



February 12, 2020

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 17, 2020, Inter Action Corporation (the “Company”) held its financial results briefing on the fiscal year ending May 31, 2020, for analysts and institutional investors.

(From 10:00 to 11:00 on Friday, January 17, 2020)

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, 2020 (Nobuo Kiji, Executive Vice President)
3. Forecast of consolidated financial results for the fiscal year ending May 31, 2020 (Nobuo Kiji, Executive Vice President)
4. Business expansion going forward (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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INTER ACTION Corporation
First Half of the Fiscal Year Ending May 31, 2020 (28th Business Year)
Financial Results Briefing Session

Friday, January 17, 2020



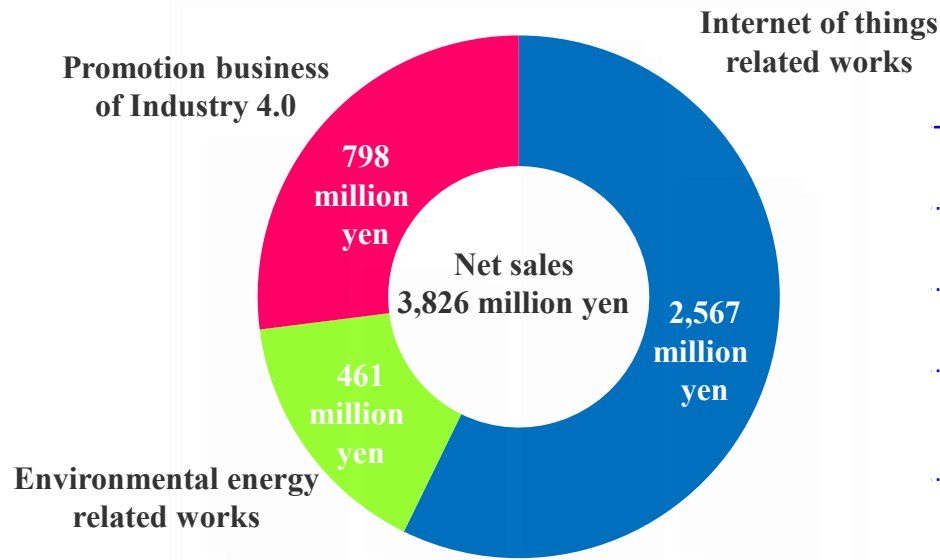
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Appendix: Company Profile

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

Summary of the First Half of the Year Financial Results



(Millions of Yen)	FY 2019 First Half	FY 2020 First Half	Change YoY
Net sales	3,834	3,826	(0.2)%
Operating income	863	915	6.0%
Ordinary income	843	916	8.7%
Profit attributable to owners of parent	560	605	8.1%
Profit per share	58.97 yen	55.45 yen	-

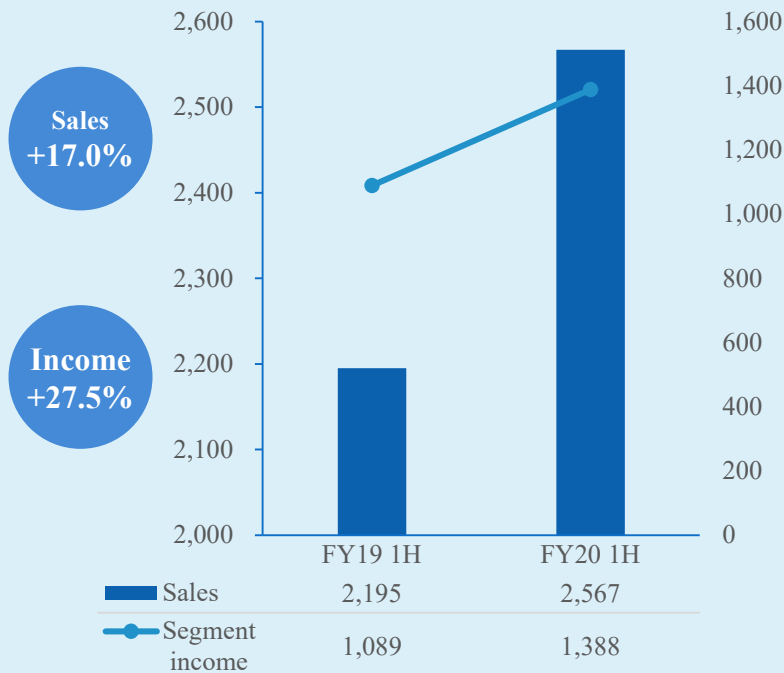
- The Internet of things related works segment generated strong sales having achieved year-on-year gains in both sales and earnings with respect to illuminators for image sensors and pupil lens modules. Appetite for capital investment remains high although backlog of orders has decreased as of the end of second quarter, which we recognize as having resulted from a wave with respect to the timing of orders received from customers.
- Net sales and income have been lackluster in both the environmental energy related works segment and the promotion business of Industry 4.0 segment due sluggish appetite for capital investment brought about by the economic downturn.

2. Overview of Financial Results for the First Half of the Fiscal Year Ending May 31, 2020

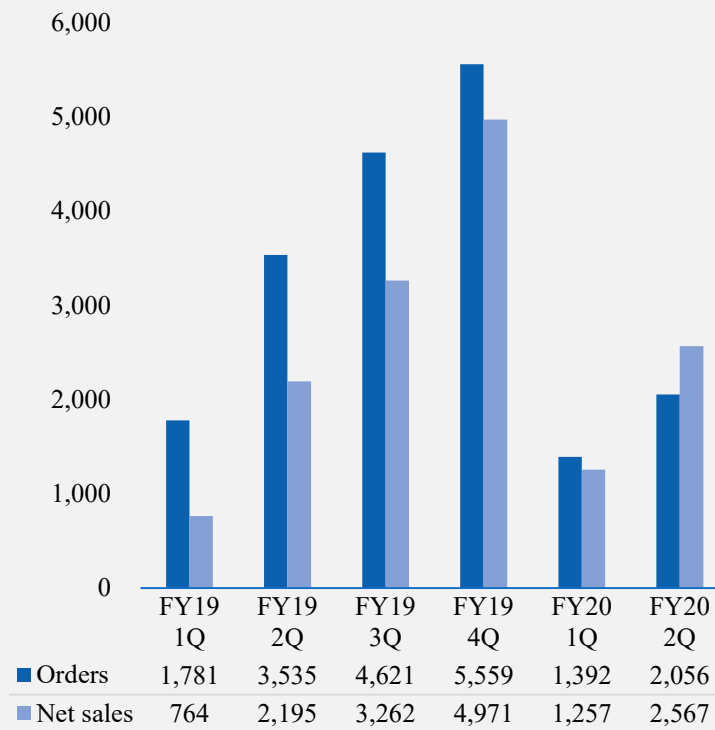
1) Internet of Things Related Works

- Our backlog of orders has been decreasing despite increases in sales and income over the previous year due to strong sales of illuminators for image sensors and pupil lens modules.
- There is substantial potential for capital investment demand, despite an uncertain pace of capital investment most recently on the customer side.

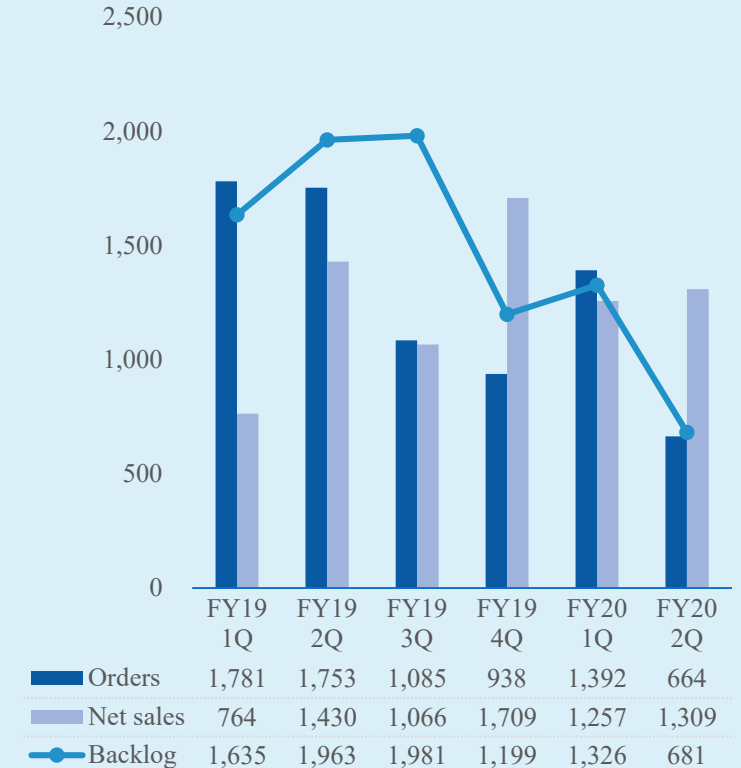
Net sales and segment income (YoY)



Amount of orders received and net sales (accumulated)



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



Units: million yen

Units: million yen

Units: million yen

1) Internet of Things Related Works

We aimed to achieve the three major objectives listed below in the first half:

Objective 1: Generate a greater proportion of sales from equipment related to inspection of new devices (near infrared illuminators)

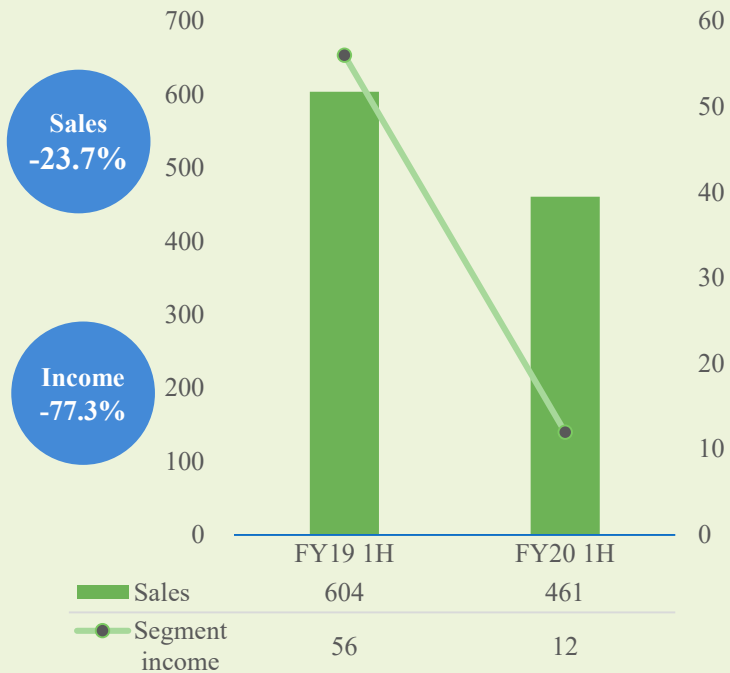
Objective 2: Generate a greater proportion of sales from business in the field of maintenance

Objective 3: Generate a greater proportion of sales from business involving pupil lens modules overseas

2) Environmental Energy Related Works

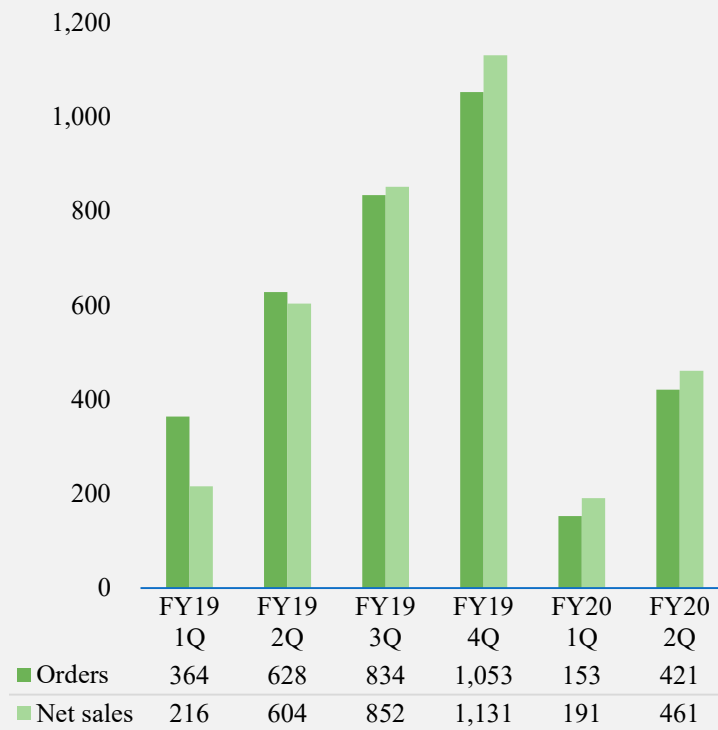
- Appetite for capital investment among our customers has remained sluggish in part as a result of companies putting off non-essential capital investment as they encounter challenging conditions in the printing industry combined with an economic downturn. As a result, sales have been sluggish.

Net sales and segment income (YoY)



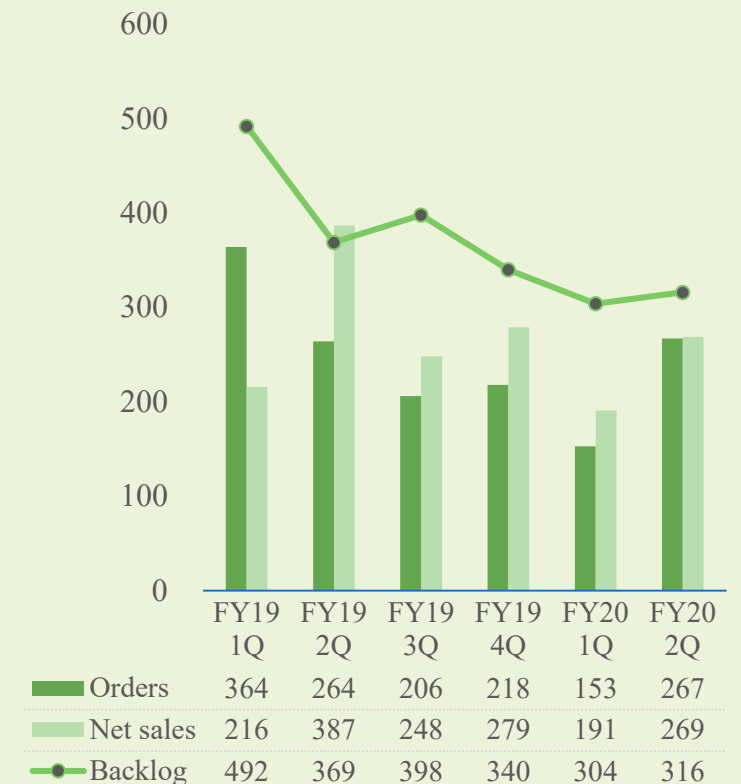
Units: million yen

Amount of orders received and net sales (accumulated)



Units: million yen

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

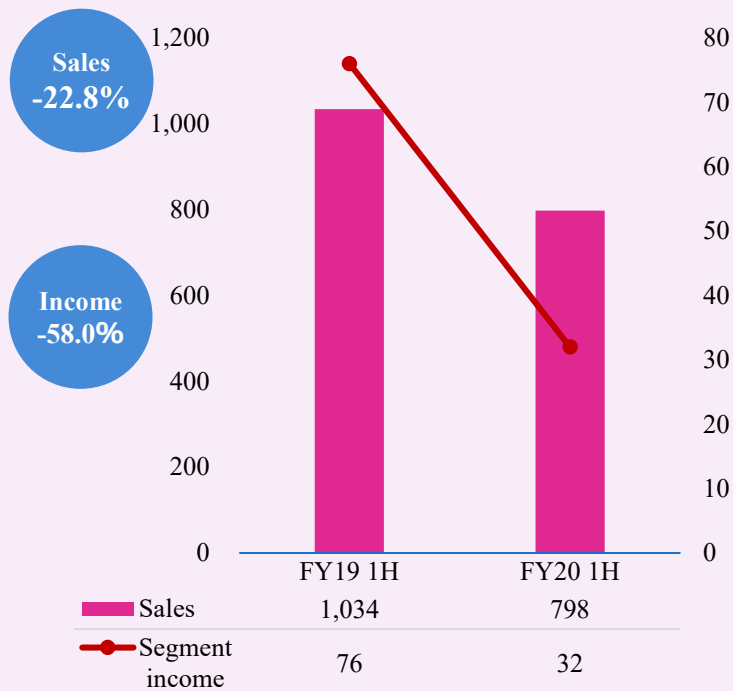


Units: million yen

3) Promotion Business of Industry 4.0

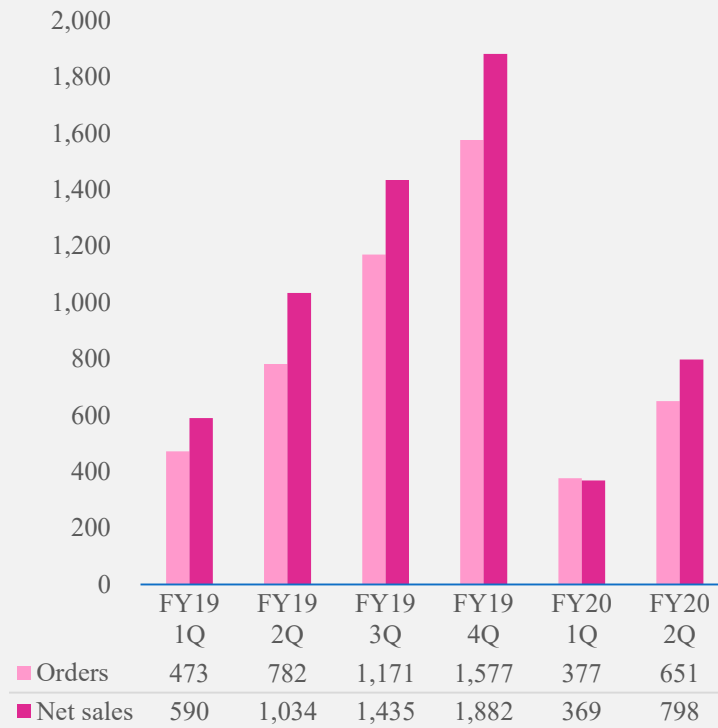
- Demand for vibration isolation systems is poised for recovery even though sales of such systems have remained sluggish as they encounter persistently subdued demand in overseas markets.
- As for gear testing systems, whereas appetite for capital investment has remained sluggish due to the economic downturn, we have been striving to attract new customers at exhibitions.

Net sales and segment income (YoY)



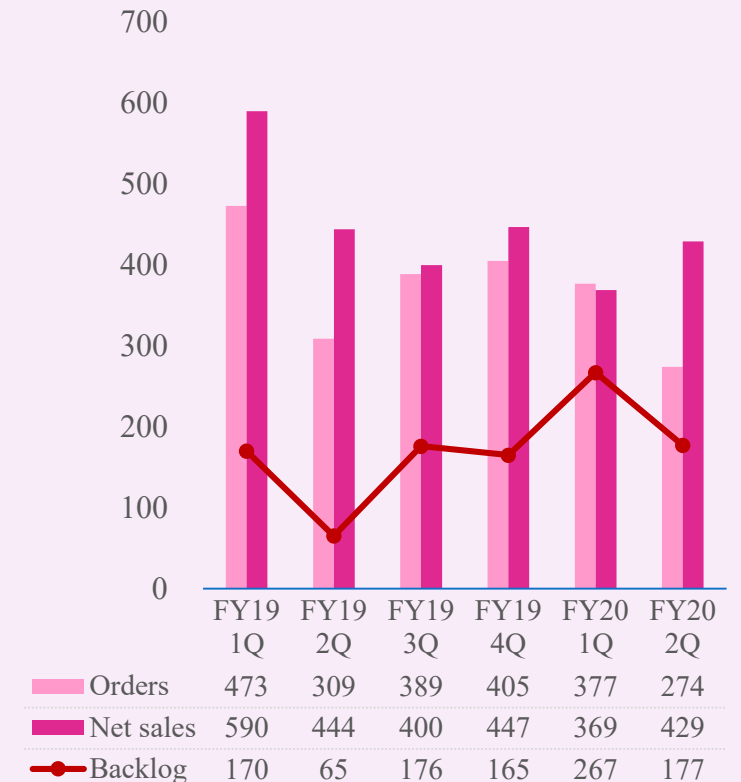
Units: million yen

Amount of orders received and net sales (accumulated)



Units: million yen

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



Units: million yen

4) Consolidated Balance Sheets and Consolidated Statements of Income

Consolidated balance sheets

(Millions of yen)	As of May 31, 2019	As of November 30, 2019		As of May 31, 2019	As of November 30, 2019
Assets			Liabilities		
Total assets	10,388	9,757	Total liabilities	3,082	2,268
Current assets	8,911	8,377	Current liabilities	2,360	1,672
Non-current assets	1,477	1,379	Non-current liabilities	721	595
Property, plant and equipment	704	703	Net assets		
Intangible assets	413	380			
Investments and other assets	359	295	Total net assets	7,306	7,488
			Shareholders' equity	7,316	7,508
			Capital stock	1,760	1,760
			Capital surplus	2,719	2,719
			Retained earnings	3,065	3,471
			Treasury shares	(228)	(442)
			Accumulated other comprehensive income	(9)	(19)
Total assets	<u>10,388</u>	<u>9,757</u>	Total liabilities and net assets	<u>10,388</u>	<u>9,757</u>

Consolidated statements of income

(Millions of yen)	Six months ended November 30, 2018	Six months ended November 30, 2019
Actual		
Net sales	3,834	3,826
Cost of sales	2,011	1,852
Gross profit	1,822	1,973
Selling, general and administrative expenses (Note)	958	1,058
Operating income	863	915
Ordinary income	843	916
Extraordinary income	0	—
Extraordinary losses	3	0
Profit before income taxes	839	916
Income taxes - current	309	251
Income taxes - deferred	(29)	59
Total income taxes	279	310
Profit	560	605
Profit attributable to owners of parent	560	605

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

Research and development expenses	62	66
Amortization of goodwill	26	26

5) Consolidated Statement of Cash Flows

Cash flows from operating activities

1,249 million yen

(Millions of yen)	2Q ended November 30, 2018	2Q ended November 30, 2019
Profit before income taxes	839	916
Decrease (increase) in notes and accounts receivable - trade	(508)	667
Increase (decrease) in notes and accounts payable - trade	178	(162)
Other increase (decrease)	(73)	341
Subtotal	436	1,762
Interest and guarantees paid	(262)	(513)
Net cash provided by (used in) operating activities	174	1,249

Cash flows from financing activities

-667 million yen

(Millions of yen)	2Q ended November 30, 2018	2Q ended November 30, 2019
Net repayments of short-term and long-term loans payable	(213)	(126)
Redemption of bonds	(50)	(30)
Decrease (increase) in treasury shares	80	(308)
Cash dividends paid	(125)	(199)
Other increase (decrease)	(1)	(3)
Net cash provided by (used in) financing activities	(309)	(667)

Cash flows from investing activities

-111 million yen

(Millions of yen)	2Q ended November 30, 2018	2Q ended November 30, 2019
Purchases of property, plant and equipment and intangible assets	(100)	(112)
Payments for lease deposits	(6)	(2)
Collection of lease deposits	-	3
Other proceeds (payments)	0	0
Net cash provided by (used in) investing activities	(107)	(111)

Cash and cash equivalents at end of period

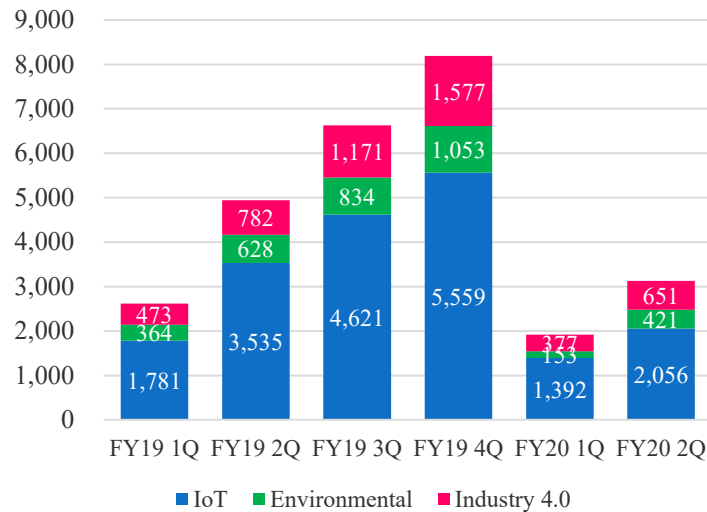
5,231 million yen

(Millions of yen)	2Q ended November 30, 2018	2Q ended November 30, 2019
Effect of exchange rate change on cash and cash equivalents	2	(5)
Net increase (decrease) in cash and cash equivalents	(239)	464
Cash and cash equivalents at beginning of period	2,220	4,766
Cash and cash equivalents at end of period	1,980	5,231

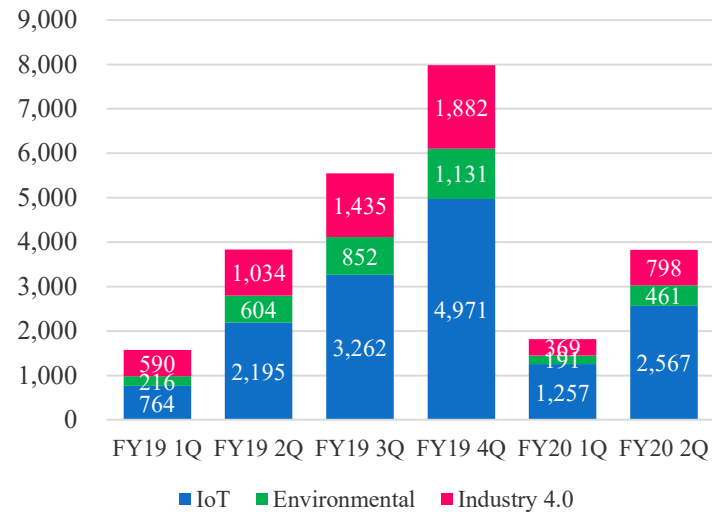
6) Amount of Orders Received, Net Sales, Backlog of Orders

Business segment	Amount of orders received		Net sales		Backlog of orders	
(Millions of yen)	1H of FY20	Change YoY	1H of FY20	Change YoY	1H of FY20	Change YoY
Internet of things related works	2,056	(41.8)%	2,567	17.0%	681	(65.3)%
Environmental energy related works	421	(33.0)%	461	(23.7)%	316	(14.3)%
Promotion business of Industry 4.0	651	(16.7)%	798	(22.8)%	177	170.7%
Total	3,129	(36.7)%	3,826	(0.2)%	1,175	(51.0)%

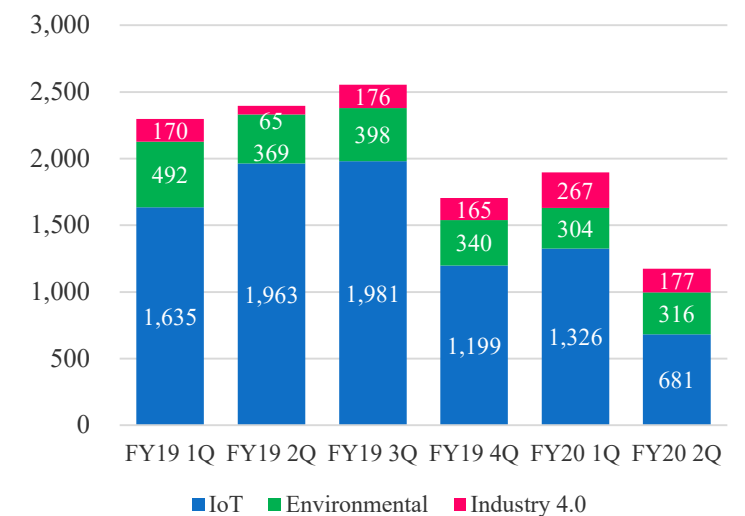
Amount of orders received (quarterly basis; millions of yen)



Net sales (quarterly basis; millions of yen)

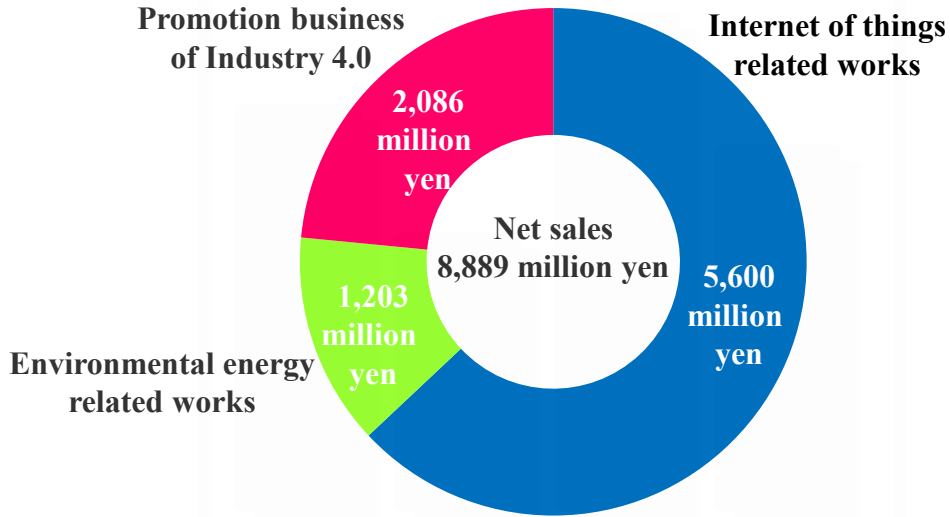


Backlog of orders (quarterly basis; millions of yen)



3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2020 (Full Year)

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2020 (Full Year)



(Millions of yen)	Fiscal Year Ended May 31, 2019	Fiscal Year Ending May 31, 2020 (forecast)	Change YoY
Net sales	7,986	8,889	11.3%
Operating income	1,980	2,122	7.2%
Ordinary income	1,943	2,109	8.5%
Profit attributable to owners of parent	1,386	1,395	0.7%
Profit per share	141.13 yen	126.33 yen	

[Internet of things related works]

We expect demand for image sensors, primarily brought about by a shift to multiple lenses in smartphone cameras, to continue to heighten. We will reinforce sales of the pupil lens modules. We think that there is a possibility that demand for illuminators for ToF sensors, illuminators for image sensors for vehicles, and LiDAR measuring equipment for vehicles will also gradually rise.

[Environmental energy related works]

We expect new capital investment in Japan to remain sluggish. We will steadily tap demand for upgrades and maintenance resulting from the degradation of printing presses, and will also strengthen overseas sales such as exhaust gas treatment systems for the Chinese market.

[Promotion business of Industry 4.0]

While sales of precision vibration isolation systems are likely to remain subdued, we expect sales of gear testing systems to be firm due to our redoubled efforts to strengthen overseas sales.

In addition, we will aggressively tackle our new business related to FA (factory automation) image processing with the aim of achieving commercial viability at an early stage.

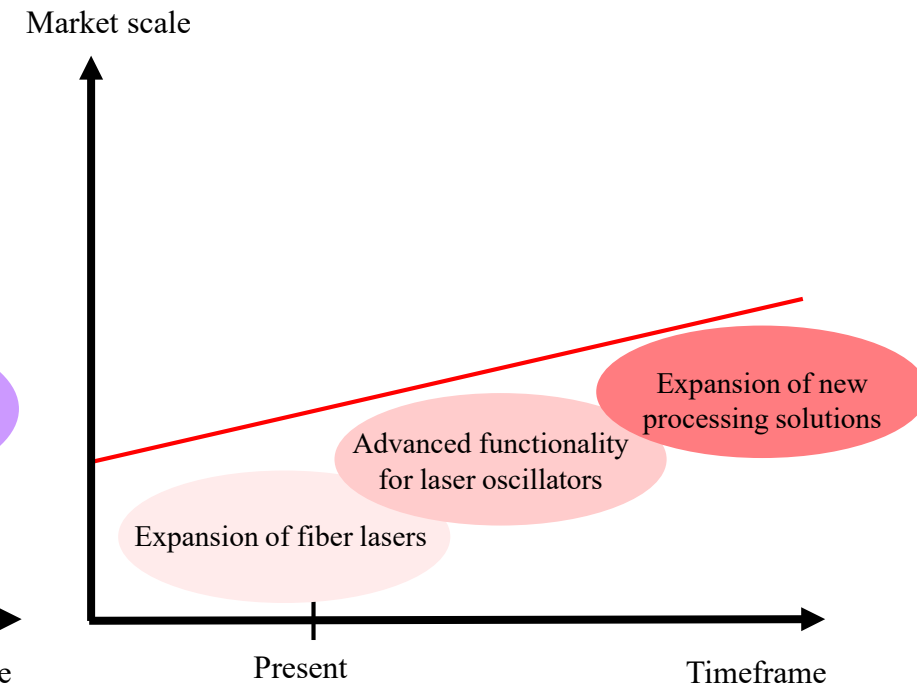
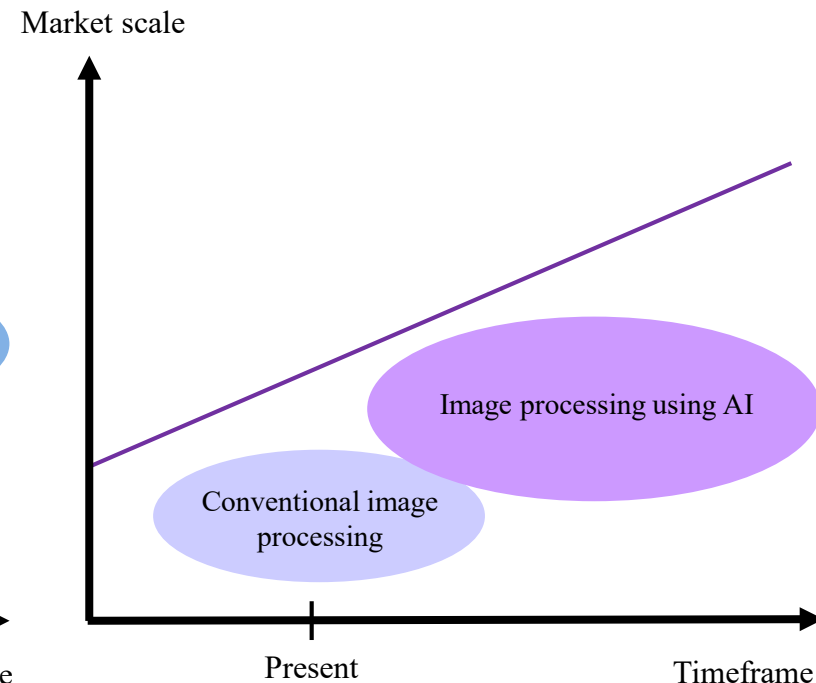
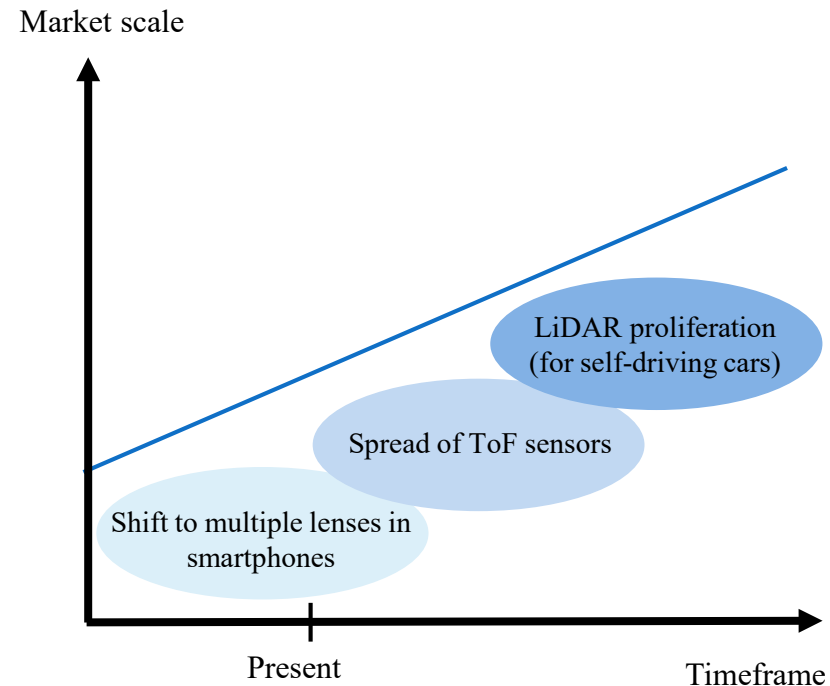
4. Business Expansion Going Forward

Expansion in related markets

<Image sensor-related markets >

<Image processing systems for FA>

<Laser illuminators and oscillator related>



【Primary factors behind expansion】

- Higher demand for image sensors due to multiple lenses in smartphones
- Spread of ToF sensors due to installation in smartphones
- Spread of LiDAR for automated operation

*ToF : Time of Flight

*LiDAR : Light Detection and Ranging

【Primary factors behind expansion】

- Global increase in FA demand
- Greater attention to combination of image processing and AI

Manufacturing area: Industrial robotics

2015: 112.9 billion yen

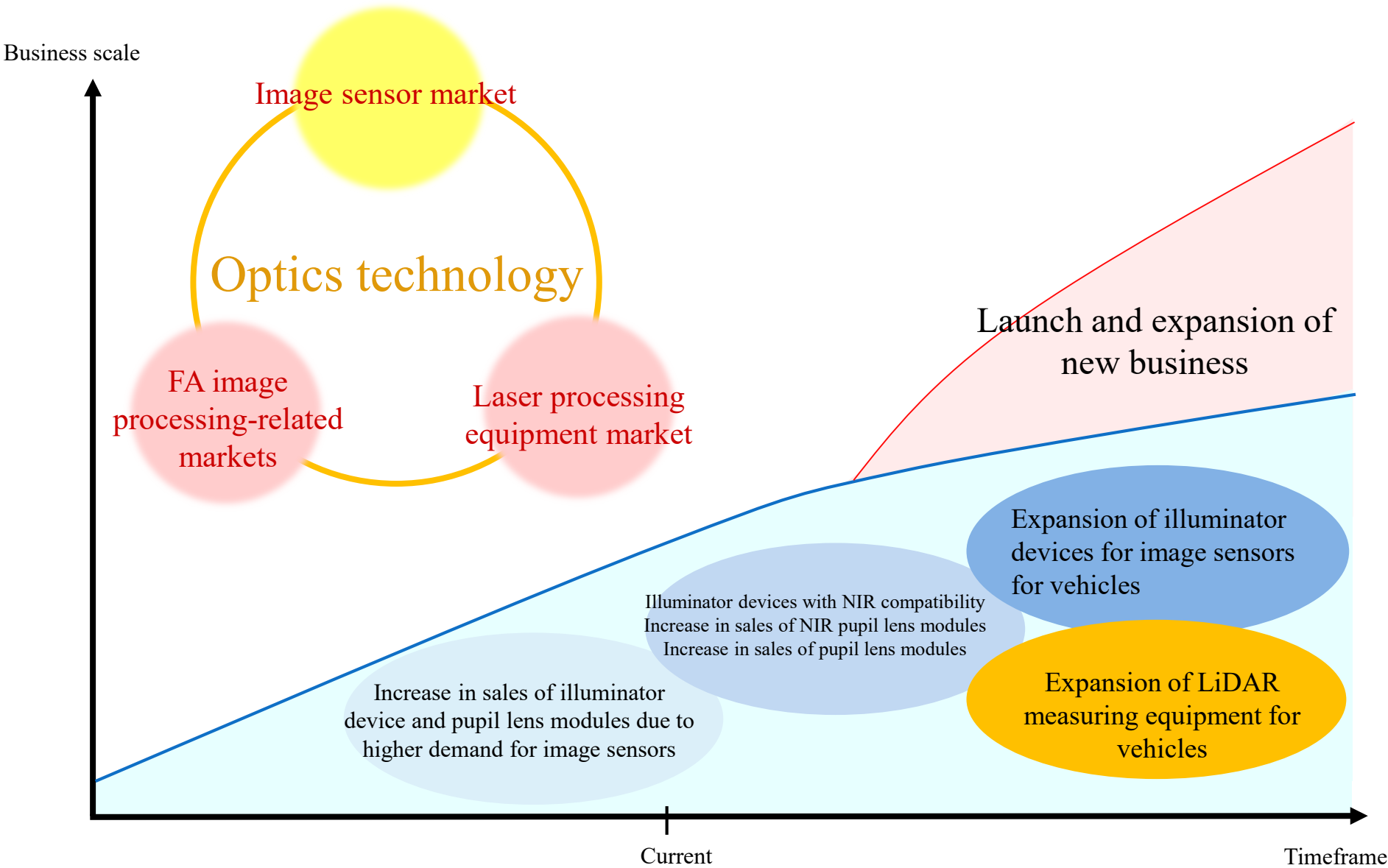
2020: 2,965.8 billion yen

2030: 12,175.2 billion yen

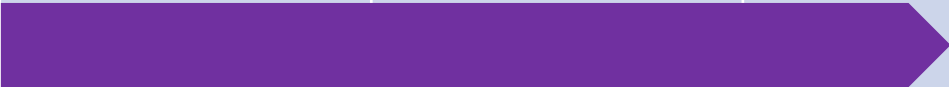

【Primary factors behind expansion】

- Expansion of markets related to processing of fiber laser materials

Expansion of scope of business for Interaction Group



Progress with new businesses

	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					
Laser processing equipment related					

[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.

[Laser processing equipment related]

- Currently enhancing the accuracy of the business concept
- Currently developing a business model utilizing the benefits of competition over improved functionality for oscillators



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

Trade name: INTER ACTION Corporation

Listed on: Tokyo Stock Exchange,
First Section

Established: June 25, 1992

Securities code: 7725

Representative: Hideo Kiji, CEO & President

Fiscal year: June 1 to May 31

Capital stock: 1,760 million yen

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

Employees: 145 (Group-wide as of May 31, 2019)

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

Head office: Yokohama Kanazawa High-Tech Center 14F
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Tel: +81-45-788-8373 Fax: +81-45-788-8371

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

Strategy

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

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

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



January 17, 2020

Q&As (Excerpts and Supplementary Information)

Q1: I sense that you have generated a low volume of orders up to the second quarter of the 28th business year, assuming a market trend involving a shift to smartphones equipped with dual and triple lenses. Could you let us know about current circumstances involving your major customers in that regard?

A1: There seems to have been a temporary shift in the timing of our order receipts from customers in Japan. However, we are not concerned about the temporary decrease in order volume because we expect there to be an increase in orders received in the second half.

Q2: Among your order receipts for CCD and CMOS sensors, are you able to ascertain the likely specifications in regard to pupil lens modules? Also, what sort of order volume do you expect to generate next fiscal year onward?

A2: As for pupil lens modules, competition may emerge with respect to pupil lens modules for eight mega-pixel, low-end image sensors. Accordingly, we aim to better serve our customers by achieving differentiation in high-spec fields of business where Inter Action's capabilities are unsurpassed.

It would be impossible to determine order volume for the next fiscal year and beyond because that is up to our customers. Still, we reckon that it will be possible to generate a higher volume of orders if we increase our ratio of overseas sales.

Q3: I don't think you have particularly touched on your competition during your briefing sessions thus far. Could you tell us about your competition?

A3: As for illuminators, we have consistently faced competition thus far given that our customers maintain a policy of purchasing such devices from two separate companies. Meanwhile, we sense that our competition has heated up somewhat this fiscal year given that our customers have become much more intent on purchasing from two sources. Simply put, we face such competition as a result of our

customers' purchasing policies, and not due to any inferiority of Inter Action's technological strengths. Although we face competition it is not cause for concern given factors such as Inter Action's expertise and its business dealings thus far.

Q4: Whereas this probably constitutes a future business opportunity, quality seems to be low when it comes to self-driving vehicle products of Japanese manufacturers. Meanwhile, quality is apparently high in the US and Germany in terms of self-driving vehicle technologies. What are your thoughts on that?

A4: I do not think quality is low when it comes to Japanese manufacturers' self-driving car technologies, such as infrared technologies for assessing distances. Whether in Japan or overseas, we intend to persist in providing solutions in a manner that involves effectively communicating with US manufacturers of image sensors and other such entities.

Q5: Prevailing opinion in the past had held that sales of smartphones were not likely to increase in the future given the notion that the market was already saturated. That said, we are now at a point where it is safe to assume that smartphones will come to require a dozen of CCD and CMOS sensors. As such, what sorts of problems do you expect your company to encounter when that era arrives?

A5: Nobody seemed to believe us in the past back when we released our medium-term business plan predicting that the time would come when mobile phones would come equipped with cameras and cars would feature more than 20 sensors. However, that era has actually arrived. Even when the unexpected becomes reality, we take action in line with the situation at hand in a manner that involves drawing on knowledge attained by manufacturers and Inter Action's developers. As such, we don't particularly anticipate any problems going forward given that we feel confident in Inter Action's strengths.
