

# A Venture Company with 90 Years of Tradition

## —The History and Future of Creating New Markets—

President Satoshi Hirano in his 10th year in office, talks about the history and future of Topcon's challenges and its background, the Third Mid-term Business Plan, and Topcon's sustainability initiatives.

**Satoshi Hirano**

President & CEO

**Q** Please tell us about the history of Topcon's growth from its founding to the present.

As a venture company with 90 years of tradition, we have developed our business as a solution provider in the fields of healthcare, agriculture and infrastructure, which are essential to society.

We were founded in 1932 as Tokyo Kogaku Kikai Kabushikikaisha (Tokyo Optical Co., Ltd.), with the aim of domestically producing surveying instruments and also manufactured binoculars, cameras, and other products for the army. After World War II, we transitioned to serving civilian demand. We have since been globally expanding our optical products, including surveying instruments and ophthalmic medical devices, leveraging our expertise in the field of optics and optomechanics technology.

A major turning point came in 1994. The surveying instruments business in those days extended its focus to enter the civil engineering and construction market by developing products that matched the needs of that market. At that time, Raymond O'Connor, our current Executive Vice President and President & CEO of Topcon Positioning Systems, Inc., encountered an interesting venture company in the U.S. that was aiming for the robotization of construction machinery by utilizing Topcon's surveying technology and sensors. After our headquarters executive team visited this venture company and endorsed uniqueness of its innovative idea, we then acquired this venture to launch a new business based on the concept of automation of construction machinery, which no one had thought of at the time. Subsequently in 2000, we acquired JPS, Inc. (California), another U.S. based venture with precision GNSS (global navigation satellite system) technology and obtained precise positioning technology using satellite signals.

This acquisition of automation technology for construction machinery and precision GNSS technology marked the turning point for the automation of construction process in the current infrastructure (construction) business field. Since then, we have conducted M&As with various overseas technology ventures and transformed ourselves into a healthcare, agriculture and infrastructure solution proposal-based company that aims for growth through both hardware (products) and DX solutions (services) by combining unique ideas to develop potential markets and our proprietary technologies.

Our Corporate Identity is to "contribute to enrich human life by solving the societal challenges within healthcare, agriculture and infrastructure." Each of the three businesses is essential and indispensable for enriching human life. We will continue to aim for growth as a DX solution provider that solves societal challenges in the fields of healthcare, agriculture and infrastructure.

**Q** Which business fields do you expect to see growth going forward?

In the areas of agriculture (farming) and infrastructure (construction), we aim for the automation of farm operations and construction process and provide DX solutions that improve productivity and quality by digitizing and automating construction and farming workflows, connecting them to allow unified management of entire workflow. This will enable us to respond to societal challenges. In the field of agriculture, these include concerns about future food shortages due to global population growth and climate change, and in infrastructure, a shortage of skilled workers due to global demand for infrastructure.

In the field of healthcare, we are trying to bring about the similar transformation as in infrastructure and agriculture. For over 70 years, we have been providing ophthalmic examination, diagnosis and treatment equipment and systems, as well as vision tester and lens edger for optical stores. Currently, we are expanding the scope of our business to preventive and prognostic screening to realize early detection and treatment of eye diseases, regional medical collaboration, and remote diagnosis. We are also creating an eye disease screening system as an initiative to improve the quality of medical care.

It has been said that humans obtain 80% of information from their eyes. However, regular eye examinations are yet to be familiarized, and an increase in eye diseases due to aging populations and changes in the living environment has become a societal challenge worldwide. A representative product that realizes our goal of creating an eye disease screening system is the 3D Optical Coherence Tomography (3D OCT), which can take tomographic images of the retina with full-automatic operation. The entire operation is performed on a touch screen, eliminating complicated mechanical operations, making the system usable by people other than skilled ophthalmologists and hospital doctors, and allowing eye disease screening to be performed at optical stores and drugstores. Recently, more detailed observation of the fundus of the eye has also revealed information other than ocular diseases. The eyes are sometimes said to be the windows of the body. By promoting DX solutions in the healthcare field, we will make eye disease screening available in more places people find familiar and contribute to the health and comfort of people around the world.

In the field of infrastructure (construction), the market for building construction work is approximately twice the size of that for civil engineering work. We see this as a growth area with the potential for dramatic improvements in productivity through digitalization and achieving unified management leveraging digital data.

We believe that our DX solutions can contribute to this field as well. Specifically, we will realize DX in building construction by connecting the gap between design (BIM, the virtual digital

world) and the construction site (the real analog world) with our technology, thereby promoting the automation of the construction process.

**Q What kind of ideas are behind the various creative businesses you have created?**

Looking back over our 90-year history, we have innovated on various fronts to provide world's only products and solutions. It led to develop potential markets and create new demand. The key is to propose what customers potentially want in unexpected ways before competitors do. People often say, "Listen to the needs of the market." But it is not enough just to listen to needs. For example, before the introduction of smartphones, did the market have a specific need for a mobile phone that could connect to the internet and function as a PC? But as soon as they were introduced to the world, people said, "This is what I wanted." This is a different concept from creating something that is superior to or less expensive than those of other companies in an existing market. We believe that this kind of innovative thinking is the result of our globalization and sensitivity to the needs of the world since the end of World War II, as well as the venture spirit we have had since our founding, when we took on new challenges one after another.

The investment in DX solutions for the construction and agricultural fields was supported by the surveying instruments business, which is our founding business. Although the surveying instruments market is mature, demand will not disappear because surveying instruments are, and will always be, used at construction sites around the world. As a leading manufacturer in this market, we maintain a large market share thanks to our innovative product development capabilities and strong global sales network.

**Q I understand that investment is necessary to develop new businesses. Please tell us about the business that generates the source of funds for such investments.**

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Meanwhile, our Eye Care Business has also supported our long history. Our main products are refraction equipment for optical stores, examination and diagnostic instruments for ophthalmology, and IT solutions. We laid the

foundation for our overseas sales and distribution locations in the U.S. and the Netherlands beginning in 1970. Since then, we have focused on developing distribution network globally. As a result, our refraction equipment and examination and diagnostic instruments are widely used in many countries and regions around the world today. Although this is also a mature market with stable growth, some of these products have made major contributions to our sales even after more than a decade since their launch, and we maintain a large market share.

We are a company that continuously pursues new innovation. This challenge has been made possible by our robust businesses, such as surveying instruments, refraction equipment, examination and diagnostic instruments for ophthalmology, which hold large shares in the global market.

**Q Could you tell us about the status of the Third Mid-term Business Plan?**

FY2022 is the final year of the Third Mid-term Business Plan, although it was to finalize in FY2021 with the original intention. In fact, the COVID-19 pandemic brought a significant impact on the timeline, we therefore announced at the time of the FY2020 financial results that we would not change our management vision or the plan's content because our healthcare, agriculture and infrastructure businesses are essential businesses and indispensable to society, but extend the period by one year. As a result, our business went well as had intended in FY2021, returning to the growth path of the original plan, and we recognize that the Third Mid-term Business Plan is progressing well.

Uncertainty is increasing in FY2022 even though strong demand is expected to continue. In particular, it is difficult to predict when supply chain issues will be resolved. The Ukraine issue as well as China's zero-COVID measures may have a negative impact. Moreover, inflation is rising and monetary tightening policy is being implemented mainly in the U.S. and Europe, making the outlook extremely difficult. However, taking into consideration the fact that strong demand continues even amid these increasing uncertainties, we have announced guidance figures for FY2022 of ¥190 billion in net sales, ¥18 billion in operating income, ¥17 billion in ordinary income, and ¥12 billion in net income (attributable to owners of the parent). Compared to the Third Mid-term Business Plan, we expect net sales to be higher than planned, while operating income is expected to be 10% lower.

**Q Topcon will celebrate its 100th anniversary in 10 years. Please tell us about Topcon's sustainability initiatives.**

Sustainability initiatives are important for the lasting prosperity of a company. In the case of Topcon, our



healthcare, agriculture and infrastructure businesses themselves are linked to social contributions, including to the global environment.

For example, automation technology by IT Construction reduces the operating time of construction machinery by approximately 30%. If we multiply this by the total number of construction machines with our system installed, it can be estimated that CO<sub>2</sub> emissions will be reduced by approximately 600,000 tons per year worldwide. The same is true for farming machinery. It has been estimated that our Auto Steering System reduces operating time by approximately 20% as well as CO<sub>2</sub> emissions by approximately 500,000 tons per year worldwide.

In addition, we believe that the field of healthcare has even greater potential. The fundus of the eye is the only part of the body where the flow of blood can be directly observed. For this reason, AI development companies and research institutes around the world are analyzing the fundus images to work on detecting various diseases at an early stage. If this is achieved, we can provide a higher quality of life (QoL) to people all over the world while reducing enormous medical costs. We believe that we can make a significant contribution to this progress. Because our instruments can take stable and high-quality fundus images thanks to our fully automatic features. They have high affinity for AI image analysis.

Healthcare, agriculture and infrastructure are essential domains. From now on, we will further accelerate the pace of the Digital Transformations we propose in all of these domains. However, we must not forget the perspectives of ESG (environmental, social, and corporate governance) and sustainability. Approximately 80% of our sales are overseas, and about 70% of our employees are non-Japanese. We are aiming for our 100th anniversary 10 years from now with the diverse experiences, values, technologies, and ideas of our global employees. We will continue to contribute not only to our business but also to entire society with the management style of a venture company with 100 years of tradition. In order to achieve this, we believe it is important to constantly take on challenges to create innovation, which is part of Topcon's DNA.

In order to emphasize this corporate stance, we created a new catchphrase this year: "A digital transformation with a

human touch." The design features a heart-shaped globe and expresses our commitment to solving societal challenges and enriching the world with our advanced technologies and DX solutions.

In the future, companies that focus on solving societal challenges will be chosen by customers and also as places to work. We will continue to contribute to society through our own businesses.

**Q In closing, is there a message you would like to convey to shareholders and investors?**

Topcon has long been a company that discovers the future by developing potential markets and creating new demand. When we were working on the launch of a new business, the automation of construction machinery, which was unprecedented at the time, headquarters voiced such doubts as, "Can we really commercialize this business?" However, when the executive team from the headquarters came to the U.S. and saw the automated operation of construction machinery, they were all convinced that this would be the future of civil engineering worksites, and they supported this new business. In the healthcare business, we continued to invest in the Screening Business, believing that the widespread use of eye disease screening in the future would lead to early detection and treatment of eye diseases. The Screening Business has finally entered the investment payback phase.

Take the first step without fear of failure. This is the spirit of taking on challenges that has been a tradition of our company for 90 years. We will contribute to society by opening up a blue ocean for ourselves. We believe that this way of thinking will solve social issues and enrich human life around the world.

Creating new markets and proposing potential demand in unexpected ways is not easy. Nonetheless, we hope that our shareholders and investors will agree with our venture spirit of taking on challenges without being bound by past experience or stereotypes and will dream of the future with us.