



# FY2023 Q1 Financial Results

July 26, 2023

**TOPCON CORPORATION**  
Senior Managing Executive Officer, CFO  
General Manager of Accounting and Finance Div.  
**Haruhiko Akiyama**

Infrastructure

Agriculture

Healthcare



## TOPCON CORPORATION

FY2023 Q1 Financial Results

July 26, 2023

## Event Overview

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<b>Company</b>	TOPCON CORPORATION
<b>Event Type</b>	Presentation of Financial Results
<b>Event Name</b>	FY2023 Q1 Financial Results
<b>Report Period</b>	FY2023 Q1
<b>Date</b>	July 26, 2023
<b>Time</b>	3:30-4:20 PM (Total time: 50 minutes; Presentation: 25 minutes; Q&A: 25 minutes)
<b>Event Format</b>	Online (streamed)
<b>Number of Speakers</b>	2
	Haruhiko Akiyama Senior Managing Director, CFO General Manager of Accounting & Finance Div.
	Takaaki Hirayama Executive Officer, General Manager of Corporate Communication Div.

# Highlight of FY2023 Q1 Financial Results



## ■ Q1 Results

### Summary

Sales increase and  
Profit decrease

Net Sales **49.7 Billion yen**  
YoY +6%  
Operating Income **1.7 Billion yen**  
YoY -55%

### Positioning Business

Flat net sales from the previous year.  
Profit decreased due to unable to absorb  
increased expenses.

Sluggish sales due to current inventory  
adjustment and holding off purchases in the  
construction market in North America

### Eye Care Business

Generally solid  
**Record High** for net sales and profit  
**Continued Strong Performance** in  
both Screening and Core business

## ■ Full Year Plan

### Financial Plan

**No change from  
the initial plan**

Net Sales **208.0 Billion yen**  
Operating Income **19.0 Billion yen**

### Positioning Business

#### Business Outlook

Expects an increase in infrastructure demand in  
North America and an expansion of demands for  
labor saving and efficiencies despite uncertainties in  
the macro environment in the U.S. and Europe

#### Strategic Plans

Expanding sales of **MC-Mobile**  
Continue to strengthen OEM Business for IT AG  
Expansion of **Building Construction DX Business**

### Eye Care Business

#### Business Outlook

Increase of capital expenditure by major optical  
chain stores in the U.S and Europe for needs of  
efficiencies

#### Strategic Plans

Continued expansion of **Screening Business**  
Strengthening **Core business** by leveraging  
the strength of Screening Business



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※ Systems for small-to-mid sized construction equipment

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Let me start with the highlights of FY2023 Q1 financial results. In Q1, net sales were 49.7 billion yen, up 6% YoY. On the other hand, operating income was 1.7 billion yen, down 55% YoY. Net sales increased but income decreased.

The decline in earnings was attributable to Positioning Business. Although net sales were at the same level as the previous year, we were unable to absorb the increase in expenses, resulting in a decrease in profit. This was mainly due to a recent adjustment of the inventories in the North American construction market, and due to distributors holding off purchasing as they are concerned about an economic slowdown.

On the other hand, Eye Care business posted record sales and operating income for Q1. Both our focused Screening Business and Core businesses continued to perform well.

Next is the full year plan at the bottom of the slide. Although the figures for Q1 were as stated above, the full year plan remains unchanged from the initial plan, with sales of 208 billion yen and operating income of 19 billion yen.

Although the outlook for Positioning Business remains uncertain in the U.S. and Europe, we expect strong demand for infrastructure in North America and the expansion of the need for labor-saving and increase efficiency. We also expect to increase sales of MC-Mobile systems for small to medium-sized construction machinery and the building construction DX business.

With regard to Eye Care Business, particularly major optical chain stores in the U.S. and Europe, they are increasing capital expenditures as there is a need for greater efficiency. Therefore, we would strive to strengthen our Screening Business and our core business by leveraging the strengths of Screening Business.



## FY2023 Q1 Financial Results Briefing

1. FY2023 Q1 Financial Results
2. FY2023 Full Year Plan
3. Topics
4. Appendix

I will discuss FY2023 Q1 financial results, full year plan, and topics.

# 1. FY2023 Q1 Financial Results

- **FY2023 Q1 Financial Results**
- Overview of Each Business

I will first touch on our FY2023 Q1 financial results.

## FY2023 Q1 Financial Results



### ■ Sales increase and profit decrease

(unit : billion yen)	FY2022 Q1 Actual	FY2023 Q1 Actual	YoY	%
Net Sales	47.0	<b>49.7</b>	+2.7	+6%
Gross Profit	24.8	<b>26.4</b>	+1.6	+6%
Gross Profit Ratio	52.8%	<b>53.1%</b>	+0.3pt	
SGA	21.0	<b>24.7</b>	+3.7	+18%
Operating Income	3.8	<b>1.7</b>	-2.1	-55%
Operating Income Ratio	8.2%	<b>3.5%</b>	-4.7pt	
Ordinary Income	4.0	<b>1.8</b>	-2.2	-54%
Extraordinary Losses	0.0	<b>-1.4</b> *	-1.4	※ Impairment loss for development project
Net Income	2.8	<b>-0.2</b>	-3.0	
Exchange Rate (Average)	USD EUR	¥129.04 ¥138.24	¥138.11 ¥150.35	+¥9.07 +¥12.11



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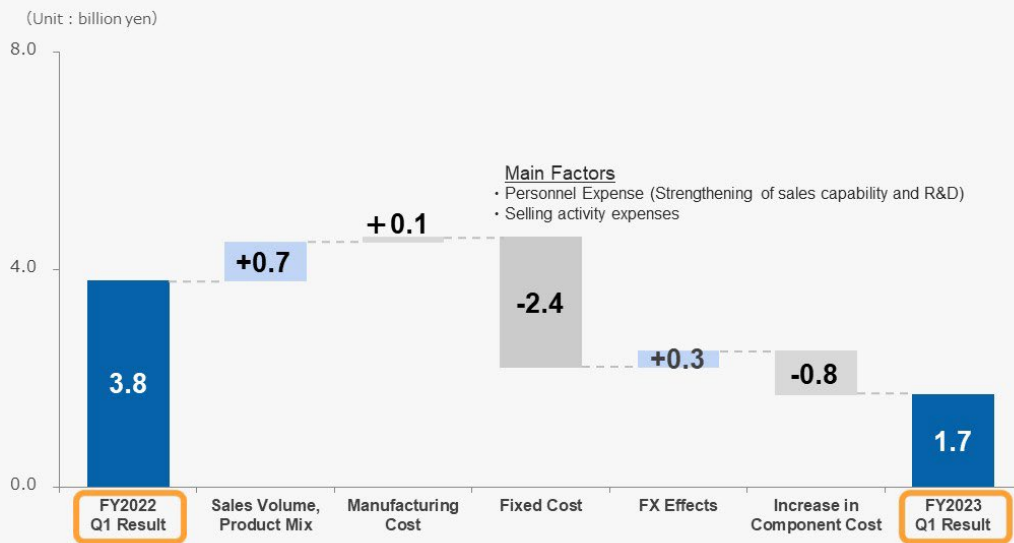
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Net sales for Q1 were 49.7 billion yen, an increase of 6% YoY, resulting in an increase of 2.7 billion yen in sales. The gross profit was 53.1 percent, almost the same as last year.

On the other hand, SG&A expenses were 24.7 billion yen, an increase of 3.7 billion yen, + 18% YoY. As a result, operating profit decreased by 2.1 billion yen from the previous year.

We also had a one-off loss in Q1. An extraordinary loss of 1.4 billion yen was incurred due to an impairment loss in a development project. This resulted in a net loss of 0.2 billion yen.

## FY2023 Q1 Operating Income YoY Breakdown



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Next is a YoY analysis of the change in operating income. The chart explains the difference between the 1.7 billion yen in FY2023 Q1 and the 3.8 billion yen in FY2022 Q1. Although “Sales Volume, Product Mix” increased by 0.7 billion yen, the increase in “Fixed Cost” resulted in a decrease of 2.4 billion yen.

In regards to “Fixed cost,” the main factors are increases in personnel expenses resulting from the strengthening of sales capabilities and R&D expenses. Recruitment and wage increases associated with inflation in each country are also one of the factors.

Concerning the “Increase in Component Cost” shown on the right side of the slide, its peak was in FY2022 Q3. Because it was still in the midst of increasing component prices in FY2022 Q1, the negative impact of the increase in component costs was 0.8 billion yen in FY2023 Q1 YoY.

# 1. FY2023 Q1 Financial Results

- FY2023 Q1 Financial Results
- Overview of Each Business

I will now discuss our results by business segment.



## Overview of Each Business 【Positioning Business】



- Flat net sales from the previous year. Profit decreased due to unable to absorb increased expenses.

(Unit : billion yen)		FY2022	FY2023	YoY	%
		Q1 Actual	Q1 Actual		
Positioning Business	Net Sales	32.8	32.9	+0.1	+0%
	Operating Income	4.5	1.8	-2.7	-60%
	Operating Income Ratio	13.7%	5.4%	-8.3pt	-
Exchange Rate (Average)	USD	¥129.04	¥138.11	+¥9.07	
	EUR	¥138.24	¥150.35	+¥12.11	

In terms of Positioning Business, sales remained at the same level as the previous year. On the other hand, operating income decreased by 2.7 billion yen YoY because the increase in expenses could not be absorbed.



### ■ Review of Financial Results

#### Overall

- ✓ Sluggish sales due to current inventory adjustment and holding off purchases in the construction market in North America
- ✓ Increase in expenses due to increased business activity and effect of the inflation including an increase in personnel costs

#### ICT Construction · IT Agriculture

- ✓ OEM sales of ICT construction remained stable, but sales slowed for the aftermarket due to inventory adjustments in the market.
- ✓ For IT Agriculture both OEM and aftermarket remained steady
- ✓ Both ICT Construction and IT Agriculture remained firm in Japan due to the spread of automation

#### Surveying and laser products

- ✓ Hold off on purchase due to prolonged inventory adjustment in the slowing housing construction market and economic uncertainty
- ✓ Japan is firm, Asia continues recovery trend



Let me talk about the review of the financial results. First of all, in the North American construction market, certain inventory adjustments have been currently ongoing.

Distributors had purchased significant amounts in FY2022 Q4, but as a result, inventory in the market increased, and it triggered an adjustment that caused our sales to slow in Q1. In addition, concerns about an economic slowdown, especially in the U.S., have caused distributors to hold off on purchases.

On the other hand, expenses increased due to the personnel increase and various expenses associated with the inflationary impact that I described earlier. We had planned to cover the increased expenses by achieving sales as planned, but sales were short to the plan and profit fell.

By product, OEMs performed well in ICT Construction, but aftermarket sales declined, especially in the U.S., due to inventory adjustments in the market. IT Agriculture was strong for both OEM and aftermarkets. In Japan, both ICT Construction and IT Agriculture performed steadily.

Surveying and laser products showed signs of a slowdown in the residential building market at the end of last fiscal year and remained weak in Q1 this year. On the other hand, sales in Japan and Asia were steady.

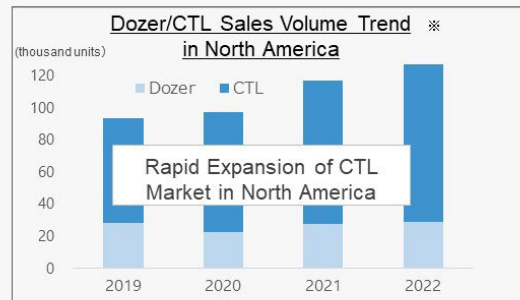


■ **New Products : MC-Mobile for CTL (Compact Track Loader) Launched in May 2023**



Addition of two systems using GNSS and surveying instruments

Strategic products responding to need for labor saving and efficiency at construction sites



※ Source : Off-Highway Research

Product Information MC-Mobile <https://www.topconpositioning.com/machine-control/compact-machines/mc-mobile>



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- Product information MC-Mobile: <https://www.topconpositioning.com/machine-control/compact-machines/mc-mobile>

This is a topic in Positioning Business. The photo on the slide shows a compact track loader (CTL), a small to mid-sized construction machine mainly used in North America. As you can see in the chart, sales of CTLs are about 2 to 3 times higher than the sales of dozers in North America.

In FY2023 Q1, we launched MC-Mobile's mainstay system for CTLs, a system for small to mid-sized construction equipment. We have already launched MC-Mobile for small to mid-sized excavators in North America, and its performance has been strong. In addition to small to mid-sized excavators, we are trying to increase our sales by releasing a new system for these CTLs.

## Overview of Each Business [Eye Care Business]



### ■ Record high sales and operating income both Screening and Core businesses continue to perform well

		FY2022	FY2023		
(Unit : billion yen)		Q1 Actual	Q1 Actual	YoY	%
Eye Care Business	Net Sales	14.1	<b>16.6</b>	+2.5	+18%
	Operating Income	0.6	<b>1.1</b>	+0.5	+88%
	Operating Income Ratio	4.0%	6.4%	+2.4pt	-
Exchange Rate (Average)	USD	¥129.04	¥138.11	+¥9.07	
	EUR	¥138.24	¥150.35	+¥12.11	



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Next is Eye Care Business. Net sales were 16.6 billion yen, an increase of 2.5 billion yen and 18% YoY.

Operating income was 1.1 billion yen, an increase of 0.5 billion yen and 88% YoY. Both sales and operating income were record highs for Q1.



### ■ Review of Financial Results

#### **Overall**

- ✓ Sales increase from stable capex appetites at major optical chain stores in the U.S. and Europe
- ✓ Recovery trend in China

#### **Screening Business**

- ✓ Sales for major optical chain stores fairly progress as planned
- ✓ Sales of a new fundus camera, NW500, exceed the plan

#### **Optometry and diagnostic device**

- ✓ Sales increase for major optical chain stores in the U.S. and Europe by leveraging the strength of Screening Business



I would like to talk about the review of financial results. Sales increased on the back of a strong appetite for capex by major optical chain stores, mainly in the U.S. and Europe. In addition, in China, FY2022 Q1 was sluggish due to the start of lockdown in Shanghai, but there has been a significant recovery in FY2023 Q1.

Our main focus business, Screening Business, continues to expand its sales for major optical chain stores, and sales of our newly launched fundus camera, NW 500'sales have been significant.

Sales of optometry and diagnostic equipment also increased, primarily for major optical chain stores.

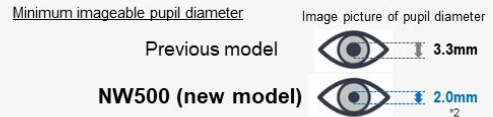


■ **New fundus camera, NW500, with the sales of more than plan drives Screening Business**

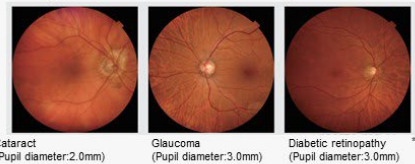


**Attractive Points**

- Can be photographed even with small pupil



- High-quality fundus images



Product Information NW500 APAC <https://topconhealthcare.jp/products/nw500/>  
 US <https://topconhealthcare.com/products/nw500/>



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\*1 Product name: NON-MYDRIATIC RETINAL CAMERA NW 500  
 \*2 Verified with model eyes  
 \*3 Image courtesy: Michael H. Chen, MD

- Product information: APAC <https://topconhealthcare.jp/products/nw500/>  
 US <https://topconhealthcare.com/products/nw500/>

Topics in Eye Care Business — The market’s acceptance of our new non-mydratiac fundus camera, NW 500, has been great. The reason for this is the good reputation it has earned because it can photograph even when pupils are small.

Even in bright retail stores such as optical stores, NW 500 is highly regarded because it can capture clear high-quality images when the subject’s pupil diameter is 2.0 mm or more.

Another reason for its good reputation is that it can take clear pictures even if the patients have cataracts or other diseases.

1 . FY2023 Q1 Financial Results

**2 . FY2023 Full Year Plan**

3 . Topics

4 . Appendix

Next, I will explain our full year plan.

## FY2023 Full Year Plan



### ■ No change from the initial plan

(Unit : billion yen)	FY2022	FY2023	YoY	%
	Actual	Plan		
Net Sales	215.6	<b>208.0</b>	-7.6	-4%
Operating Income	19.5	<b>19.0</b>	-0.5	-3%
Operating Income Ratio	9.1%	<b>9.1%</b>		
Ordinary Income	17.8	<b>17.0</b>	-0.8	-5%
Net Income	11.8	<b>11.0</b>	-0.8	-7%
Dividends	¥42	<b>¥42</b>	-	-
Payout Ratio	37%	<b>40%</b>	+3pt	-
Exchange Rate	USD	¥134.95	¥130.00	
(Average)	EUR	¥141.24	¥135.00	

Q2 onward



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The plan is unchanged from the initial plan, with net sales of 208 billion yen, operating income of 19 billion yen and dividends of 42 yen.



## FY2023 Full Year Plan by Business



(Unit : billion yen)		FY2022	FY2023	YoY	%	Overview
		Actual	Plan			
Positioning Business	Net Sales	147.7	<b>137.0</b>	-10.7	-7%	<ul style="list-style-type: none"> <li>■ Increase demand for infrastructure in North America</li> <li>■ Capture real demand to meet the need for labor saving and efficiencies</li> <li>■ Continuing expansion of ICT Construction, IT Agriculture and Building construction DX Business</li> </ul>
	Operating Income	20.5	<b>18.5</b>	-2.0	-10%	
	Operating Income Ratio	13.9%	13.5%	-0.4pt		
Eye Care Business	Net Sales	66.9	<b>70.0</b>	+3.1	+5%	<ul style="list-style-type: none"> <li>■ Continuing capital expenditure by major optical chain stores in the U.S and Europe for needs of efficiencies</li> <li>■ Screening Business stays in a recovery phase of the upfront investment</li> <li>■ Strengthening core business by leveraging the strength of Screening Business</li> </ul>
	Operating Income	4.0	<b>5.0</b>	+1.0	+26%	
	Operating Income Ratio	5.9%	7.1%	+1.2pt		
Exchange Rate (Average)	USD	¥134.95	¥130.00			
	EUR	¥141.24	¥135.00			

Q2 onward

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Next is the full year plan by business segment. In Positioning Business, net sales are down by 10.7 billion yen, or 7%, to 137 billion yen, and operating income is unchanged from the full-year forecast of 2 billion yen, or 10% decline, to 18.5 billion yen.

As mentioned earlier, Q1 result was slow and we factored the housing downturn into the initial plan. However, we did not recognize the larger-than-normal inventory in the market and the resulting holding off purchases due to concerns of an economic slowdown.

As indicated in the summary on the right side of the slide, we think that infrastructure demand in North America is strong, and we believe we will be able to achieve this forecast.

In Eye Care Business, on the other hand, we expect sales to increase by 5% YoY and operating income to increase by 26% YoY. In this Q1, our results were generally in line with this plan. We continue to work to expand sales, especially to major optical chain stores in the U.S. and Europe, in order to achieve this initial plan.

- 1 . FY2023 Q1 Financial Results
- 2 . FY2023 Full Year Plan
- 3 . Topics**
- 4 . Appendix

Finally, I will explain two topics.

## Topics



### ■ Selected as DX Stock\* for 4 consecutive years, and first time for the Grand Prix

DX solutions that solve societal challenges related to Healthcare, Agriculture, and Infrastructure are highly rated

\*DX Stocks: Companies that are actively engaged in DX, selected once a year by the Ministry of Economy, Trade and Industry, Tokyo Stock Exchange, and the Information-technology Promotion Agency. Particularly outstanding companies are chosen for the Grand Prix (2 companies selected this year).



DXグランプリ2023  
Digital Transformation



Presentation by Takashi Eto president and CEO at the award ceremony

### Reason for the award

- Topcon leverage DX as a driving force for business transformation and achieve work efficiency and labor-saving in the construction, agriculture, and ophthalmology fields.
- Topcon offers DX solutions that combine advanced technical expertise and services to address the challenges in each industry.

■ News release : <https://global.topcon.com/news/11304/>



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News Release <https://global.topcon.com/news/11304/>

First, our company was selected as a DX stock by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange for the fourth consecutive year, and this year was the first time we received the grand prix.

We received high praise for our DX solutions that solve societal challenges related to healthcare, agriculture and infrastructure.

# Topics



## ■ Layout Navigator (LN-100) won the WIPO prize\* at the National Commendation for Invention

\*WIPO (World Intellectual Property Organization = Specialized agency of the United Nations dedicated to developing a balanced, accessible and international intellectual property (IP) system.)



3D measuring system "Layout Navigator LN-100"



National Commendation for Invention ceremony



Layout Navigator LN-100 at Construction site

### About the WIPO Award

One of the Special prizes presented at the National Commendation for Invention (from 1919) in recognition of outstanding inventions and contributions to the promotion of science, technology, industrial and economic development in Japan. This year, this WIPO prize has been newly established to honor outstanding designs that leverage intellectual property and make significant societal contributions through innovation and creativity.

### Reason for the award

- A user-friendly tool with a simple and approachable design, enables one person to perform quick measurement work without requiring professional skill.
- By lowering the barriers to ICT construction implementation and promoting DX this measuring tool enhance in productivity and quality at construction sites worldwide.



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The second is about the award we received at the National Invention Awards, which have a history of more than 100 years. This year, the United Nations' specialized agency for intellectual property rights, WIPO, established a new award, and our company was the first to receive the WIPO Award.

It was for the Layout Navigator shown in the photo, which we call KUI-NAVI in Japan. This is a very unique product that allows anyone to place a location easily and quickly by themselves, which is unmatched by other companies' products. The intellectual property part of this product was evaluated highly, and we won the award.

This concludes my presentation of our results for FY2023 Q1 and our plans for the full year. Thank you very much for your time.

## Question and Answers

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<Common subjects>

Q. In light of the Q1 results, are there any changes in the operating income YoY breakdown for the full year?

A. There are no major changes. There is the possibility that the exchange rate will be slightly more positive and fixed costs will be slightly higher than the initial forecast.

Q. I think gross margins are stable, but I get the impression that SG&A expenses are increasing. Do you intend to strengthen expense controls from Q2?

A. We have been expanding our workforce as planned in line with our business expansion, but in some regions, we have begun to freeze hiring and reduce SG&A expenses, which will continue in Q2 and beyond.

Q. What's driving the inventory increase? Will it affect Q2 production plans?

A. The decrease in sales due to inventory adjustment in the market was unexpected and is a factor in the increase in our inventory as well. As our policy is to keep the level of production as even as possible as a manufacturer, it is possible that we may make some production adjustments in Q2 while monitoring inventory levels and sales.

Q. Are there unrealized losses in Q1?

A. In addition to the increase in inventories, the rapid depreciation of the yen from the end of March to the end of June has resulted in some unrealized losses.

Q. Please tell us the details of the impairment losses in the development project that caused the extraordinary loss.

A. In view of the situation in which there is no end in sight to the Russia-Ukraine problem, we have decided to cancel some of the development we were doing at the development center in Moscow and have shifted the development location. As a result, a portion of the capitalized development costs were amortized and an impairment loss was incurred.

<Positioning Business>

Q. To what extent did Q1 earnings fall below expectations?

A. Sales were around 3-4 billion yen below from expectations and operating income was around 2 billion yen below from expectations.

Q. When did the impact of the inventory adjustment become apparent and will it continue beyond Q2?

A. I started seeing the effects around May. We believe that the level of inventory in the market has started to decrease to some extent, and we estimate that the impact of inventory adjustment will be small in or after Q2.

Q. Is it correct to understand that it was assumed that the housing construction-related sector would be weak from the beginning of the period, but the final demand has not declined in other sectors?

A. The residential construction market was largely in line with expectations, and sales outside of residential construction were weak due to inventory adjustments. The final demand for infrastructure construction is not weak, as the number of projects is increasing.

<Eye Care Business>

Q. Is it safe to assume that Eye Care was better than planned?

A. It was mostly as planned.

Q. With the change in the major shareholders, how do you view the importance of Eye Care Business?

A. The performance of the business was temporarily weak due to upfront investment and the impact of the pandemic, but profitability has been improving. There are various growth themes, and this business's position as an important growth business for our company has not changed.

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2. FY2023 Full Year Plan
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## Financial Results

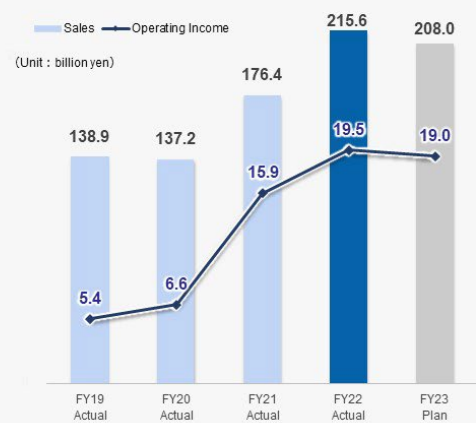


### Consolidated

#### Quarterly



#### Annually



# Financial Results



## ■ Positioning Business

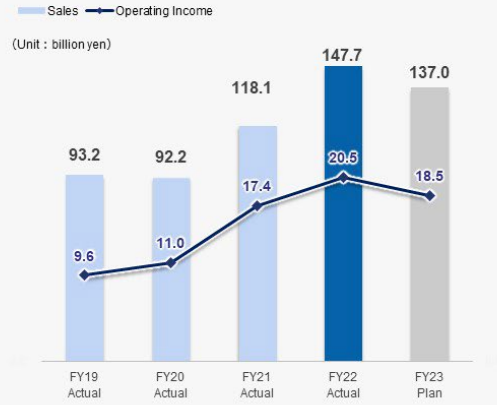
### Quarterly

— Sales — Operating Income  
(Unit : billion yen)



### Annually

— Sales — Operating Income  
(Unit : billion yen)



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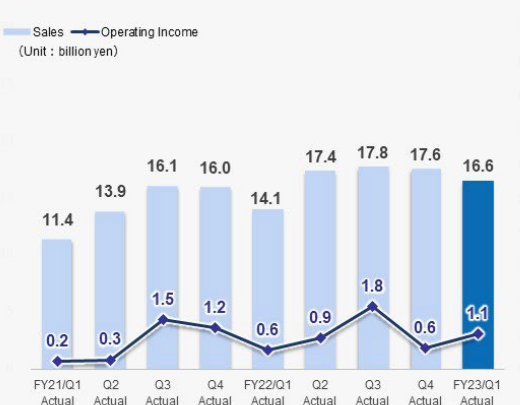
# Financial Results



## ■ Eye Care Business

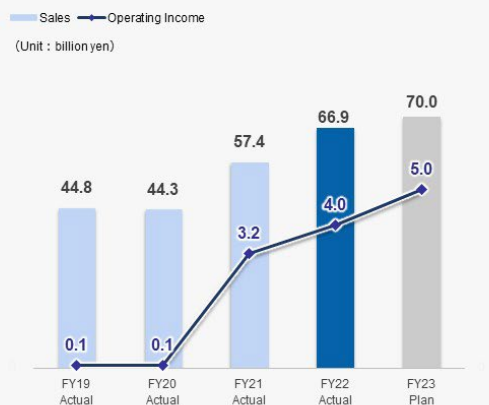
### Quarterly

— Sales — Operating Income  
(Unit : billion yen)



### Annually

— Sales — Operating Income  
(Unit : billion yen)

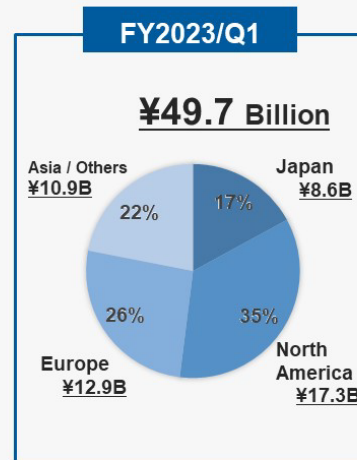
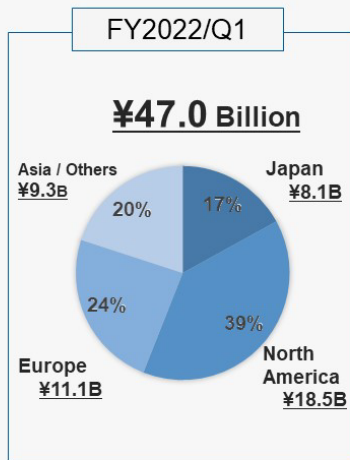


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## Sales by region (Consolidated)



YoY  
**+6%**



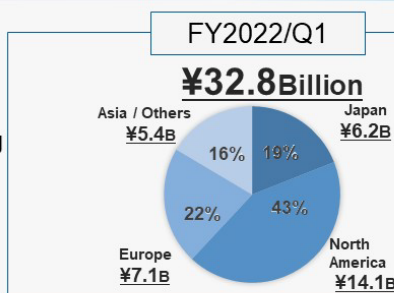
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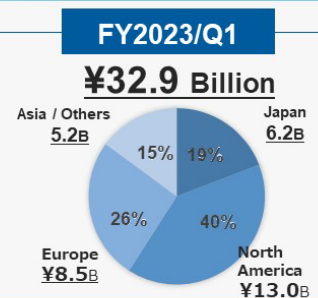
## Sales by region (by Business)



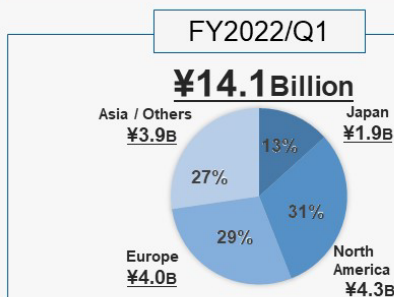
**Positioning Business**



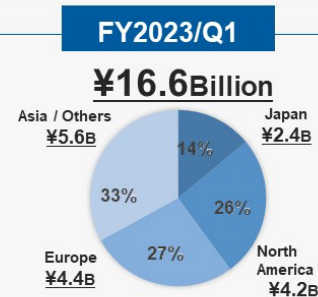
YoY  
**+0%**



**Eye Care Business**



YoY  
**+18%**



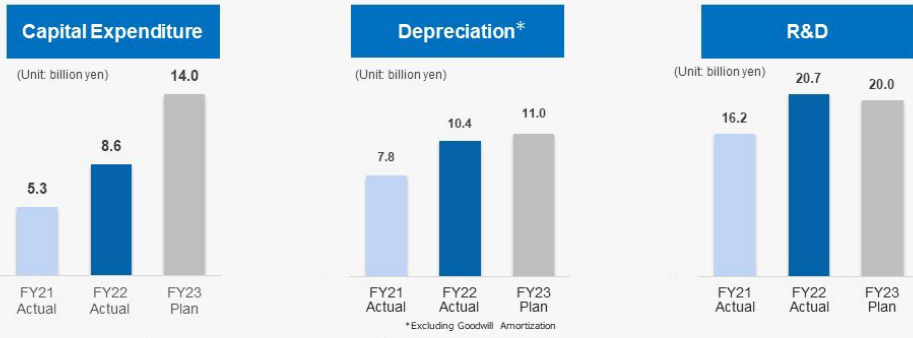
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# Capital Expenditure and R&D / Forex Sensitivity



## Projections



## Forex Sensitivity (impact by ¥1 change)

	Operating Income
USD	¥0.15B~¥0.2B
EUR	¥0.07B~¥0.1B



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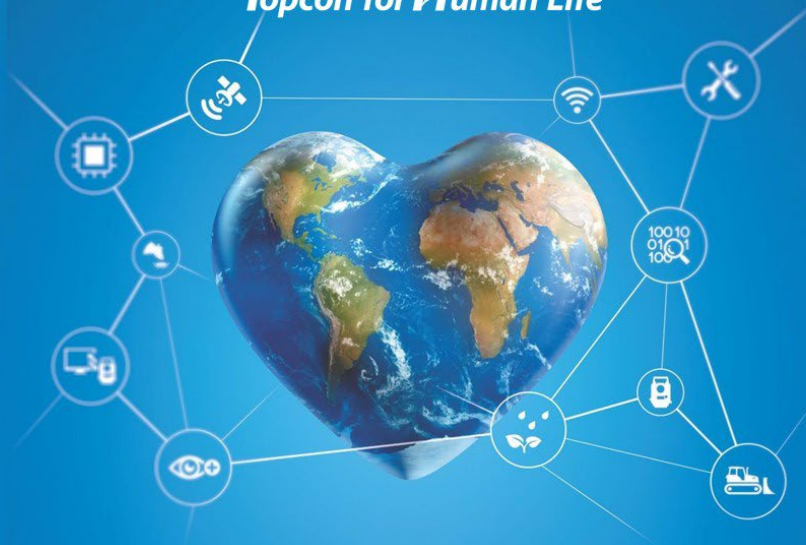
■Website: <https://global.topcon.com/invest/library/integration/>



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*Topcon for Human Life*



A digital transformation  
with a human touch

