



February 7, 2019

Company name: INTER ACTION Corporation  
Representative: Hideo Kiji, CEO & President  
(Securities code 7725, First Section of the Tokyo Stock Exchange)

## Financial Results Breifing Session Held for Analysts and Institutional Investors

On January 18, 2019, Inter Action Corporation (the “Company”) held its financial results briefing on the fiscal year ending May 31, 2019, for analysts and institutional investors.

(From 15:30 to 16:30 on Friday, January 18, 2019)

1. Summary of the first half of the year financial results  
(Hideo Kiji, CEO & President)
2. Detailed overview of financial results for the first half of the fiscal year ending May 31, 2019  
(Nobuo Kiji, Executive Vice President)
3. Forecast of consolidated financial results for the fiscal year ending May 31, 2019  
(Nobuo Kiji, Executive Vice President)
4. Medium-Term Business Plan 2021 (Nobuo Kiji, Executive Vice President)
5. Question and answer session

Please refer to the accompanying documents for details covered in the financial results briefing and the question and answer session.

– End –

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# **Financial Results Briefing Session**

**First Half of the Fiscal Year Ending May 31, 2019 (27th Business Year)  
(June 1, 2018 to November 30, 2018)**

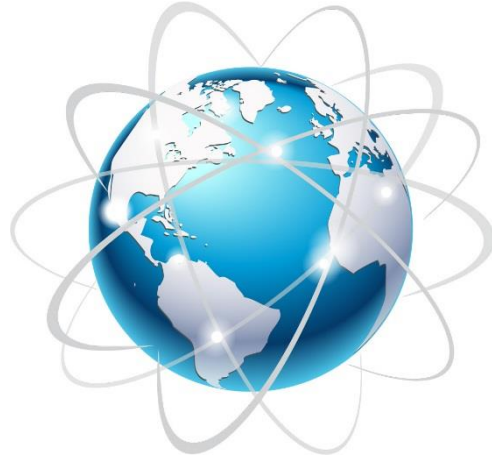


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    - 2) Environmental Energy Related Works
    - 3) Promotion Business of Industry 4.0
    - 4) Consolidated Balance Sheets and Consolidated Statements of Income
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- Appendix: Company Profile

# **1. Summary of the First Half of the Year Financial Results**

# 1) Topics



## Ranked 4th in Weekly Toyo Keizai's rankings of semiconductor-related companies with earnings gains (June 2018)

In the June 30, 2018 issue of the Weekly Toyo Keizai magazine's "Discovered in the Company Quarterly! Semiconductor and Battery Brands Riding the Wave of Market Expansion: (Semiconductors) Ranking of 55 Companies with Earnings Gain / (Batteries) 50 Distinctive Selection Brands," Inter Action was ranked 4th among the semiconductor-related companies with earnings gains.

## Ranked 8th among companies receiving increased valuation from overseas investors (August 2018)

Inter Action was ranked 8th in a ranking of companies receiving increased valuation from overseas investors (ranking of increase in non-Japanese shareholding ratio over three years) among the NEXT 1000\*.

\* NEXT1000: 965 listed companies anticipated as driving forces behind the Japanese economy with sales of ¥10 billion or less, assessed by *The Nikkei newspaper*

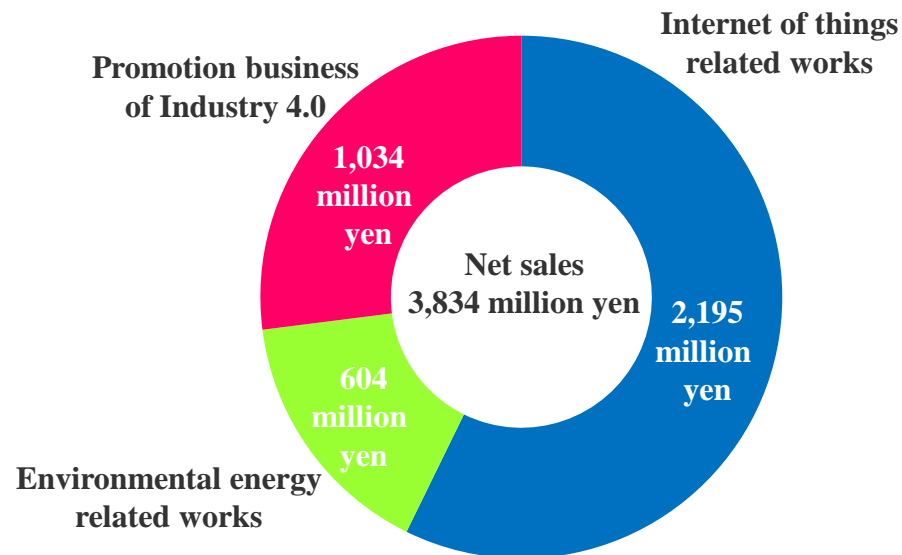


## *From a Cubbyhole to the First Section of the Tokyo Stock Exchange ranks first in stock offering category on Amazon (November 2018)*

A book authored by Hideo Kiji, Inter Action's CEO & President, became the #1 best seller in the stock offering category on Amazon.

## 2) Summary of Financial Results

- In the Internet of things related works segment, whereas unit shipments of smartphones remained flat, appetite for capital investment has remained favorable among manufacturers who produce image sensors for smartphone cameras, as models equipped with multiple cameras have started to appear.
- With respect to the environmental energy related works segment, demand continued for periodic replacement and maintenance of printing equipment in the printing machinery industry, despite diminishing new capital investment due to the growing prevalence of information technologies.
- In the flat-panel and organic EL display industry served by the promotion business of Industry 4.0 segment, capital investment remained slack.



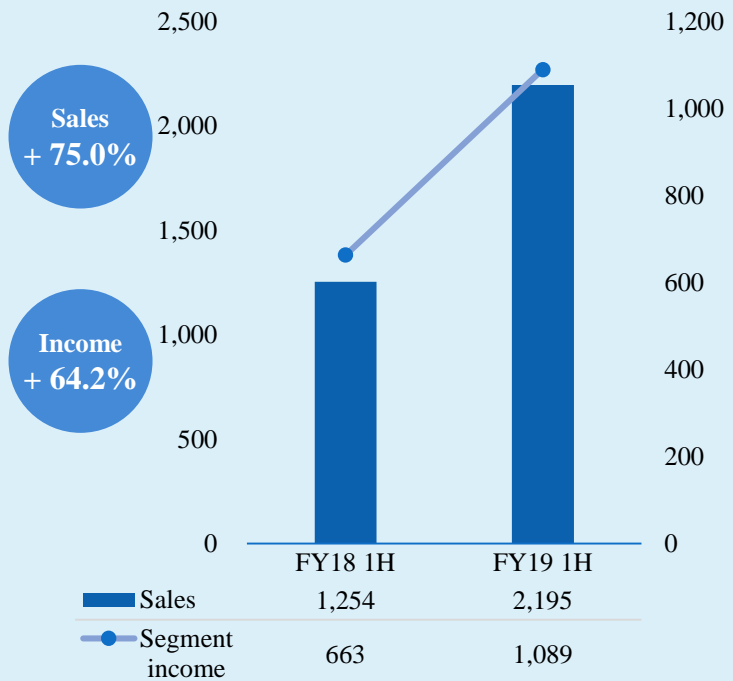
(Millions of Yen)	FY 2018 First Half	FY 2019 First Half	Change YoY
Net sales	2,592	3,834	47.9%
Operating income	325	863	165.8%
Ordinary income	319	843	164.2%
Profit attributable to owners of parent	168	560	233.2%
Net income per share	17.75 yen	58.97 yen	-

## **2. Overview of Financial Results for the First Half of the Fiscal Year Ending May 31, 2019**

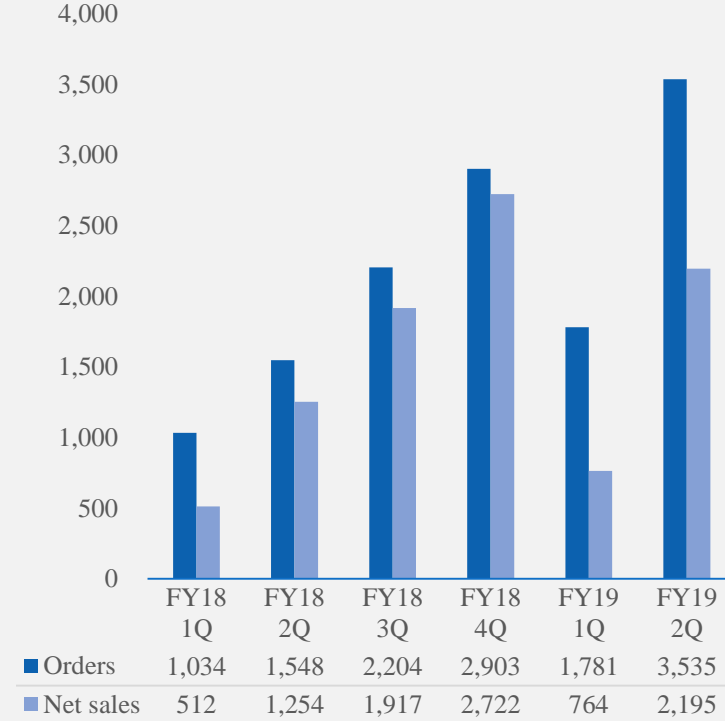
# 1) Internet of Things Related Works

- Semiconductor manufacturers have been continuing to actively undertake capital investment looking toward demand for image sensors going forward. Sales of inspection illuminators and pupil lens modules for CCD and CMOS image sensors, the Inter Action Group's mainstay products, were favorable.

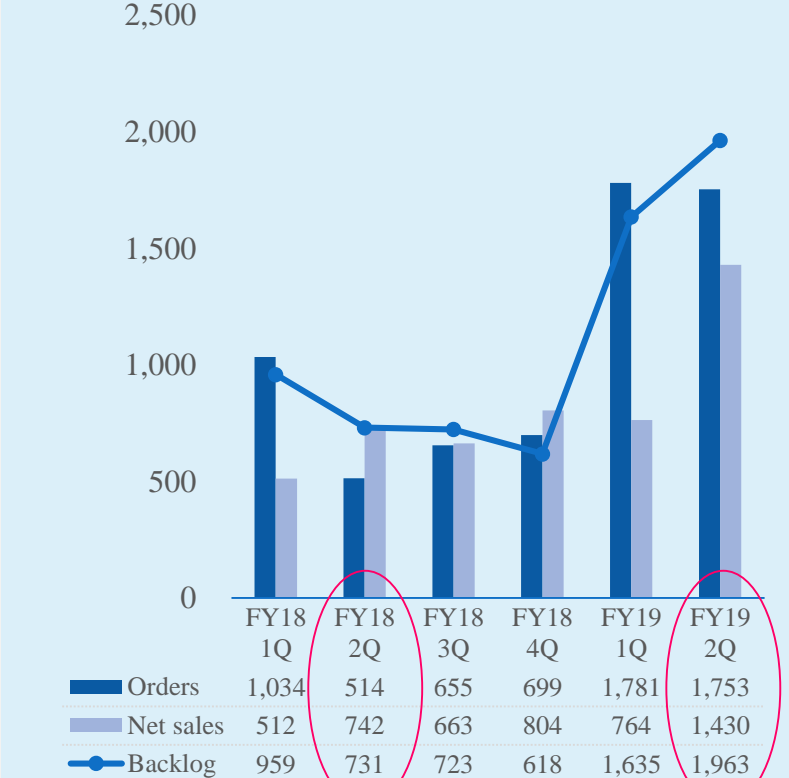
Net sales and segment income (YoY)



Amount of orders received and net sales (accumulated)



Amount of orders received, net sales, backlog of orders (generated)



Units: million yen

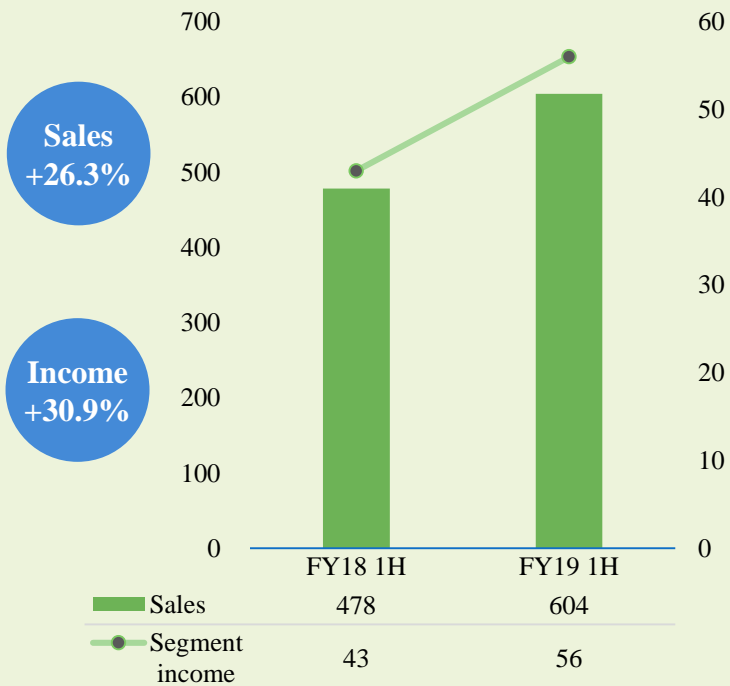
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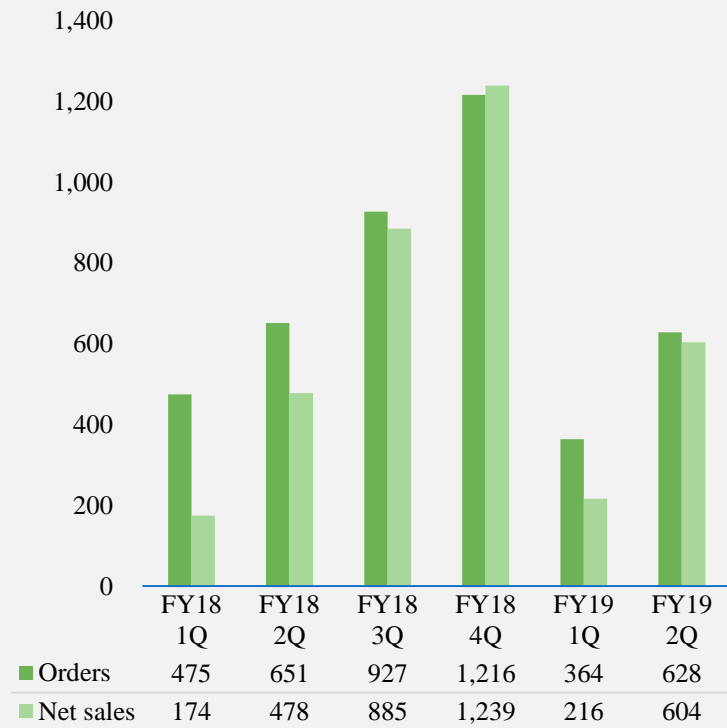
## 2) Environmental Energy Related Works

- Demand for upgrades slowed among printing machinery manufacturers.
- We focused on providing maintenance services, and sales were sluggish.

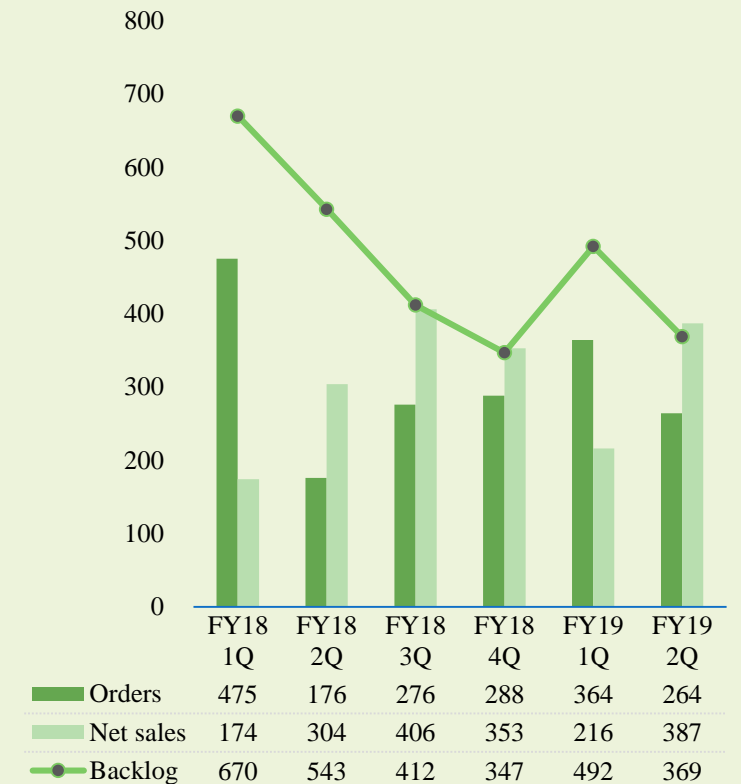
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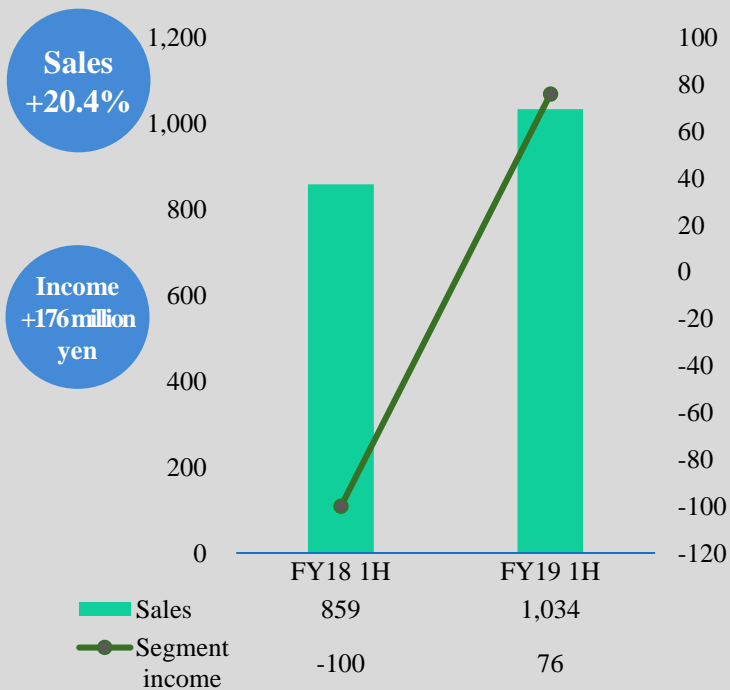
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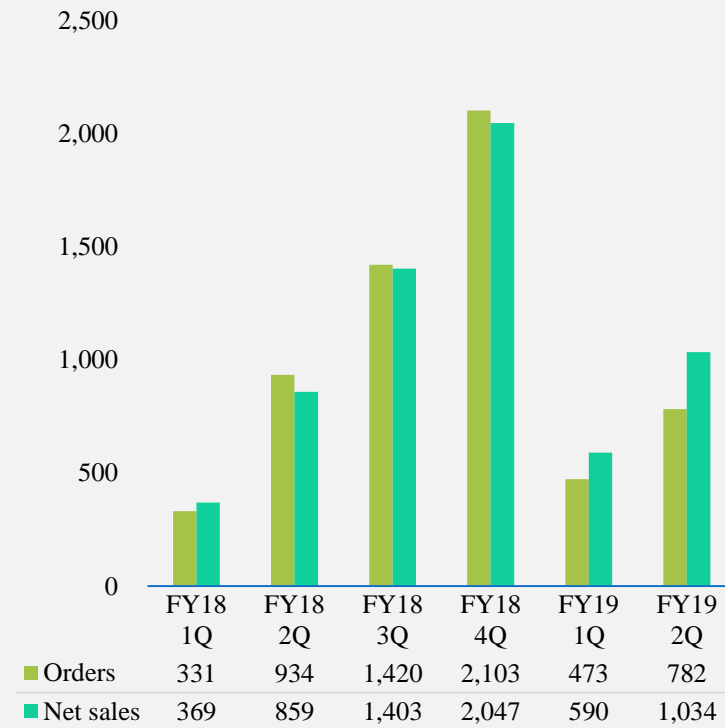
### 3) Promotion Business of Industry 4.0

- Appetite for capital investment among overseas LCD panel manufacturers who purchase precision vibration isolation systems waned, and sales were weak.
- We actively took part in exhibitions in Japan and overseas with respect to our gear testing systems, and strove to gain new customers and meet their needs.

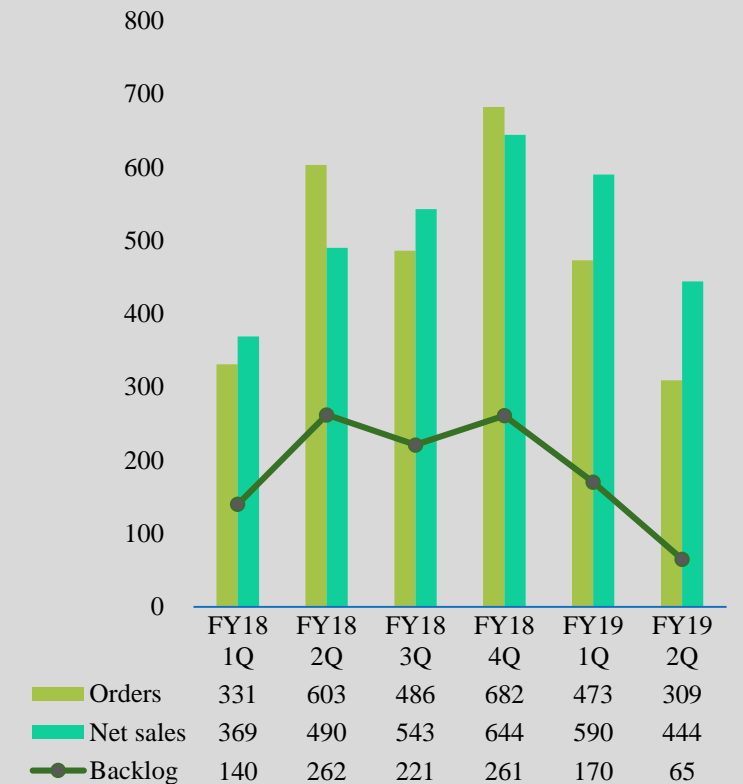
Net sales and segment income (YoY)



Amount of orders received and net sales (accumulated)



Amount of orders received, net sales, backlog of orders (generated)



## 4) Consolidated Balance Sheets and Consolidated Statements of Income

### Consolidated balance sheets

(Millions of yen)	As of May 31, 2018	As of November 30, 2018		As of May 31, 2018	As of November 30, 2018
Assets			Liabilities		
Total assets	6,573	<b>7,123</b>	Total liabilities	2,891	<b>2,931</b>
Current assets	5,238	<b>5,718</b>	Current liabilities	1,871	<b>2,046</b>
Non-current assets	1,335	<b>1,405</b>	Non-current liabilities	1,019	<b>885</b>
Property, plant and equipment	635	<b>690</b>			
Intangible assets	475	<b>445</b>	Net assets		
Investments and other assets	224	<b>269</b>	Total net assets	3,682	<b>4,192</b>
			Shareholders' equity	3,668	<b>4,191</b>
			Capital stock	610	<b>610</b>
			Capital surplus	1,570	<b>1,570</b>
			Retained earnings	1,804	<b>2,238</b>
			Treasury shares	(317)	<b>(228)</b>
			Accumulated other comprehensive income	14	<b>0</b>
Total assets	<u>6,573</u>	<u><b>7,123</b></u>	Total liabilities and net assets	<u>6,573</u>	<u><b>7,123</b></u>

### Consolidated statements of income

(Millions of yen)	Six months ended November 30, 2017	Six months ended November 30, 2018
Actual		
Net sales	2,592	<b>3,834</b>
Cost of sales	1,439	<b>2,011</b>
Gross profit	1,152	<b>1,822</b>
Selling, general and administrative expenses (Note)	827	<b>958</b>
Operating income	325	<b>863</b>
Ordinary income	319	<b>843</b>
Extraordinary income	-	<b>0</b>
Extraordinary losses	1	<b>3</b>
Profit before income taxes	317	<b>839</b>
Income taxes - current	154	<b>309</b>
Income taxes - deferred	(5)	<b>(29)</b>
Total income taxes	149	<b>279</b>
Profit	168	<b>560</b>
Profit attributable to owners of parent	168	<b>560</b>

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

Research and development expenses	42	<b>62</b>
Amortization of goodwill	21	<b>26</b>

## 5) Consolidated Statement of Cash Flows

### Cash flows from operating activities

174 million yen

(Millions of yen)	2Q ended November 30, 2017	2Q ended November 30, 2018
Profit before income taxes	317	839
Decrease (increase) in inventories	(480)	(155)
Increase (decrease) in notes and accounts payable - trade	217	178
Other increase (decrease)	64	(425)
Subtotal	119	436
Interest and guarantees paid	(41)	(262)
Net cash provided by (used in) operating activities	77	174

### Cash flows from financing activities

-309 million yen

(Millions of yen)	2Q ended November 30, 2017	2Q ended November 30, 2018
Net repayments of short-term and long-term loans payable	241	(213)
Net proceeds (loss) from bonds	280	(50)
Cash dividends paid	(113)	(125)
Other increase (decrease)	(42)	78
Net cash provided by (used in) financing activities	365	(309)

### Cash flows from investing activities

-107 million yen

(Millions of yen)	2Q ended November 30, 2017	2Q ended November 30, 2018
Purchases of property, plant and equipment and intangible assets	(52)	(100)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(426)	-
Proceeds from cancellation of insurance reserve funds	178	-
Other proceeds (payments)	(13)	(6)
Net cash provided by (used in) investing activities	(313)	(107)

### Cash and cash equivalents at end of period

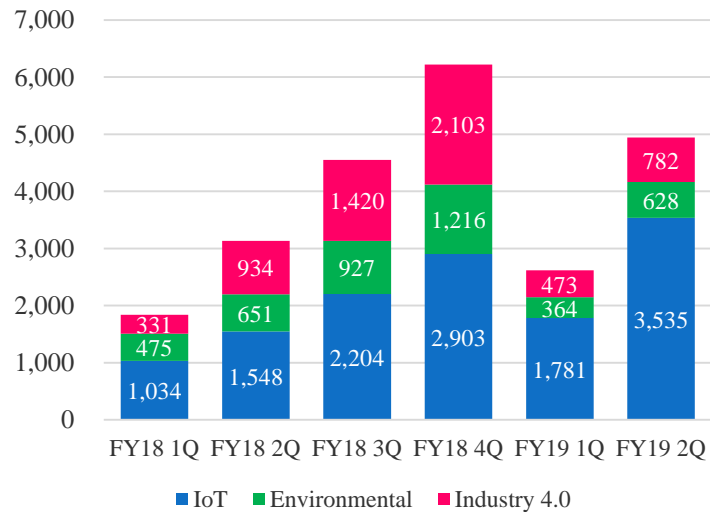
1,980 million yen

(Millions of yen)	2Q ended November 30, 2017	2Q ended November 30, 2018
Effect of exchange rate change on cash and cash equivalents	(5)	2
Net increase (decrease) in cash and cash equivalents	124	(239)
Cash and cash equivalents at beginning of period	1,935	2,220
Cash and cash equivalents at end of period	2,060	1,980

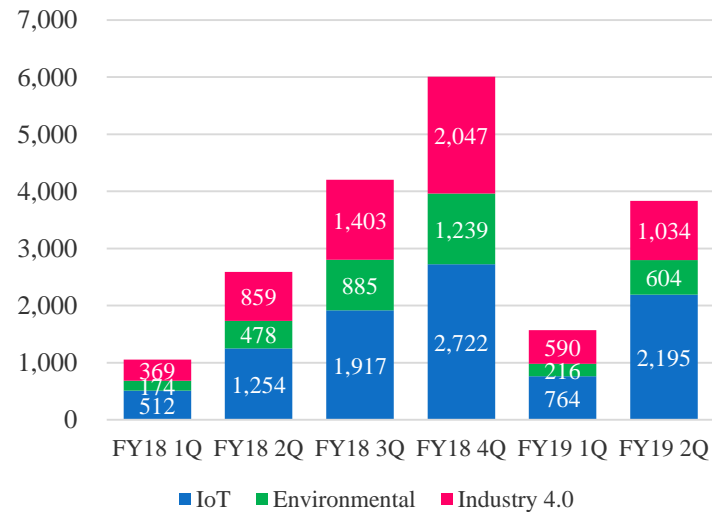
## 6) Amount of Orders Received, Net Sales, Backlog of Orders

Business segment	Amount of orders received		Net sales		Backlog of orders	
(Millions of yen)	1H of FY19	Change YoY	1H of FY19	Change YoY	1H of FY19	Change YoY
Internet of things related works	3,535	128.3%	2,195	75.0%	1,963	168.3%
Environmental energy related works	628	(3.6%)	604	26.3%	369	(32.0%)
Promotion business of Industry 4.0	782	(16.2%)	1,034	20.4%	65	(75.0%)
Total	4,946	57.8%	3,834	47.9%	2,397	56.0%

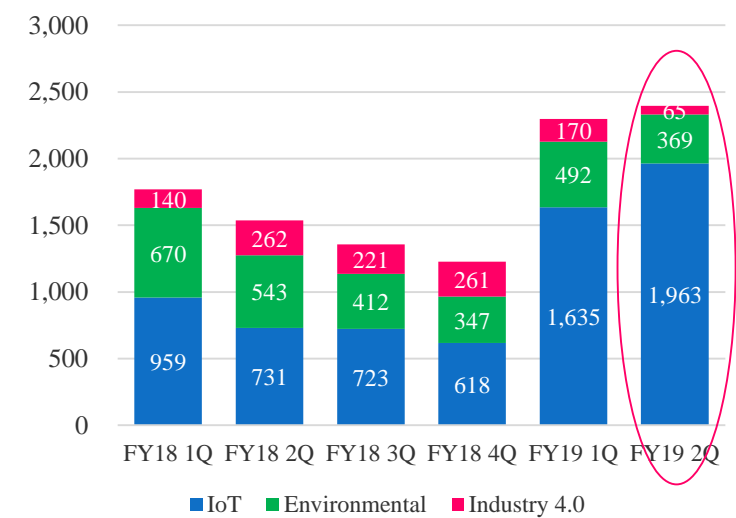
Amount of orders received (quarterly basis; millions of yen)



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, 2019 (Full Year)**

### 3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2019 (Full Year)

- In the image sensor industry, we assume that demand for image sensors due to the shift to multiple lenses in smartphone cameras and demand for image sensors for 3D sensing will increase, and we forecast manufacturers' appetites for capital investment to remain favorable as a result.
- However, we expect steady capital investment in and outside Japan in the flat-panel and organic EL display industry and the printing industry.

(Millions of yen)	Fiscal Year Ended May 31, 2018	Fiscal Year Ending May 31, 2019	Change YoY
Net sales	6,009	<b>7,158</b>	<b>19.1%</b>
Operating income	1,006	<b>1,421</b>	<b>41.2%</b>
Ordinary income	988	<b>1,401</b>	<b>41.8%</b>
Profit attributable to owners of parent	686	<b>895</b>	<b>30.4%</b>
Net income per share	72.58 yen	<b>93.83 yen</b>	—



### 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 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

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**Trade name:** INTER ACTION Corporation

**Listed on:** Tokyo Stock Exchange,  
First Section

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**Established:** June 25, 1992

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**Securities code:** 7725

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**Representative:** Hideo Kiji, CEO & President

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**Fiscal year:** June 1 to May 31

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**Capital stock:** 610 million yen

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

---

**Employees:** 151 (Group-wide as of May 31, 2018)

**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.

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**Head office:** Yokohama Kanazawa High-Tech Center 14F  
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**Offices:** Naka-ku, Yokohama-shi; Chuo-ku, Chiba-shi;  
Koshi-shi, Kumamoto

# Strategy

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## Key benchmarks

Equity spread  
ROE  
Weighted average cost of capital (WACC)

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## Dividend policy

Total return ratio of 30%

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## 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

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

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# Medium-Term Business Plan 2021

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INTER ACTION Corporation



Use optical technology to create value in society based on our motto “the customer comes first.”

A diagram with a central yellow circle containing the text 'Optical technology'. Three pink circles are arranged around it, connected by a yellow line. The top pink circle is labeled 'Image sensor market', the bottom-left pink circle is labeled 'FA image processing market', and the bottom-right pink circle is labeled 'Laser beam machine market'. The background is a night cityscape with a bridge and a Ferris wheel.

## Optical technology

Image sensor market

FA image processing market

Laser beam machine market

Since our founding in 1992, we have striven to create products that meet our customers' needs in great detail based on our company motto “the customer comes first.”

In the course of meeting various needs, we have acquired a wealth of technical know-how that we apply to product development.

The Inter Action Group has established a medium-term business plan to ensure continued business growth.

Drawing on optical technology, which is our core technology, we will take on the challenge of expanding into markets related to FA image processing as well as the laser beam machine market.

We will create value in society together with our stakeholders so as to grow into a company whose name is the first to come to mind around the world in association with optical technology.



With the spread of smartphone cameras and digital cameras in recent years, image sensors for photographic cameras have become something familiar in our lives.

And it is thought that the applications for these sensors will continue to expand by capturing not only visible light but also invisible light. Particularly in such fields as self-driving technology, medical devices, and security, we anticipate demand for image sensors to increase as an essential technology.

The Inter Action Group's illuminators and pupil lens modules support the quality of image sensors and the Group thereby contributes to society as a partner that grows together with it.



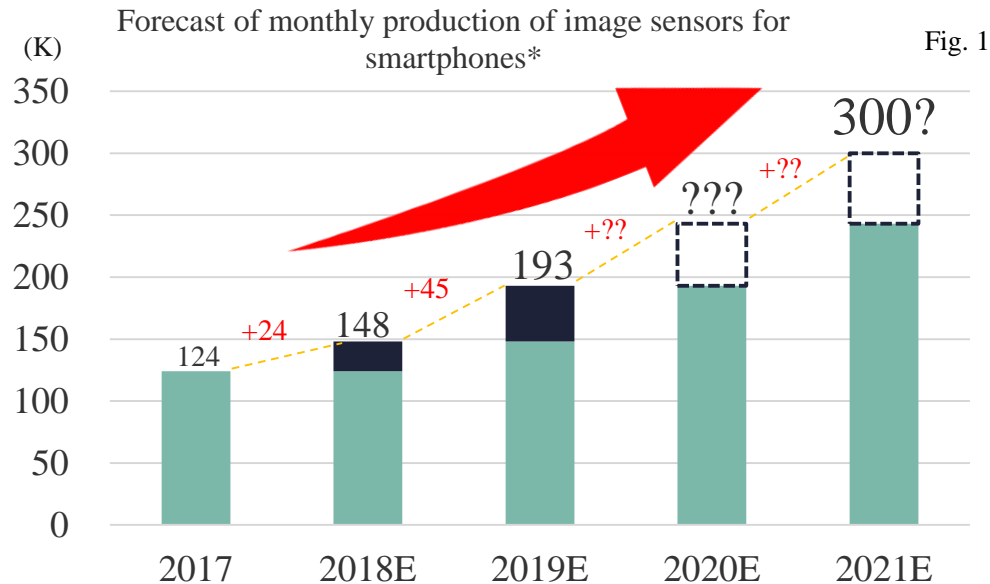
# Growth of the CMOS Image Sensor Market

## [Short-term factors]

- (1) Expanding demand for image sensors due to the shift to multiple lenses for smartphone cameras (Fig. 1)
  - It is anticipated that around 50% of existing smartphones will be dual-camera models within three years.
  - Triple-camera or more models have already hit the market.
- (2) Expanding demand for image sensors for 3D sensing

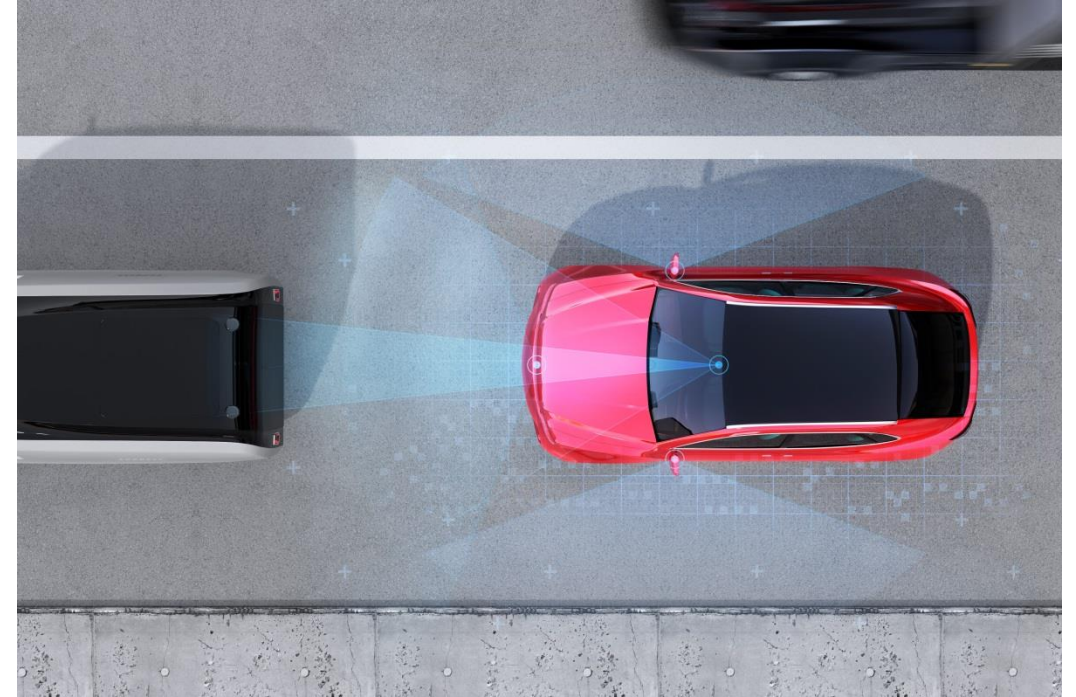
## [Medium- to long-term factors]

- (1) Spread of in-car cameras
  - Necessity in development of self-driving technology
- (2) Monitoring cameras, medical care, robotics, etc.
  - While there are many uncertainties, the need for image sensors is expected to increase as a core technology in image analysis.



\* Calculated by adding the forecasts for leading manufacturers

Fig. 1



With the increase in monthly production, manufacturers' appetites for capital investment is growing.

It is thought that monthly production will increase even more in the future due to demand for image sensors for in-car cameras, etc.



We therefore anticipate demand for the Inter Action Group's products to also grow. Capturing this demand, we will conduct parallel development for new fields such as in-car cameras, etc.

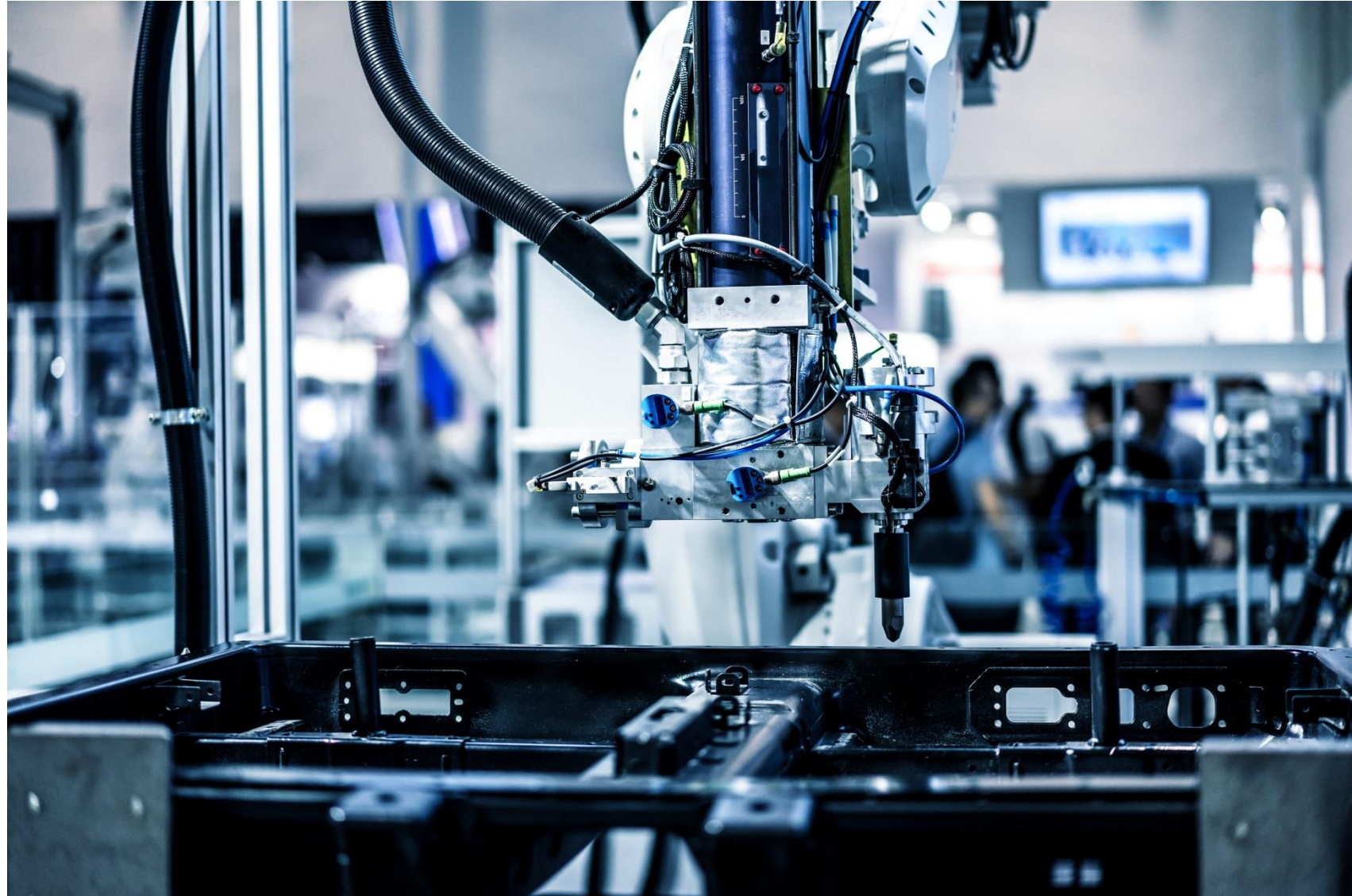


# FA Image Processing Market

There is a progressing labor shortage in small and medium-size enterprises, which account for 99% of Japan's manufacturing industry. Automation of production processes using robots and IT (factory automation; FA) is therefore gaining attention.

In the image processing systems (camera inspection) for FA, the imaging settings, type of image processing, and other details differ depending on the type of inspection, requiring multiple technologies suited to customer needs.

The Inter Action Group expects to be able to give full play to its technological strengths in this field by making active use of its optical control technology.

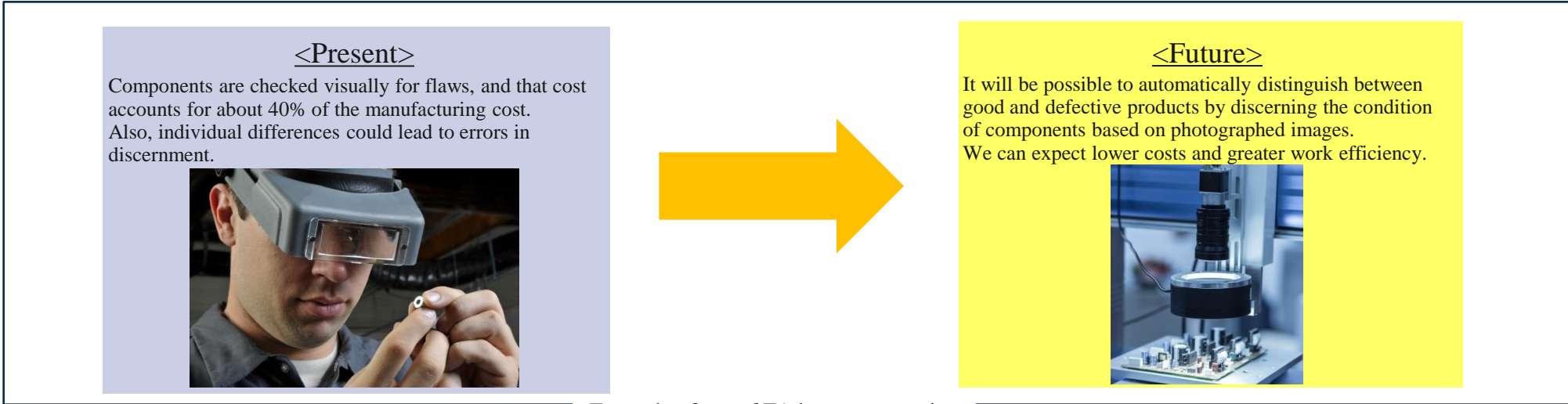


# Synergy between the FA Image Processing Market and the Inter Action Group's Technology



## [Market situation]

The global market related to FA image processing system started burgeoning in 2016 on the back of increasing needs for FA and sensing. Over the next several years, we anticipate **an annual rate of increase around 10%** with the market growing to **1.621 trillion yen in 2020**.

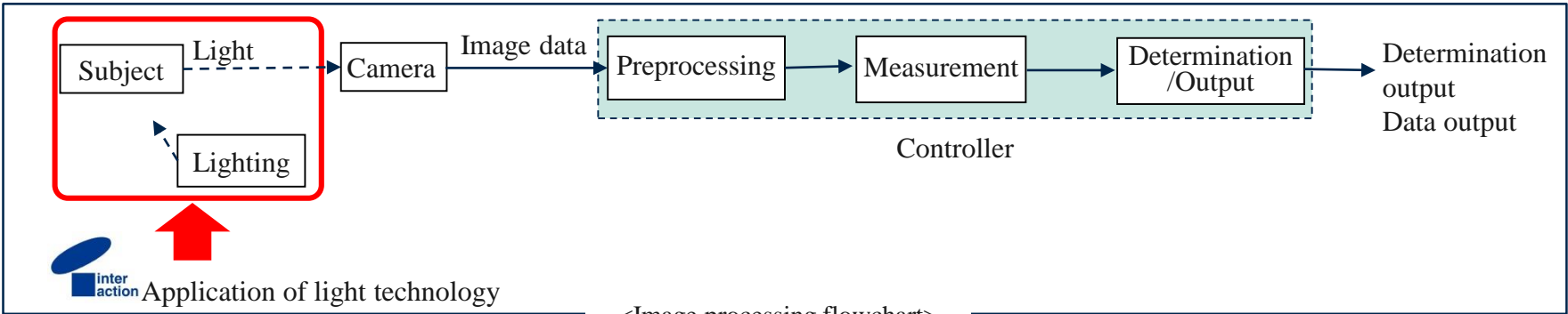


<Example of use of FA image processing>

## [Synergy with the Inter Action Group's technology]

In FA image processing, lighting technology that is suited to each image processing application is needed according to the condition of the subject and the shooting requirements.

We believe that technology to control light (lighting) illumination, which is the Inter Action Group's strength, could produce substantial synergy.



<Image processing flowchart>



# Laser Machining Technology Market



Laser machining is a technology with which various kinds of machining can be carried out without directly touching the material. It is used as a base technology in a variety of industrial fields as it enables complex and subtle machining as well as machining that minimizes effects on the material. With further performance increases expected in the future, the market is anticipated to expand.

We believe that the Inter Action Group's technology can be fully leveraged in this field, in which optical systems are essential for laser machining technology, and we expect that it will contribute greatly to the Group's future growth.



# Laser Machining Technology Market

## [Market situation]

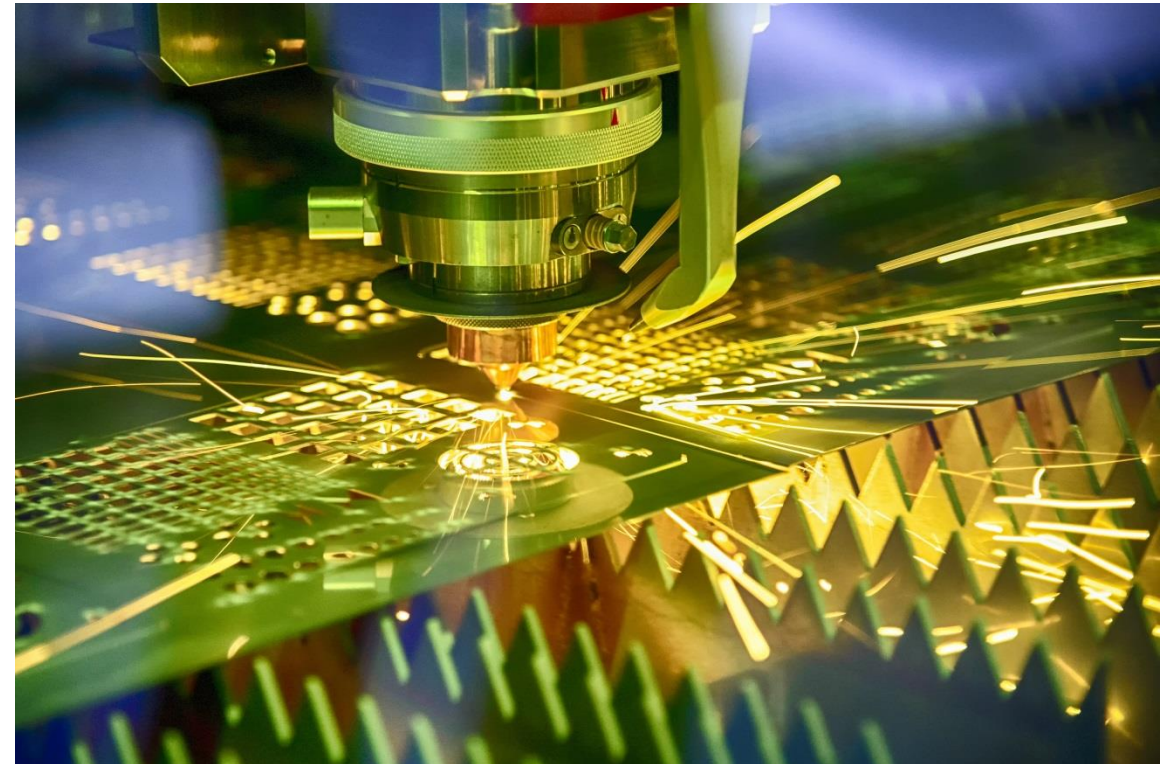
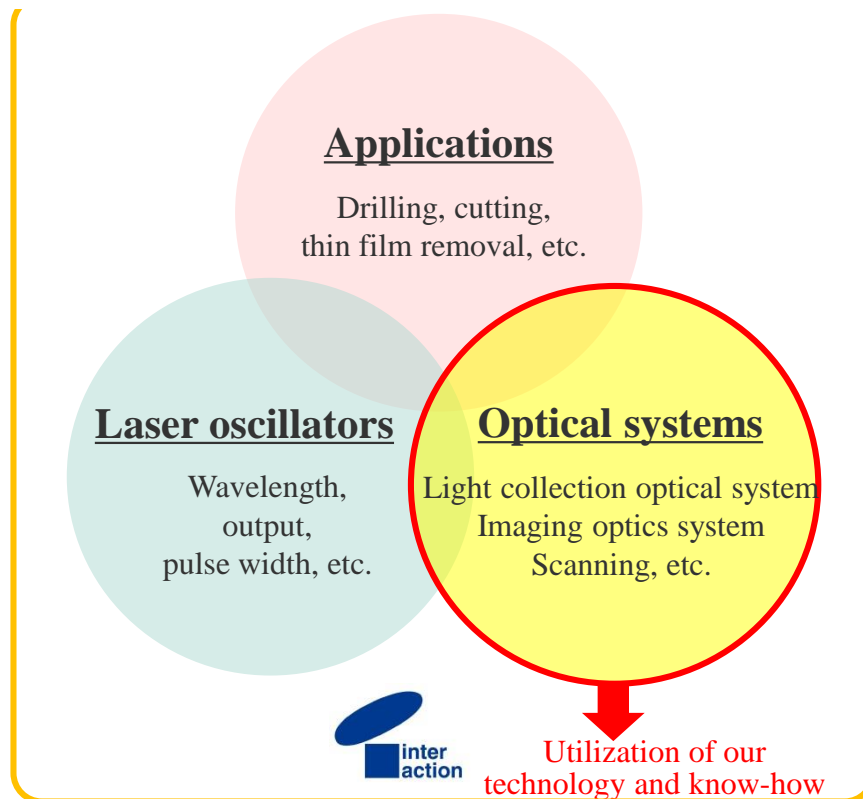
The laser illuminator/oscillator market is forecast to grow from 559.1 billion yen in 2015 to **807.0 billion yen in 2020** and then to **keep on going at an average annual growth rate of 7%**. Also, the switchover from CO<sub>2</sub> lasers, which had been mainstream until now, to fiber lasers is becoming pronounced.

## [Synergy between laser beam machine elements and the Inter Action Group's technology]

Laser beam machines are based on three elements: laser oscillators, optical system technology, and applications. The machines must be developed and manufactured to fit the customer's needs.

Fiber lasers, to which the materials processing field in particular has been switching in recent years, are anticipated to show high growth potential. We believe that optical systems technology can make use of our technical know-how.

Three major elements in considering development of laser machining methods



# Mid-Term Plan

We have established targets for three years out from our most recent full-year results in light of market volatility and our situation in taking on the challenge of venturing into new fields. Officers and employees will make a concerted effort to be able to show the world how much the Inter Action Group has grown by the fiscal year ending May 2021.

	Performance for FY ended May 2018	Target for FY ending May 2021
ROE	18.7%	<b>20% or higher</b>
Net sales	6 billion yen	<b>10 billion yen or more</b>
Operating profit ratio	16.7%	<b>20% or higher</b>

## Key benchmarks

Equity spread  
ROE  
Weighted average cost of capital (WACC)

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## Dividend policy

Total return ratio of 30%

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## M&A strategy

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Business Administration Group

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### Notes

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Q&As (Excerpt)

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**Q1:** With respect to the Internet of things related works in the first half of the year, what was the ratio of pupil lens modules to illuminators in net sales and orders received? Also, how do you see your position vis-à-vis the competition?

**A1:** In the Internet of things related works, pupil lens modules accounted for about 30% and illuminators about 70% of net sales in the first half of the year. In the first half of the last year, pupil lens modules were about 36% and illuminators were about 64%. This year, capital investment is rolling forward, and so we feel that sales of pupil lens modules will grow as operation rates increase. As for orders received, I believe they are at a similar rate to net sales, but we are examining that carefully. In terms of positioning in relation to the competition, as the idea that customers will adopt dual sourcing is given, we believe that we can ensure the top position by providing technology that is one step ahead of customers.

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**Q2:** In the Internet of things related works, were there any qualitative changes or customer trends in terms of orders received from the first quarter to the second quarter of the 27<sup>th</sup> business year? Also, with regard to products, I imagine that the ways to make CMOS and ToF are different. Are there any changes in the product base?

**A2:** Trends are a shift to dual- and triple-lens smartphone cameras as well as increased orders for 3D sensing in anticipation of the next generation. We feel that customers are thinking to differentiate based on smartphone cameras and 3D sensing.

As for products, the light wavelength range is different. We have changed from near infrared to a long wavelength range.

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**Q3:** With respect to the current full-year earnings forecast, you have forecast a decrease in income in the second half of this year compared to the second half of the last year. Why is that? And, is there any variation by quarter in things such as orders received? Also, you are aiming for 10 billion yen or more in net sales in 2021 in your medium-term business plan, but what percentage will come from the Internet of things related works?

**A3:** Our full-year earnings forecast for the current year was made from the bottom up, and so the

numbers were prepared by adding up sure things. It is a planned forecast, not an arbitrary forecast. This is just my sense, but I don't feel that there is any change in the flow or vigor of the market by quarter. As for our medium-term business plan, we made the calculations with the Internet of things related works as our primary business.

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**Q4:** With regard to entry into the FA image processing market, it seems that you are thinking to enter through the inspection of gears. What are Inter Action's strengths in that area? Also, what are your strengths in the field of laser beam machines?

**A4:** The gear measuring devices made by Tokyo Technical Instruments Inc., which is one of our group companies, measure only the range touched by a needle. As they cannot inspect for visual flaws, people must still make inspections by eye. To inspect for flaws, light is necessary, and I believe we have an advantage in the field of controlling light.

As for laser beam machines, I believe they will shift to fiber lasers. And that will require customizability and optical systems knowledge in order to meet the demands of a customer-first commitment.

Laser oscillators have already been developed in the West, and we anticipate that the coming era will see the emergence of applications. What will be important at that time are optical systems that align with applications. I think that is where our strength will be.

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