



July 2020

Attention: All concerned parties

Company name: INTER ACTION Corporation
Representative: Nobuo Kiji, CEO & President
(Code: 7725 First Section of the Tokyo Stock Exchange)
Contact: Investor Relations Division,
Business Administration Group
Telephone number: +81-45-263-9220

A financial results briefing session was held for analysts and institutional investors

On Wednesday July 22, 2020, the Company held a financial results briefing session for the fiscal year ended May 31, 2020, at which Company Representative Director & President Nobuo Kiji discussed the following issues with analysts and institutional investors.

Particulars

(Wednesday, July 22, 2020, 1:30 p.m. to 2:30 p.m.)

1. Summary of full-year financial results for the fiscal year ended May 31, 2020
2. Overview of financial results for the fiscal year ended May 31, 2020
3. Forecast of consolidated financial results for the fiscal year ending May 31, 2021 (full year)
4. Medium-term business plan (overview)
5. Initiatives to Increase Corporate Value
6. Q&As

For further details of the discussion and the question-and-answer session, please refer to the attached materials.

INTER ACTION Corporation Fiscal Year Ended May 31, 2020 (28th Business Year)

Financial Results Briefing Session

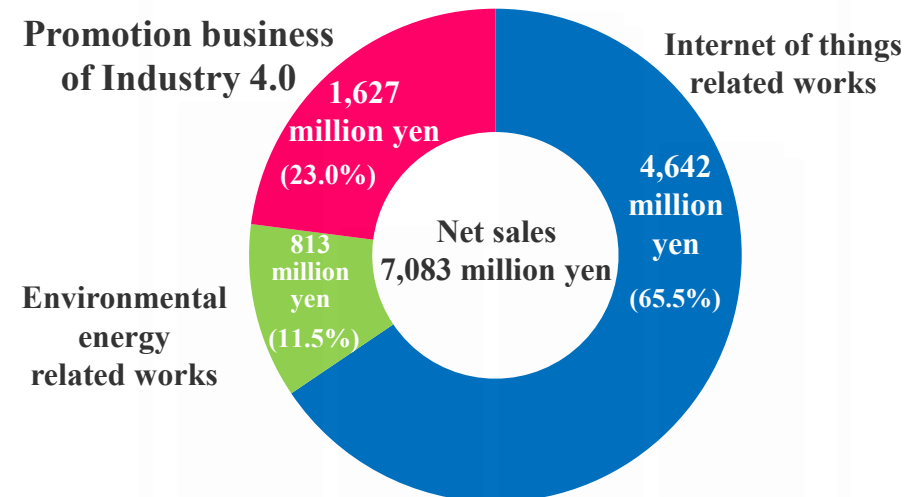
July 22, 2020 (Wed.)



- 1. Summary of Full-Year Financial Results**
- 2. Overview of Financial Results for the Fiscal Year Ended May 31, 2020**
 - 1) Internet of Things Related Works Segment
 - 2) Environmental Energy Related Works Segment
 - 3) Promotion Business of Industry 4.0 Segment
 - 4) Consolidated Balance Sheets and Consolidated Statements of Income
 - 5) Consolidated Statement of Cash Flows
 - 6) Amount of Orders Received, Net Sales, Backlog of Orders
- 3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (full year)**
- 4. Medium-Term Business Plan (Overview)**
- 5. Initiatives to Increase Corporate Value**
- Appendix: Company Profile**

1. Summary of Full-Year Financial Results

1. Summary of Full-Year Financial Results



(Millions of yen)	FY2019	FY2020	Change YoY
Net sales	7,986	7,083	(11.3%)
Operating income	1,980	1,555	(21.4%)
Ordinary income	1,943	1,545	(20.5%)
Profit attributable to owners of parent	1,386	1,004	(27.5%)
Profit per share	141.13 yen	91.94 yen	-
ROE	25.2%	13.2%	-
ES	19.0%	7.0%	-

- Net sales and profits both fell below the results of the previous fiscal year.
- Net sales in all segments underperformed relative to forecast from the beginning of the fiscal year.
(Internet of things related works: 17.1% below forecast of 5,600 million yen; Environmental energy related works: 32.4% below forecast of 1,203 million yen; Promotion business of Industry 4.0: 22.0% below forecast of 2,086 million yen)
- During the fourth quarter, restrictions on operating activities and delays in recording sales occurred in each segment due to the impact of the spread of novel coronavirus infectious disease.

2. Overview of Financial Results for the Fiscal Year Ended May 31, 2020

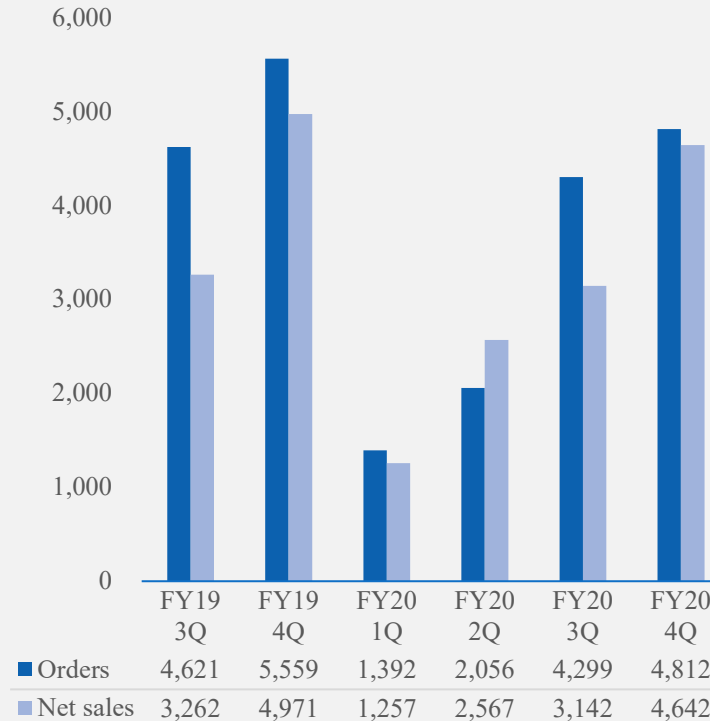
1) Internet of Things Related Works Segment

- Both orders and net sales of illuminators in the first half of the fiscal year under review were weaker than expected. In the second half, trends in orders and sales were more or less as expected, but due to the spread of novel coronavirus infectious disease, it became difficult to recover the delays incurred in the first half through restrictions on operating activities.
- Demand from customers for pupil lens modules was lower than anticipated.
- Demand related to capital investment has not disappeared on the customer side, but there is a tendency to be cautious on the timing of investments given the backdrop of recent social circumstances.

Amount of orders received, net sales, backlog of orders (by quarter)



Amount of orders received and net sales (accumulated)



[Main changes in the external environment]

(1) Competitive environment (－) Changes in customer procurement policies (large domestic customers) → some orders/sales shifted to competitor	☹️
(2) Social situations (－) Changes in US-China relations, Japan-Korea relations → affects smartphone production systems and decision-making at customers (－) Impact of the spread of novel coronavirus infectious disease → Shipments of smartphones expected to decline → Customers cautious about capital investment decisions (+) 5G services start → motivation to upgrade smartphones	☹️
(3) End-user applications (+) Spread of ToF sensors → included in iPad Pro launched in March 2020	😊

[Main changes in the internal environment]

(1) Product & services lineup (+) Promote projects for NIR-related devices and maintenance (conversion) → bolster development of products that leverage our strengths	😊
(2) Research and development (+) Test sales and coordination of pupil lens modules overseas → aiming for mass production, coordinating closely with customer	😊

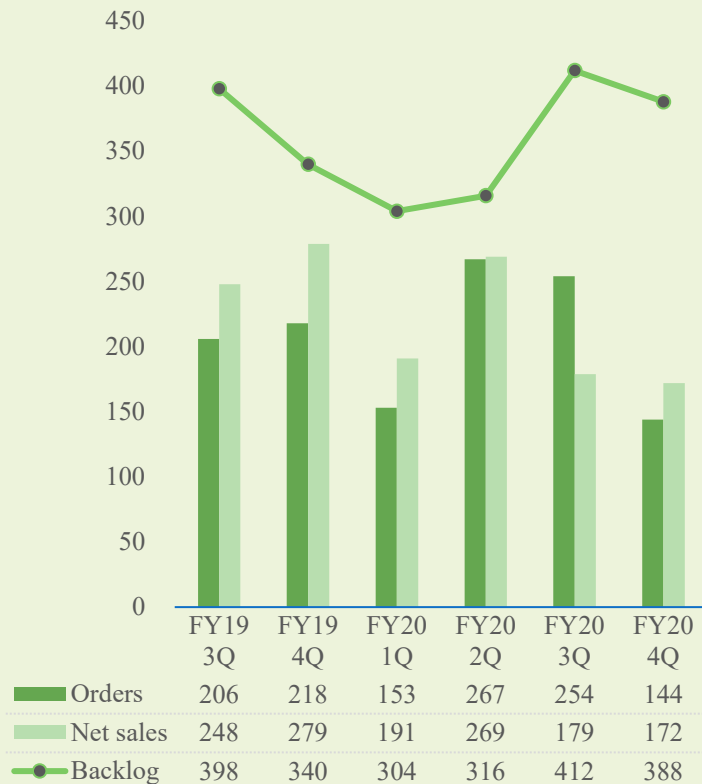
Unit: million yen

Unit: million yen

2) Environmental Energy Related Works Segment

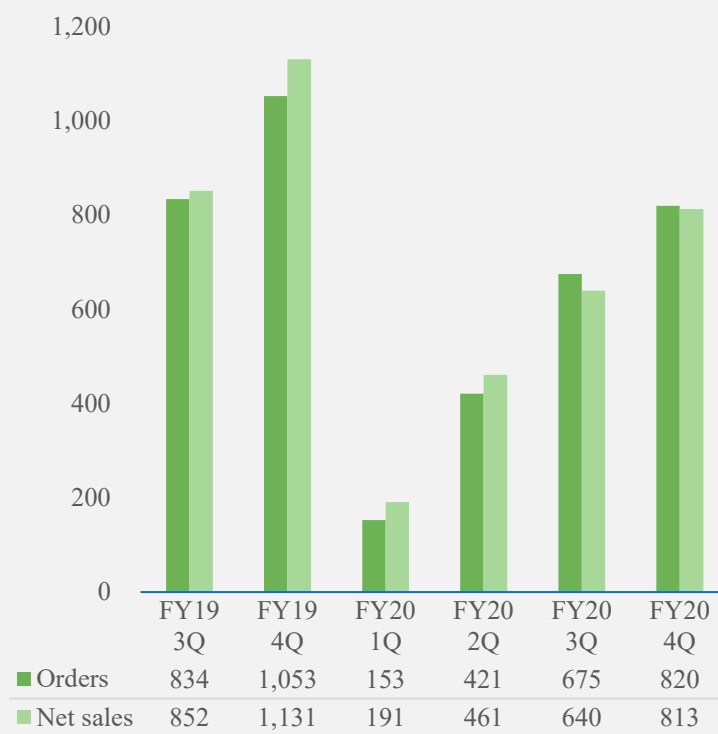
- In a difficult environment for demand related to new capital investments, delays in construction caused by the spread of novel coronavirus infectious disease and declines in customer capacity utilization ratios resulted mainly in a contraction in the maintenance business.
- The result was a segment loss of 6 million yen, but because this included amortization of goodwill (21 million yen annually), the business itself remained in the black.
- Going forward we intend to promote the development of new products in addition to our existing products, thus strengthening product lineup.

Amount of orders received, net sales, backlog of orders (by quarter)



Unit: million yen

Amount of orders received and net sales (accumulated)



Unit: million yen

[Main changes in the external environment]

(1) Social situations

- (-) Impact of the spread of novel coronavirus infectious disease
 - Decline in advertisement printing using rotary presses
 - Delays to major construction projects
 - Cooling of interest in capital investments



[Main changes in the internal environment]

(1) Research and development

- (+) Promoting the development of new products
 - Begin investigation into UV-LED drying equipment using optical technology
 - As the product will be a late starter, we will work to differentiate it from products from other companies



3) Promotion Business of Industry 4.0 Segment

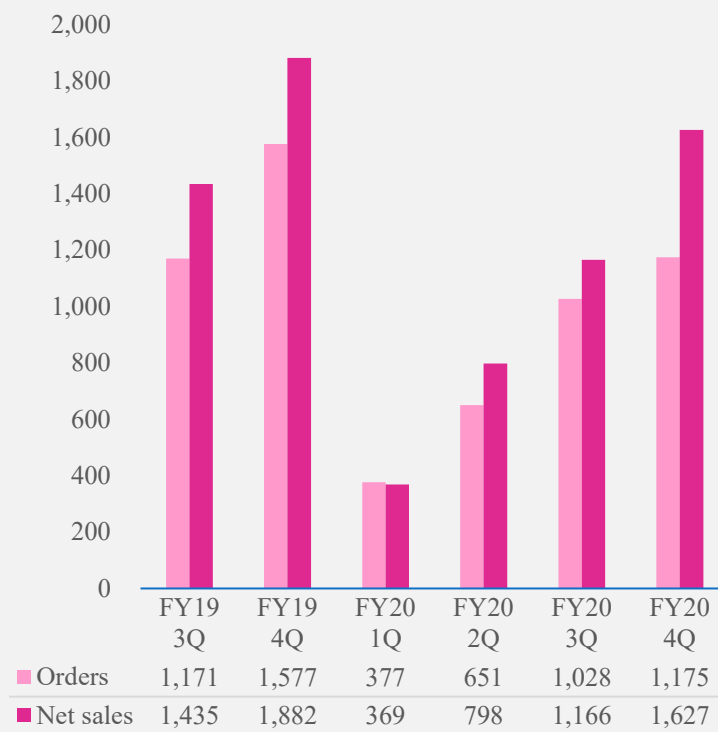
- For the fourth quarter as a whole, orders decelerated due to the impact of the spread of novel coronavirus infectious disease. We expect this uncertain situation to continue going forward.
- Precision vibration isolation systems: In the fourth quarter, high-margin products sold well in Japan, pushing up profits. For the full year, the impact of overseas sales reverberated, causing sales to decline year on year. Going forward, there is a possibility that investment in OLED will start to move, and we are watching trends closely.
- Gear testing systems: Sales were strong before the spread of infectious disease. For the full year we maintained sales at previous-year levels.

Amount of orders received, net sales, backlog of orders (by quarter)



Unit: million yen

Amount of orders received and net sales (accumulated)



Unit: million yen

[Main changes in the external environment]

(1) Social situations

- (-) Impact of the spread of novel coronavirus infectious disease
- Decline in customer capacity utilization ratios
 - Cooling of interest in capital investments
 - Delays in business talks with overseas customers due to lockdowns around the world
 - Cancellation of exhibitions where we had intended to exhibit



[Main changes in the internal environment]

(1) New businesses

- (+) Made Lastech. Co., Ltd., which is involved in developing laser processing equipment, a subsidiary
- aiming to put systems in place and expand the scale of business
- (+) Promote development of FA image processing related equipment
- Progressing more or less on schedule. Aiming to complete prototype in December.



4) Consolidated Balance Sheets and Consolidated Statements of Income

Consolidated balance sheets

(Millions of yen)	Fiscal Year Ended May 31, 2019	Fiscal Year Ended May 31, 2020		Fiscal Year Ended May 31, 2019	Fiscal Year Ended May 31, 2020
Assets			Liabilities		
Total assets	10,388	10,005	Total liabilities	3,082	2,132
Current assets	8,911	8,575	Current liabilities	2,360	1,645
Non-current assets	1,477	1,430	Non-current liabilities	721	487
Property, plant and equipment	704	682			
Intangible assets	413	327	Net assets		
Investments and other assets	359	420	Total net assets	7,306	7,872
			Shareholders' equity		
			Capital stock	1,760	1,760
			Capital surplus	2,719	3,352
			Retained earnings	3,065	3,870
			Treasury shares	(228)	(1,074)
			Accumulated other comprehensive income	(9)	(35)
Total assets	<u>10,388</u>	<u>10,005</u>	Total liabilities and net assets	<u>10,388</u>	<u>10,005</u>

Consolidated statements of income

(Millions of yen)	FY2019	FY2020
Actual		
Net sales	7,986	7,083
Cost of sales	4,127	3,611
Gross profit	3,859	3,471
Selling, general and administrative expenses (Note)	1,879	1,916
Operating income	1,980	1,555
Ordinary income	1,943	1,545
Extraordinary income	2	0
Extraordinary losses	9	78
Profit before income taxes	1,936	1,467
Income taxes - current	656	446
Income taxes - deferred	(105)	15
Total income taxes	550	462
Profit	1,386	1,004
Profit attributable to owners of parent	1,386	1,004

Note: Major expenses classified as selling, general and administrative expenses

Research and development expenses	106	123
Amortization of goodwill	53	52

5) Consolidated Statement of Cash Flows

Cash flows from operating activities

1,164 million yen

(Millions of yen)	FY2019	FY2020
Profit before income taxes	1,936	1,467
Decrease (increase) in notes and accounts receivable - trade	(709)	215
Other increase (decrease)	153	296
Subtotal	1,380	1,978
Income taxes paid	(437)	(814)
Net cash provided by (used in) operating activities	943	1,164

Cash flows from financing activities

(758) million yen

(Millions of yen)	FY2019	FY2020
Net increase (decrease) in short-term loans payable	(90)	120
Repayments of long-term loans payable	(415)	(337)
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	2,268	—
Purchase of treasury shares	(49)	(1,284)
Proceeds from sales of treasury shares	130	981
Cash dividends paid	(125)	(199)
Other increase (decrease)	36	(38)
Net cash provided by (used in) financing activities	1,754	(758)

Cash flows from investing activities

(276) million yen

(Millions of yen)	FY2019	FY2020
Purchase of property, plant and equipment	(123)	(164)
Purchase of other intangible assets	(12)	(14)
Purchase of shares of subsidiaries and associates	(20)	(100)
Other proceeds (payments)	12	3
Net cash provided by (used in) investing activities	(143)	(276)

Cash and cash equivalents at end of FY2020

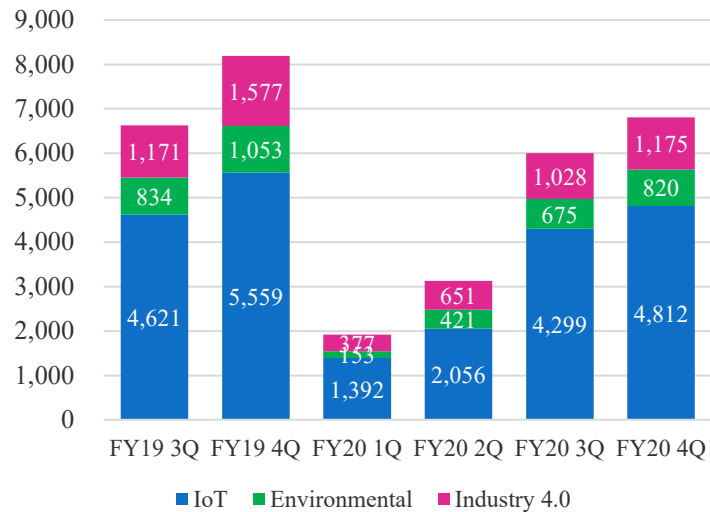
4,873 million yen

(Millions of yen)	FY2019	FY2020
Effect of exchange rate change on cash and cash equivalents	(8)	(21)
Net increase (decrease) in cash and cash equivalents	2,545	107
Cash and cash equivalents at beginning of period	2,220	4,766
Cash and cash equivalents at end of period	4,766	4,873

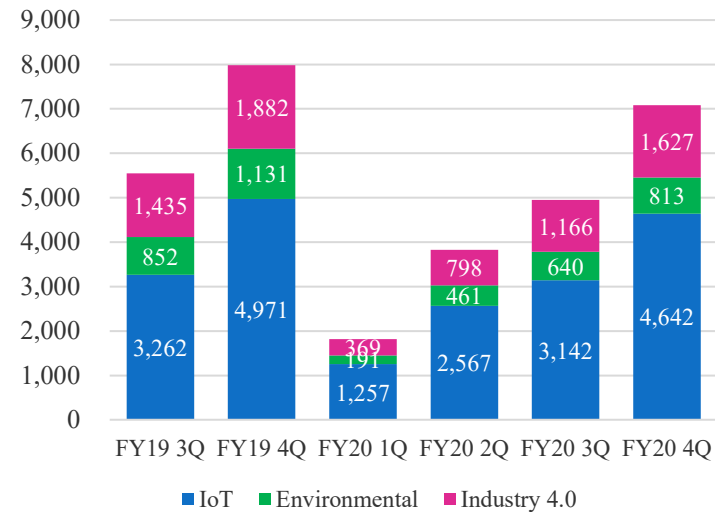
6) Amount of Orders Received, Net Sales, Backlog of Orders

Business segment	Amount of orders received		Net sales		Backlog of orders	
(Millions of yen)	FY2020	Change YoY	FY2020	Change YoY	FY2020	Change YoY
Internet of things related works	4,812	(13.4%)	4,642	(6.6%)	1,362	13.6%
Environmental energy related works	820	(22.1%)	813	(28.1%)	388	13.9%
Promotion business of Industry 4.0	1,175	(25.5%)	1,627	(13.6%)	116	(29.5%)
Total	6,808	(16.9%)	7,083	(11.3%)	1,867	9.4%

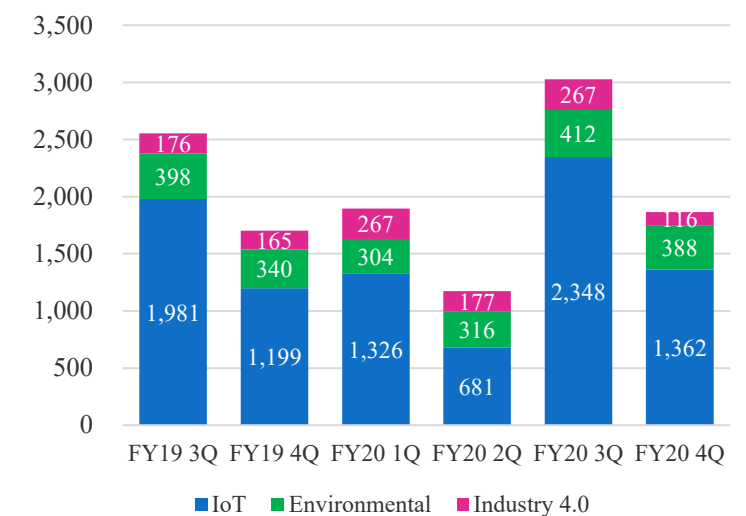
Amount of orders received (quarterly basis; millions of yen)



Net sales (quarterly basis; millions of yen)



Backlog of orders (quarterly basis; millions of yen)



3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (full year)

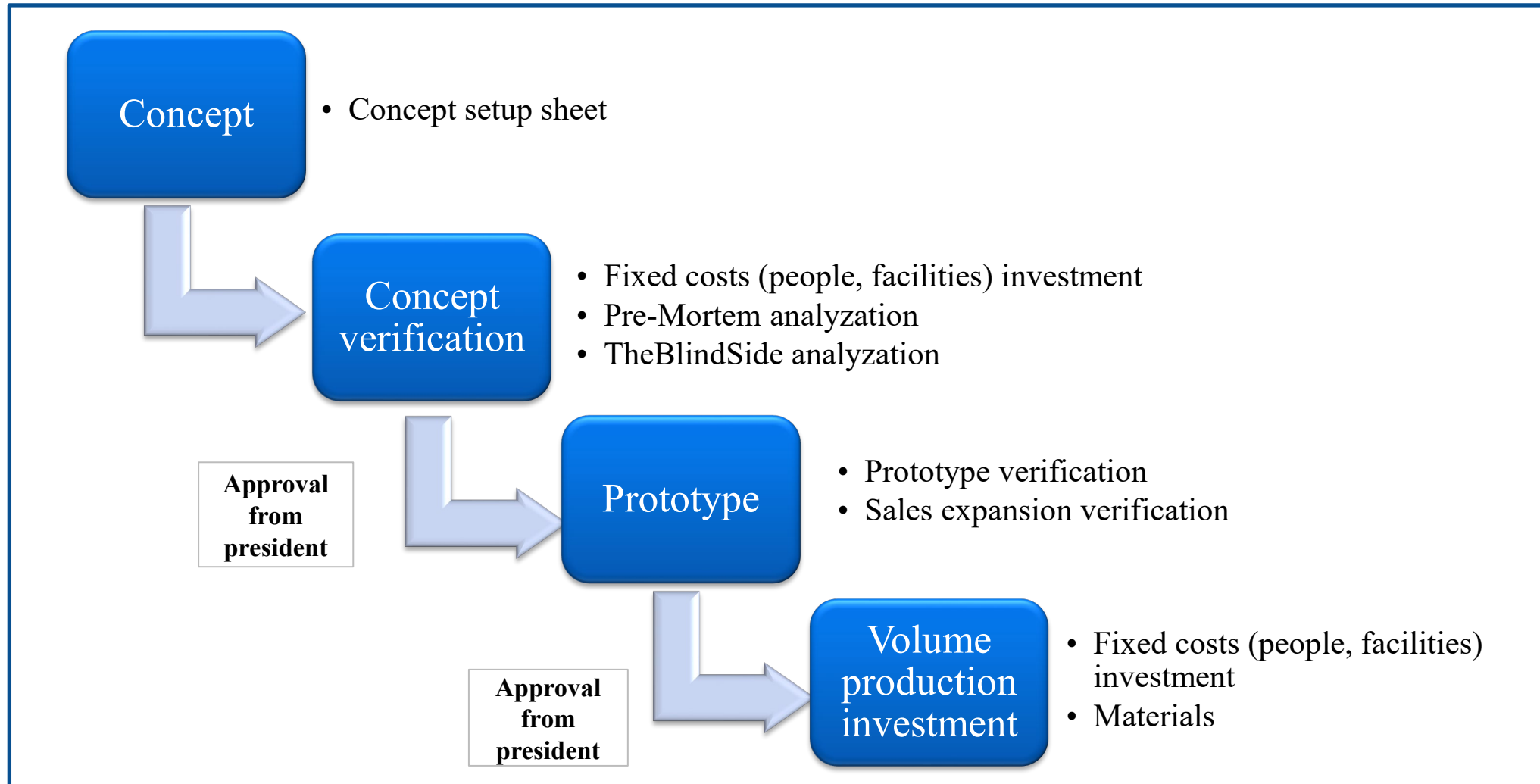
■ **At this point we have left earnings forecasts undecided**, primarily for the following reasons.

As soon as it becomes possible to make reasonable estimates, we will announce forecasts promptly.

- (1) Because the outlook for the entire global economy is extremely uncertain due to the spread of novel coronavirus infectious disease, etc.
- (2) Because certain major customers have not decided their earnings forecasts, and it is difficult to get visibility on trends in capital investment, etc. at customers.
- (3) Because the deterioration in the relationship between the United States and China has made the movements of some semiconductor-related companies hard to read.

Our motto since the company was founded has been “The Customer Comes First in new businesses”

- We engage in dialogue with target customers right from the concept stage, and create a shared vision internally, with the customer, and with our business partners.



4. Medium-Term Business Plan (Overview)

Growth



**Internet of things
related works**

**Optical
technology**



**Promotion business
of Industry 4.0**



**Environmental
energy related works**

The Inter Action Group is presently developing business on three major pillars: Promotion business of Industry 4.0, Environmental energy-related works, and Internet of things-related works.

Looking ahead to 2022, the 30th anniversary of our founding, and in pursuit of further growth, we continue forward with the expansion of the scale of our business on the basis of our motto—The Customer Comes First.

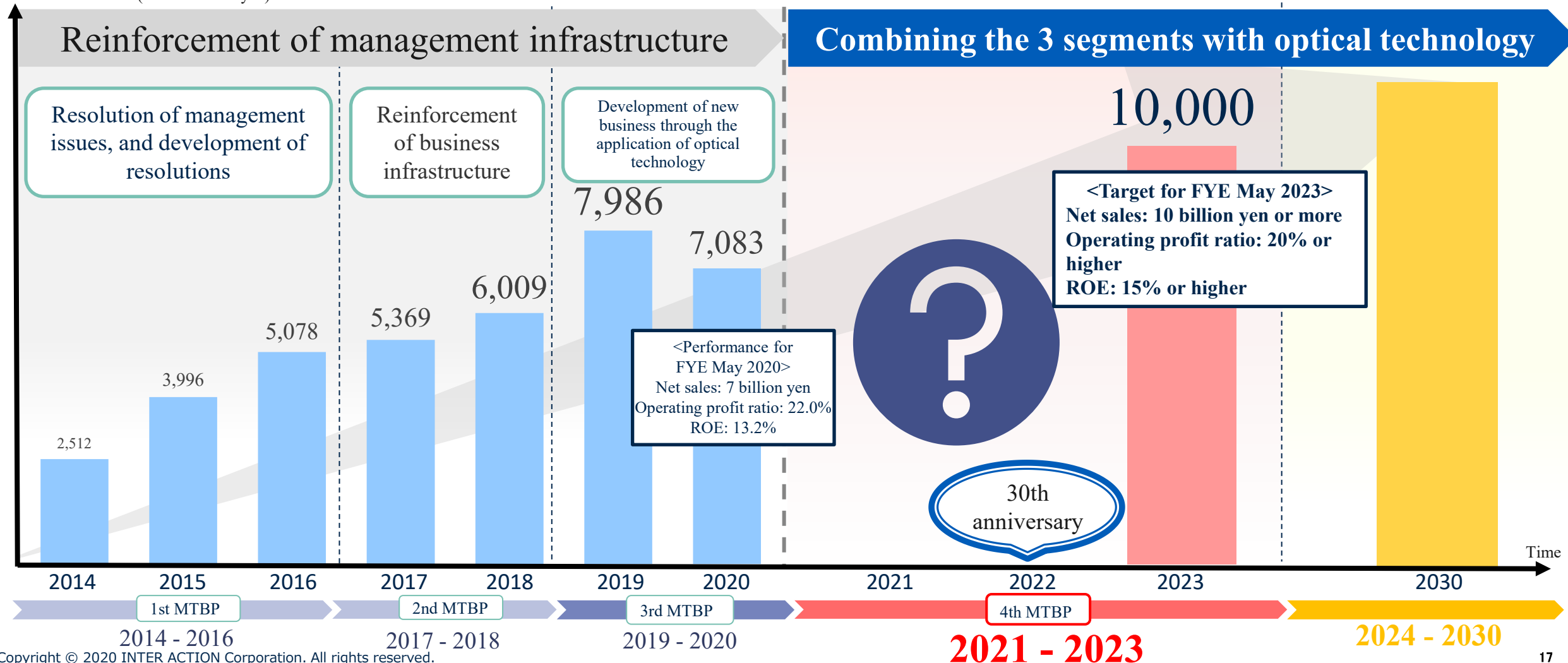
Additionally, we intend to combine optical technology—the Group's core technology—with each of the three segments in an effort to achieve synergy with existing business and discover ways to create new value.



Medium-Term Business Plan Concept (Numerical Targets)

- In light of the recent business environment, we have revised some of the numerical targets set out in the Medium-Term Business Plan devised in January 2019, and changed the achievement target from FY2021 to FY2023.
- The spread of novel coronavirus infections has made it difficult to project short-term performance; however, we anticipate no major changes to the business environment over the medium and long term. Therefore, we will engage in activities with the aim of achieving consolidated sales of JPY 10 billion in FY2023.
- We intend to combine optical technology—the Group’s core technology—with each of the three segments in an effort to further expand business.

Consolidated net sales (Units: million yen)



Internet of
things related
works

Environmental
energy related
works

Promotion
business of
Industry 4.0

Further development through the leveraging of optical technology

Missions

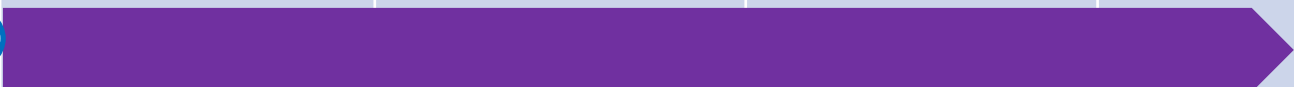

- Further technological growth and business expansion in the image sensor market

- Entry into the ultraviolet printer business



- Promotion of FA image processing-related business
- Promotion of laser processing equipment business
- Share expansion in other businesses

Progress with New Businesses

	Phase	Formulation and launch of business concepts	Establishment of elemental technology	Consideration of potential for developing as device	Production of prototypes	Commercialization
FA image processing related	Verification					
Laser processing equipment related	Verification					

* Verification phase: Verification of specific issues, establishing technology, creating prototypes

* Investment phase: Putting in place the elements needed to grow the business, such as securing capital investments and personnel

[FA image processing related]

- Development of FA image processing system for customers of subsidiary Tokyo Technical (gear testing machines)
- Conventional image processing (without AI) is clear.
- Elemental technology for image processing using AI is under development. We are currently attempting to detect it in the number of samples.
- Prototype was scheduled to be completed in December 2020, but this may be delayed due to the impact of coronavirus.

[Laser processing equipment related]

- Full-scale ramp of the business begins with the acquisition of Lastech Co., Ltd.
- Verifying specific issues in the market. After that, we will carry out verification sales expansion for the product, and plan to build structures aimed at growing the business.

5. Initiatives to Increase Corporate Value

Management Benchmarks

[Comparison of management indicators to those of previous fiscal year]

	FYE May 2019	FYE May 2020
ROE	25.2%	13.2%
ES	19.0%	7.0%

* Cost of shareholders' equity (CAPM): 6.2%

Improved ROE



Decrease in cost of shareholders' equity

- Initiatives to raise ROE -

Strengthening of financial foundation for future investment

Acquisition of treasury stock

Expanded sales of illuminator devices, pupil lens modules

Development of NIR illuminator device, NIR pupil lens module, LiDAR measuring equipment

Start of new businesses

- Factors suppressing cost of shareholders' equity -

Briefings and IR meetings held for institutional investors

Corporate briefings held for individual investors

Proactive disclosure of IR information on company website

Provision of English-language tools
• Company information
• Financial earnings reports

Increase of dividends

Improved ES

ROE : Return on equity
Cost of shareholders' equity (CAPM): Expected rate of return for shareholders
Equity Spread (ES): ROE – Cost of shareholders' equity

Efforts Toward Achieving SDGs (Sustainable Development Goals)

Sustainable development goals (SDGs) are global goals for creating a better world through sustainability as defined in the *2030 Agenda for Sustainable Development*. They were adopted at the UN Summit in September 2015.

The Inter Action Group is presently taking the following types of initiatives with the intent to contribute to the achievement of SDGs while further broadening the range of initiatives in the future.

Initiatives in business activities

(1) Acquiring ISO 9001 and ISO 14001 certification (Inter Action)

As a company worthy of society's trust, we are engaging in environmental conservation activities based on our policies for quality and the environment.



(2) RoHS measures (Meiritz Seiki)

We comply with EU regulations, and do not use specified hazardous substances (or use them below permissible concentrations) in our manufacturing of electrical and electronic equipment.



(3) Providing environmental solutions (Air Gases Technos, Tokyo Technical)

To reduce the burden on the global environment, we propose an ecosystem in which energy is used effectively to increase efficiency, and are promoting a transition to low carbon and greening.

Also, Tokyo Technical's gear testing machines are used to measure the gears used in wind turbines.



(4) Mega solar joint operation (Inter Action)

We are operating mega solar projects in collaboration with third parties.



(5) Initiatives for new business (Inter Action Group)

We are presently making efforts on FA image processing-related business and laser processing equipment-related business as new businesses. We are promoting business that crosses barriers between group companies to bring new innovation and solve problems that are holding back progress in those business sectors.



Initiatives in improving workplace environments

(1) Establishing an environment in which men and women have equal opportunities to flourish

We are establishing workplace environments that can respond flexibly to circumstances through the introduction of distinctive systems such as Family Support Leave that enables employees to provide care for elderly or sick family members, attend school functions, deal with morning sickness, acquire fertility treatment, and more.

Additionally, women account for 21% of Inter Action's full-time employees (as of May 31, 2020) and are flourishing in many sectors.



(2) Adopting a training system

We regularly provide leadership training, and are maintaining a system capable of delivering high-quality education.



(3) Improving welfare benefits

To achieve workplaces in which each and every employee can flourish, we have adopted various welfare benefits and systems.

- Employee Stock Ownership System
- Board Benefit Trust for employees
- Enrollment in Smaller Enterprise Retirement Allowance Mutual Aid
- Paying housing allowances and family allowances
- Conducting stress checks on a regular basis
- Fully subsidizing influenza vaccinations
- Paying for additional items on regular medical examinations (providing the option for a full physical examination with no individual copay for people above a certain age, etc.)

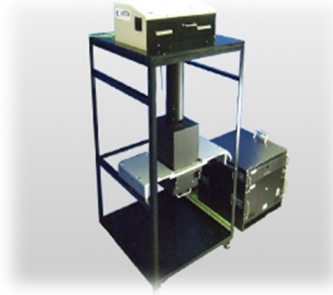


(4) Establishing a disciplined organization

We are taking the following types of initiatives to maintain a fair, proper work environment.

- Safety and Health Committee reviews of workplace environments on a regular basis
- Monitoring working hours to ensure compliance with overtime work agreements
- Paying for overtime work in one-minute increments
- Adopting whistleblowing systems





Notes

This document contains forward-looking statements particularly regarding Inter Action's future performance. The Inter Action Group has formed its outlook encompassing potential risks and uncertainties based on information available at the time of disclosure. Accordingly, please be advised that actual financial results may vary substantially from the forecasts presented, given that they are subject to economic circumstances surrounding areas of business going forward, market trends, and other such factors.

Whereas every effort has been taken to ensure the accuracy and completeness of the information provided in this document, we make no guarantee in that regard. Furthermore, please be advised that the information in this document is subject to revision or retraction without prior notice.

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Appendix: Company Profile

Company Profile



Trade name: INTER ACTION Corporation

Listed on: Tokyo Stock Exchange,
First Section

Established: June 25, 1992

Securities code: 7725

Representative: Nobuo Kiji, CEO & President

Fiscal year: June 1 to May 31

Capital stock: 1,760 million yen

URL: <http://www.inter-action.co.jp>

Employees: 139 (Group-wide as of May 31, 2020)

Group companies: Air Gases Technos Co., Ltd.
Meiritz Seiki Co., Ltd.
Tokyo Technical Instruments Inc.
Xian INTER ACTION Solar Technology Corporation
Shaanxi Chaoyangyitong Precision Device Co., Ltd.
MEIRITZ KOREA CO.,LTD.
Taiwan Tokyo Technical Instruments Corp.
TOKYO TECHNICAL INSTRUMENTS (SHANGHAI) CO.,LTD.
Lastech Co., Ltd.

Head office: Yokohama Kanazawa High-Tech Center 14F
1-1 Fukuura, Kanazawa-ku
Yokohama-shi, Kanagawa
Tel: +81-45-788-8373 Fax: +81-45-788-8371

Offices: Naka-ku, Yokohama-shi; Koshi-shi, Kumamoto

Key benchmarks	Equity Spread ROE WACC
Dividend policy	Total return ratio of 30%
M&A strategy	Focus on fields of growth and potential growth. Focus on fields where we can pursue business development by leveraging technologies and expertise built up thus far. Achieve positive net present value calculated on the basis of estimated cash flows for five years using WACC as the discount rate.

E-mail Alert Service

Receive various forms of information about the Inter Action Group via e-mail.

Link to the Inter Action website “E-mail alert service” page (in Japanese)

http://www.inter-action.co.jp/ir/ir_mail/

You may also register for the service using the QR code below.

Information you provide to us will be used solely for operating the IR e-mail alert service.

Refer to the “Privacy Policy” posted to the Inter Action website for further information on our handling of personal information (in Japanese).

<http://www.inter-action.co.jp/privacy/>



Contact Information

Investor Relations Division

Business Administration Group

Inter Action Corporation

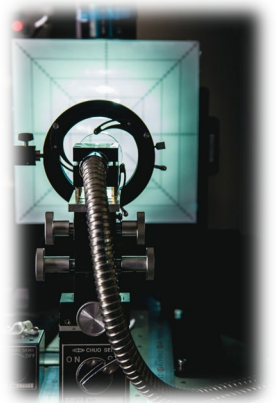
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2 Yamashita-cho, Naka-ku, Yokohama, Kanagawa

Tel: +81-45-263-9220

<http://www.inter-action.co.jp/inquiry/>

Please contact us through the Inquiries page of the Inter Action website (in Japanese).



July 22, 2020

Q&As (Excerpts)

Q1: For the fiscal year ended May 31, 2020, you explained that consolidated net sales came in at 7.0 billion yen compared to the 8.8 billion yen in consolidated net sales previously forecast in part because you were affected by customers' policies to purchase from two companies in the Internet of things related works. What is the situation for each customer?

A1: Products bound for overseas recorded higher revenue and higher profit, but the impact of coronavirus caused delays in the ramping of products, with the result that sales slipped into the following fiscal period. For domestic customers there is a strong desire to use dual suppliers, and we recognize that for repeat orders for illuminators in Japan we have been affected by the competition. From our perspective, we must take this kind of business environment into account when we act, and we will accept the will of the customer while beginning to consider the issues, including a review of our production process. We still think it is possible to grow repeat orders in Japan.

Q2: I assume that the volume of your orders is related to the willingness of your customers to invest. I would like to hear your wishful thinking, so to speak, as a manager in relation to the sort of timing for capital investments that you would like to see from your customers in general terms over the next two years.

A2: With the recent situation being so unclear this is a very difficult one to answer, but strictly in terms of what I would like to see happen, the ideal scenario would be for us to endure through the fiscal year ending May 31, 2021, and then have a V-shaped recovery in the fiscal year following that. However, we recognize that we need to watch how the new iPhone is received after its launch, and also how China behaves going forward. My feeling is that we would like to be able to deliver good news to those who have endured the coronavirus crisis together with us.

Q3: How are you competing with your rivals? There is a trend towards making image sensors larger. Are you able to establish a technological advantage in this area?

A3: Our perception is that with our engineering capabilities, we are more than capable of establishing a technological advantage. With regard to the technology, we assume that further improvements will

be needed for illuminators and pupil lens modules, and we are already focusing on development. In addition, we believe it will be necessary to strengthen development so that it is aligned with customer specifications.
