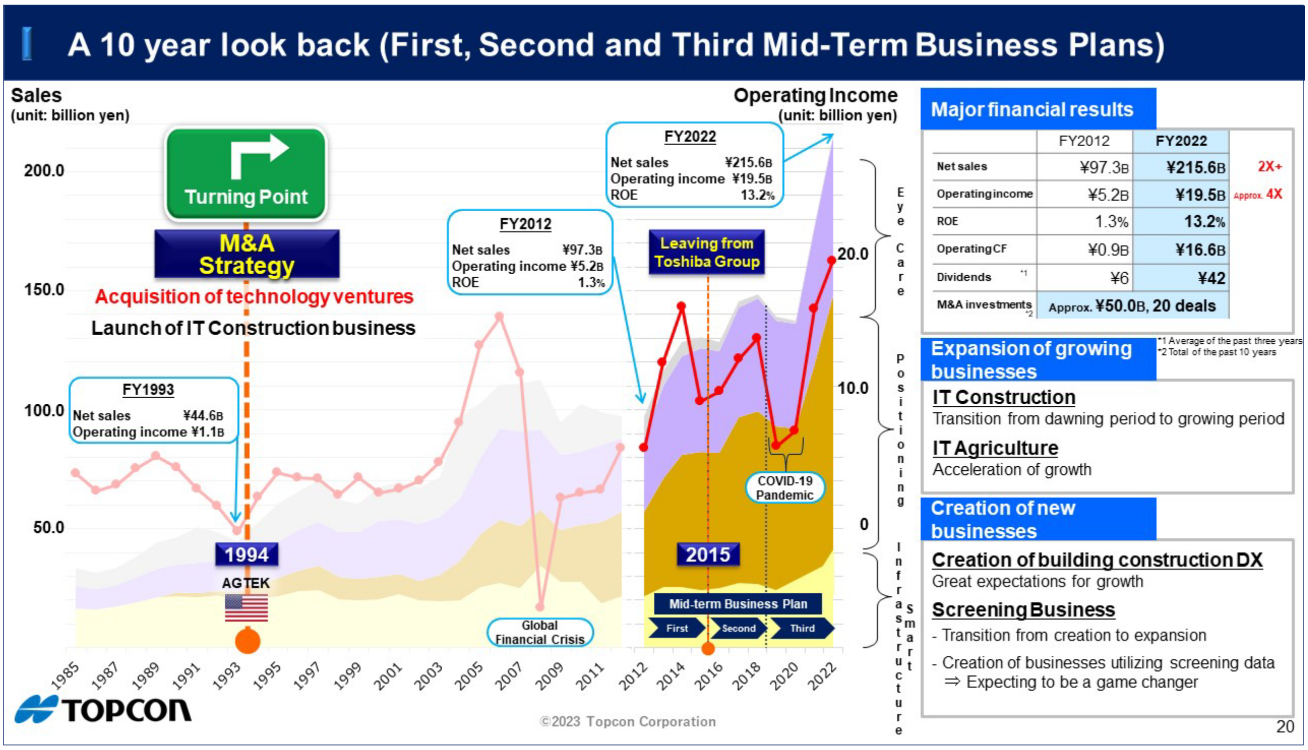
The first of these strategies, the acceleration of business development in growing markets, enabled Growing Businesses to achieve significant sales with a CAGR of 14%. The second strategy, strengthen the profitability of Core Businesses, also enabled sales of Core Businesses to grow at a CAGR of 7%. Profitability itself also increased as sales grew.

With regard to the third area, the creation of potential new markets, we successfully created some new markets, including automation systems for small-to-mid sized construction and agricultural machinery and building construction DX business. We also launched a business called shared care, which utilizes screening data in Eye Care Business. We believe that this business to be a game changer and it holds immense promise. We are confident that the seeds we sowed through upfront investments are starting to bear fruit. We are expecting the future growth and development that lies ahead.

We achieved an ROE of 13.2%.

Overall, we can say that we were able to accelerate the Growing Businesses despite the pandemic, geopolitical issues and supply chain problems.

This concludes our review of the four years of the Third Mid-term Business Plan.



Lastly, I would like to take this opportunity to share my review of the past 10 years as it is my final chance to present our results briefing.

The Mid-term Business Plan is typically designed to have a duration of three years. However, only the last Third Mid-term Business Plan was extended one year to a total of four years due to the impact of the pandemic. Hence, the comprehensive review spanning a total of ten years looks at the first 3 years, the second 3 years, and the last 4 years.

Please refer to the graphic chart on the left side of the slide which displays sales trends. Starting from the bottom of the area graph, it showcases the performance of Smart Infrastructure Business, Positioning Business, and Eye Care Business.

I would like to reflect on the year 1994, which was approximately 30 years ago. Topcon had been in existence for a long time up until that point, but it had never engaged in any M&A prior to 1994.

The initial M&A undertaken by our company was with AGTEK, a Californian venture that possessed advanced IT Construction technology at the time. The acquisition of AGTEK marked a significant turning point for our business, propelling rapid growth and expansion.

Please take a look at the orange section highlighting Positioning Businesses that has been driving the growth of our company. As you can see, there is little prior to 1994. Hence, it can be concluded that the period in which we established new growing businesses primarily began in 1994.

Following this pivotal moment in our M&A strategy, we embarked on a journey of acquiring and partnering with approximately 50 companies, with a majority of them being located overseas. These efforts have ultimately shaped our company, culminating in what it is today.

Furthermore, when looking at the past decade of my tenure, from 2013 to 2022, we achieved the significant milestone of doubling the 97.3 billion yen in sales in FY2012. Looking back to 1994, our sales were 44.6 billion yen. It took approximately ten years for our sales to double and reach 97.3 billion yen. Remarkably, in the subsequent ten years after that milestone, our sales once again doubled.

Operating profit also increased from 5.2 billion yen in FY2012 to 19.5 billion yen in FY2022, and ROE is 13.2%. Operating cash flow, an average of the previous 3 years, went from 900 million yen in FY2012 to 16.6 billion yen in FY2022. Dividends are now 42 yen, compared to 6 yen in FY2012.

The pace of M&A activities has been relatively moderate, with approximately 50 billion yen invested in around 20 deals over the course of ten years. The reason for this is that we were not able to invest much during the pandemic. However, we are currently preserving our resources, and exciting developments lie ahead. That concludes the analysis of this.

It is evident that one of our growing businesses, IT Construction, is transitioning from its initial stages to a phase of substantial growth. This is clearly demonstrated by the history of our Positioning Business, which has shown remarkable progress. Furthermore, the growth of IT Agriculture has accelerated even more over the past decade.

Furthermore, we have created the building construction DX market, which has now reached a stage where we can anticipate significant future growth.

In regard to Eye Care Business, Screening Business, which was non-existent a decade ago, has undergone a remarkable transformation. Through initial investments and subsequent expansion efforts, it is thriving.

In addition, we are investing to create new businesses that leverage the vast amount of data generated by Screening Business. In this area as well, we see promising signs of growth and potential. We believe that our ventures have the potential to be game changers within the industry.

I would like to conclude our financial report for FY2022 and the assessment of The Third Mid-term Business plan, and reflect on the past ten years, even though this reflection is of a personal nature. While we acknowledge that there is still much work ahead to foster the growth of business, we recognize that our current earning power may not be sufficient. However, it is important to note that, to some extent, we have managed to establish a growth engine, and we remain optimistic about our ability to increase our earning power in the future.

At the end of my ten years as President, which encompassed three mid-term business plans, I made the decision to pass the torch on to our new President, Mr. Takashi Eto, coinciding with the shift to the next mid-term business plan. I want to express my anticipation of your continued support as we navigate this transition and embark on the next phase of our journey.

Question and Answers

(Includes a Q&A session on the presentation of the Mid-term Business Plan 2025 held at the same time)

<Common subjects>

Q. What are the numbers in the operating income breakdown for FY2023?

A. We expect sales volume and product mix to be positive by 2.0-3.0 billion yen, fixed costs to be negative 1.5-2.5 billion yen, FX effects to be negative 1.5 billion yen, cost reduction to be positive several hundred million yen, and the increase of component and logistics costs to be zero.

Q. What impact do you expect the price increase will have?

A. As we increased our prices earlier in FY2022, we expect that the YoY impact of the price increase will be limited in FY2023.

Q. What is the extent of the order backlog at the start of this fiscal year?

A. By the conclusion of the first half of FY2022, order backlogs reached their highest point and subsequently started to decline. However, a small backlog still remains. We expect the situation will normalize by the end of FY2023.

Q. The projected decline in operating profit for FY2022 is a modest 500 million yen. Considering this, wouldn't it have been necessary to use it as a guidance for profit reduction?

A. If we exclude the impact of foreign exchange, it would be nearly flat.

Q. What is your perspective on the macroeconomic assumptions in the current mid-term plan for FY2024 and beyond?

A. While forecasting the macro environment is challenging, the assumptions in the current mid-term business plan suggest the economy will start to recover in FY2024.

<Positioning Business>

Q. Why is the expected CAGR projected to be lower than in previous mid-term plan, which encompasses the period affected by the COVID-19?

A. The figure was high in FY2022 and is expected to decline in FY2023 due to the economic downturn. A CAGR of 5% from FY2022 to FY2025 should not be regarded as a low figure.

Q. What are your expectations regarding the business environment in both the infrastructure and residential sectors?

A. While there is no strict separation between infrastructure and housing, we expect a decrease in operating profit in former Smart Infrastructure Business, which primarily focuses on housing-related products, to below 4.0 billion yen in FY2023 compared to 5.0 billion yen in FY2022. On the other hand, performance in the infrastructure business, mainly conducted by former Positioning Company, is good, and we expect it to compensate for the decline.

Q. The former Positioning Company experienced high revenue levels in Q4, but the Positioning Business is expected to decline in FY2023. Is there a clear shift in the overall trend?

A. Shipments related to lasers, which are associated with housing demand, have declined. However, we expect continued growth in shipments related to infrastructure.

<Eye Care Business>

Q. What was the amount of the one-time cost incurred for Eye Care Business?

A. Please consider it to be in the range of 0.5 to 1.0 billion yen.

Ⅲ. Appendix

TOPCON

FY2022 Financial Results by Business

(unit: million yen)

		FY2021	FY2022			
		Actual	Actual	YoY	YoY%	Plan* *Announced on January 30
Net Sales	Positioning	96,692	**124,731**	28,039	+29%	118,000
	Smart Infrastructure	39,040	**42,163**	3,122	+8%	42,000
	Eye Care	57,352	**66,899**	9,547	+17%	65,000
	Others	1,184	1,335	151		1,000
	Elimination	-17,848	-19,505	-1,656		-21,000
	Total	176,421	**215,625**	39,204	+22%	205,000
Operating Income (Operating Income Ratio)	Positioning	11,548 (11.9%)	**15,427 (12.4%)**	3,878	+34%	14,500 (12.3%)
	Smart Infrastructure	5,821 (14.9%)	**5,037 (11.9%)**	-784	-13%	5,000 (11.9%)
	Eye Care	3,203 (5.6%)	**3,968 (5.9%)**	765	+24%	5,000 (7.7%)
	Others	-365	-344	21		-400
	Elimination	-4,293	-4,551	-257		-4,600
	Total	15,914 (9.0%)	**19,537 (9.1%)**	3,622	+23%	19,500 (9.5%)

The Third Mid-Term Business Plan Review

(Unit: million yen)

		FY2018	The Third Mid-term Business Plan FY2019-2022 FY2022		
		Actual	**Actual**	CAGR (vs 2018)	Plan
Net Sales		148,688	**215,625**	10%	180,000
Operating Income (Operating Income Ratio)		13,596 (9.1%)	**19,537** (9.1%)	10%	20,000 (11.1%)
Ordinary Income		11,497	**17,829**	12%	-
Net Income		6,548	**11,806**	16%	-
ROE		9.8%	**13.2%**	*+3.5pt*	13～15%
Dividends		¥24	**¥42**	*+¥18*	-
Payout Ratio		39%	**37%**		Over 35%
Exchange Rate (Average)	USD	¥110.69	**¥134.95**		¥110
	EUR	¥128.43	**¥141.24**		¥125

24

The Third Mid-Term Business Plan Review by Business

(Unit: million yen)

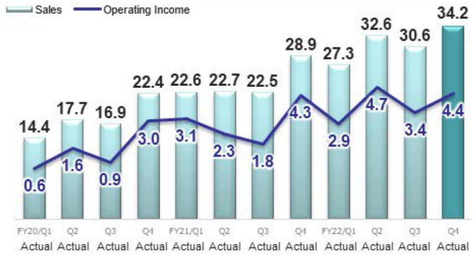
		FY2018	The Third Mid-term Business Plan FY2019-2022 FY2022		
		Actual	**Actual**	CAGR (vs 2018)	Plan
Net Sales	**Positioning**	77,722	**124,731**	13%	93,000
	Smart Infrastructure	36,744	**42,163**	3%	43,000
	Eye Care	47,713	**66,899**	9%	62,000
	Others	1,698	1,335		1,000
	Elimination	-15,190	-19,505		-19,000
	Total	148,688	**215,625**	10%	180,000
Operating Income (Operating Income Ratio)	**Positioning**	8,358 (10.8%)	**15,427** **(12.4%)**	17%	-
	Smart Infrastructure	6,393 (17.4%)	**5,037** **(11.9%)**	-	-
	Eye Care	2,896 (6.1%)	**3,968** **(5.9%)**	8%	-
	Others	-65	-344		-
	Elimination	-3,986	-4,551		-
	Total	13,596 (9.1%)	**19,537** (9.1%)	10%	20,000 (11.7%)

25

Financial Results (Quarterly)

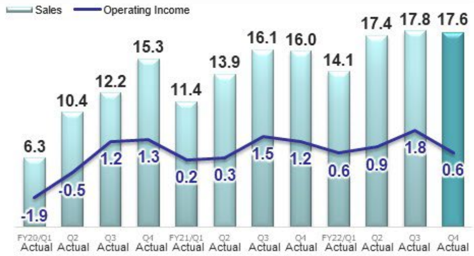
Consolidated (unit: billion yen)

Positioning (unit: billion yen)



Smart Infrastructure (unit: billion yen)

Eye Care (unit: billion yen)



TOPCON

Financial Results (Semiannually)

Consolidated (unit: billion yen)

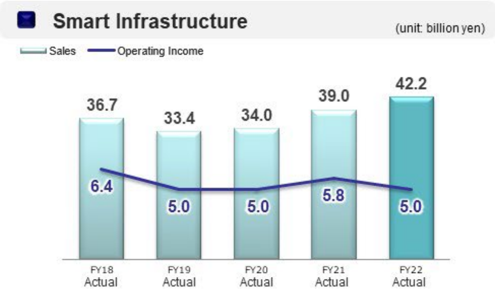
Positioning (unit: billion yen)

Smart Infrastructure (unit: billion yen)

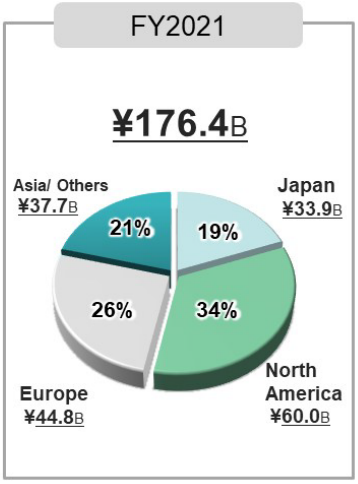
Eye Care (unit: billion yen)

TOPCON

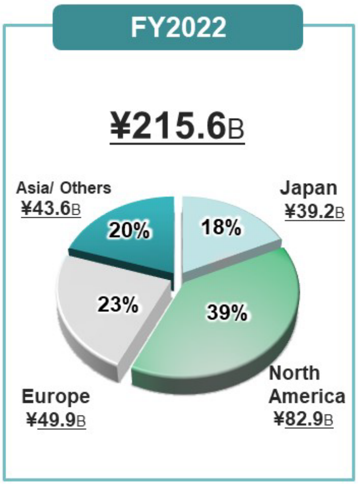
Financial Results (Annually)



Sales by region

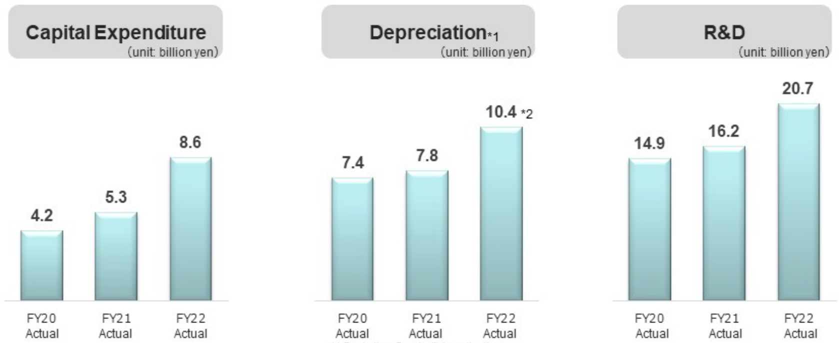


YoY **+22%**



Capital Expenditure and R&D / Forex Sensitivity

Actual



*1 Excluding Goodwill Amortization
*2 Including increase from changes to the U.S. lease accounting standard

Forex Sensitivity（impact by ¥1 change）

USD：Operating Income ¥0.15B - ¥0.2B
EUR：Operating Income ¥0.07B - ¥0.1B

TOPCON

TOPCON

TOPCON


Topcon for Human Life
A digital transformation
with a human touch
TOPCON