August 24, 2018

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 July 20, 2018, Inter Action Corporation (the "Company") held its financial results briefing on the fiscal year ended May 31, 2018, for analysts and institutional investors.

(From 11:00 to 12:00 on Friday, July 20, 2018)

1. Summary of full-year financial results for the fiscal year ended May 31, 2018 (Hideo Kiji, CEO & President)
2. Detailed overview of financial results for the year ended May 31, 2018 (Nobuo Kiji, Executive Vice President)
3. Forecast of consolidated financial results for the fiscal year ended May 31, 2018 (Nobuo Kiji, Executive Vice President)
4. Information on selected topics (Nobuo Kiji, Executive Vice President)
5. Initiatives to increase corporate value (Nobuo Kiji, Executive Vice President)
6. 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

Fiscal Year Ended May 31, 2018 (26th Business Year)

(June 1, 2017 to May 31, 2018)

Contents

1. Summary of Full-Year Financial Results
2. Overview of Financial Results for the Fiscal Year Ended May 31, 2018
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    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, 2019 (full year)
4. Topics
5. Initiatives to Increase Corporate Value

Appendix: Company Profile

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1. Summary of Full-Year Financial Results

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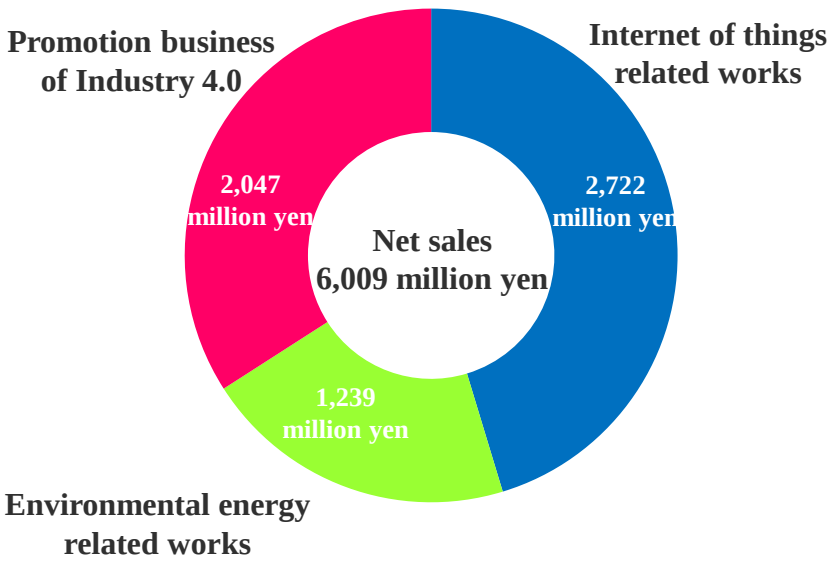
Summary of Full-Year Financial Results

- Inter Action achieved record-high financial results amid substantially higher revenue and earnings on a consolidated basis due to favorable performance by the Internet of things related works business segment.
- Inter Action incurred temporary losses upon having recognized costs such as acquisition-related expenses associated with making Tokyo Technical Instruments a subsidiary, and expenses for developing new products. As a result, the promotion business of Industry 4.0 segment posted second half earnings of 30 million yen, despite a lackluster start having incurred a loss in the first half amounting to 100 million yen.



(Millions of yen)	FY2017	**FY2018**	**Change YoY**
Net sales	5,369	**6,009**	**11.9%**
Operating income	435	**1,006**	**131.1%**
Ordinary income	417	**988**	**136.9%**
Profit attributable to owners of parent	394	**686**	**74.0%**
Net income per share	41.52 yen	**72.58 yen**	-
ROE	13.2%	**20.1%**	-
ES	6.5%	**13.3%**	-

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2. Overview of Financial Results for the Fiscal Year Ended May 31, 2018

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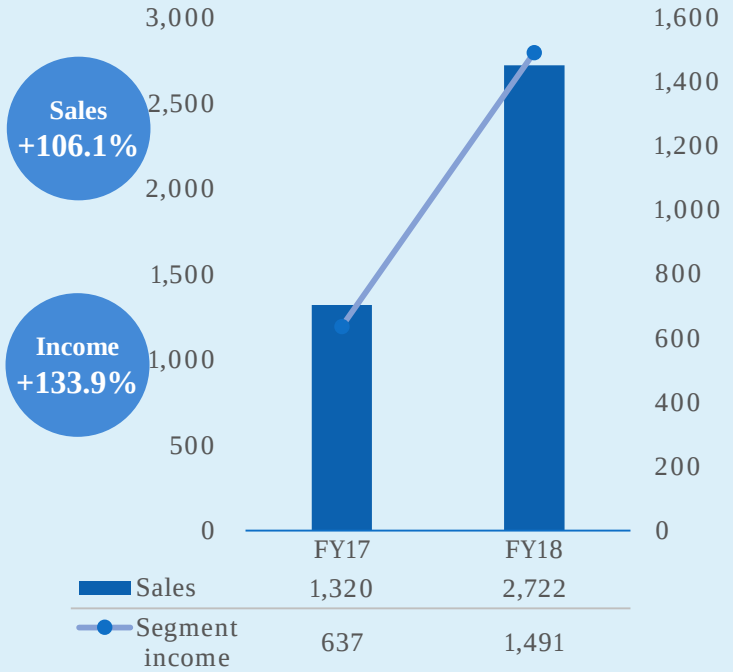
1) Internet of Things Related Works

- This segment generated strong unit sales of inspection illuminators and pupil lens modules for CCD and C-MOS image sensors against a backdrop of increasingly high-performance smartphones and growing demand for image sensors particularly for use in automobiles. The segment also posted sales of illuminators for new devices.

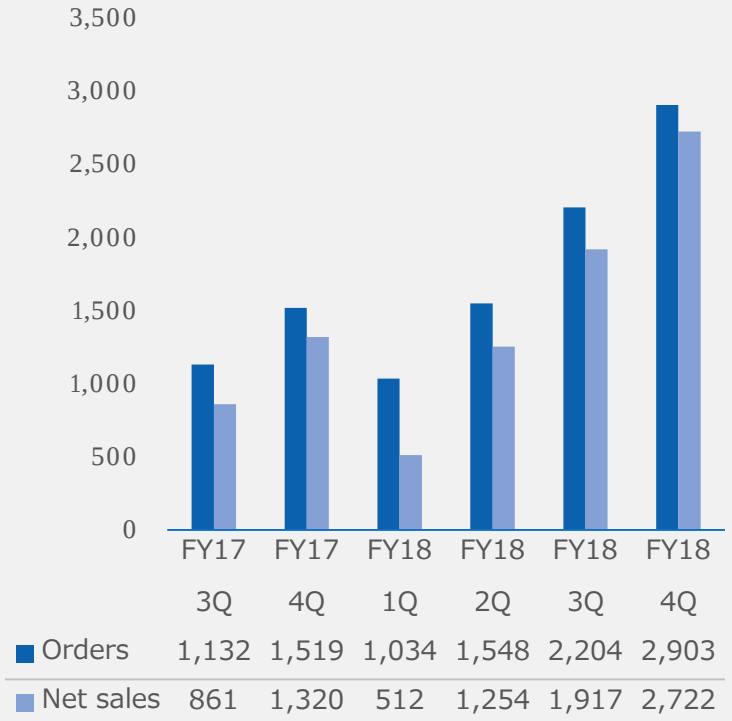
Net sales and segment income (YoY)



	FY17	FY18
Sales	1,320	2,722
Segment income	637	1,491

Units: million yen

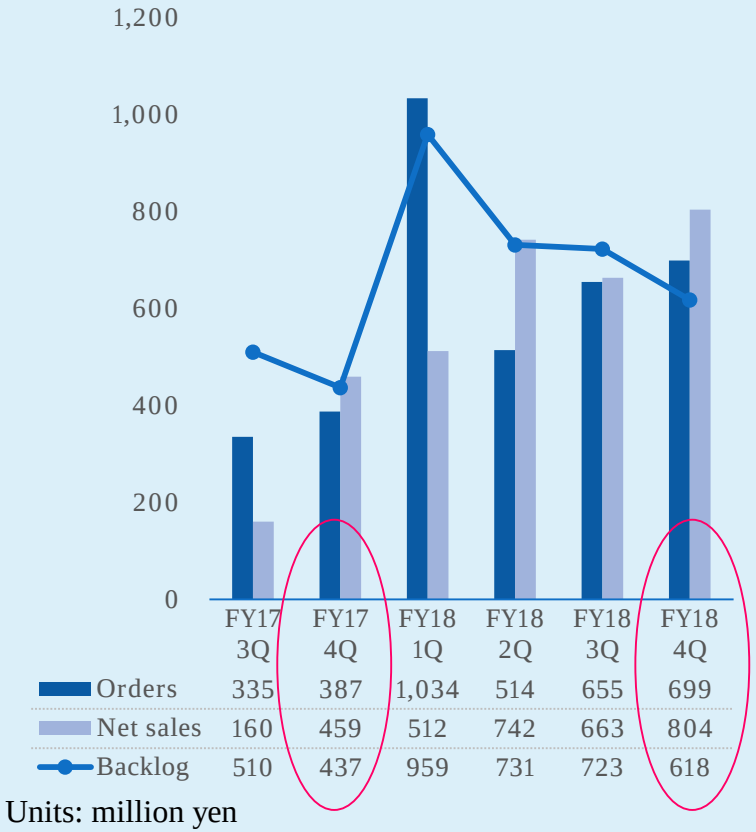
Amount of orders received and net sales (accumulated)



	FY17 3Q	FY17 4Q	FY18 1Q	FY18 2Q	FY18 3Q	FY18 4Q
Orders	1,132	1,519	1,034	1,548	2,204	2,903
Net sales	861	1,320	512	1,254	1,917	2,722

Units: million yen

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



	FY17 3Q	FY17 4Q	FY18 1Q	FY18 2Q	FY18 3Q	FY18 4Q
Orders	335	387	1,034	514	655	699
Net sales	160	459	512	742	663	804
Backlog	510	437	959	731	723	618

Units: million yen

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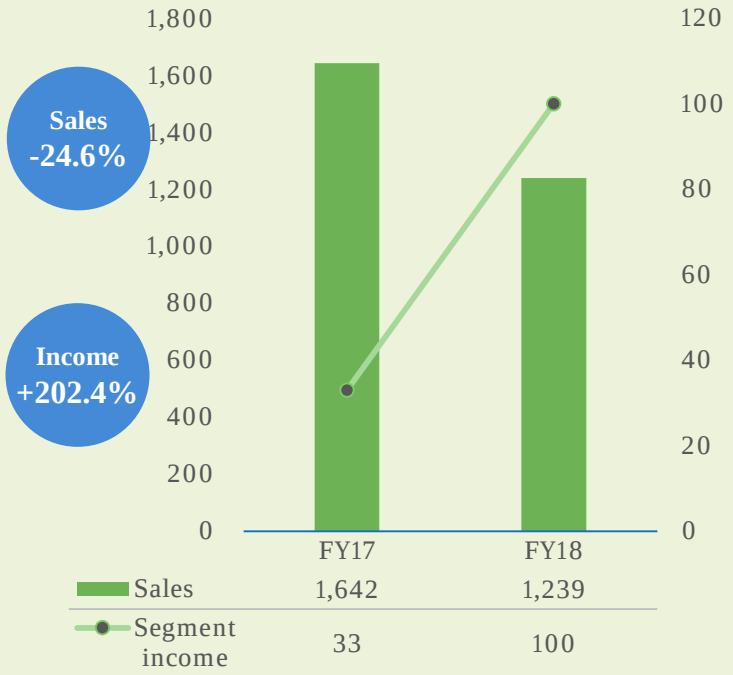
2) Environmental Energy Related Works

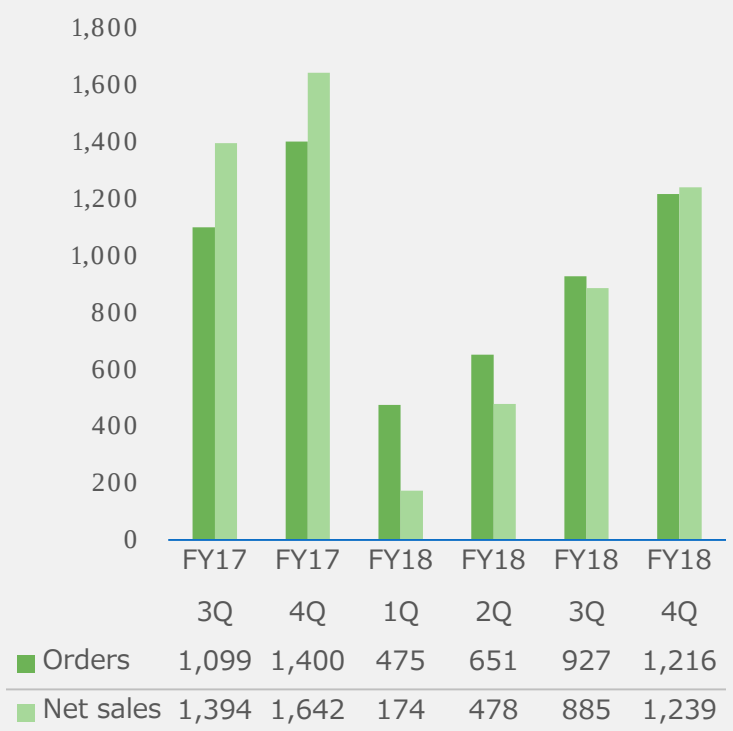
- This segment posted lackluster net sales largely as a result of moves to curb capital investment among printing machinery manufacturers.
- On the other hand, segment income has improved substantially as a result of the company having withdrawn from the renewable energy business in the previous fiscal year.

Net sales and segment income (YoY)



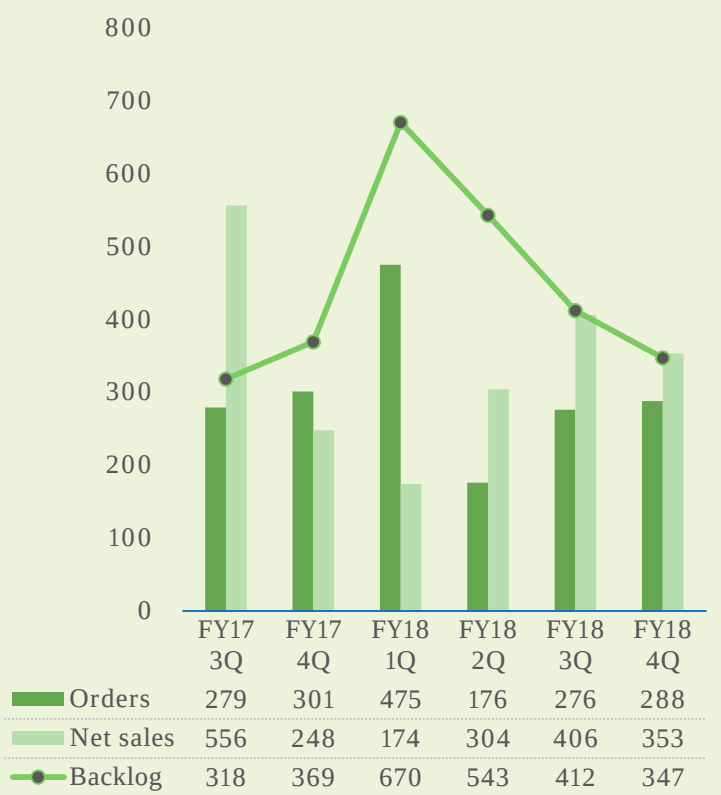
Units: million yen

Amount of orders received and net sales (accumulated)



Units: million yen

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



Units: million yen

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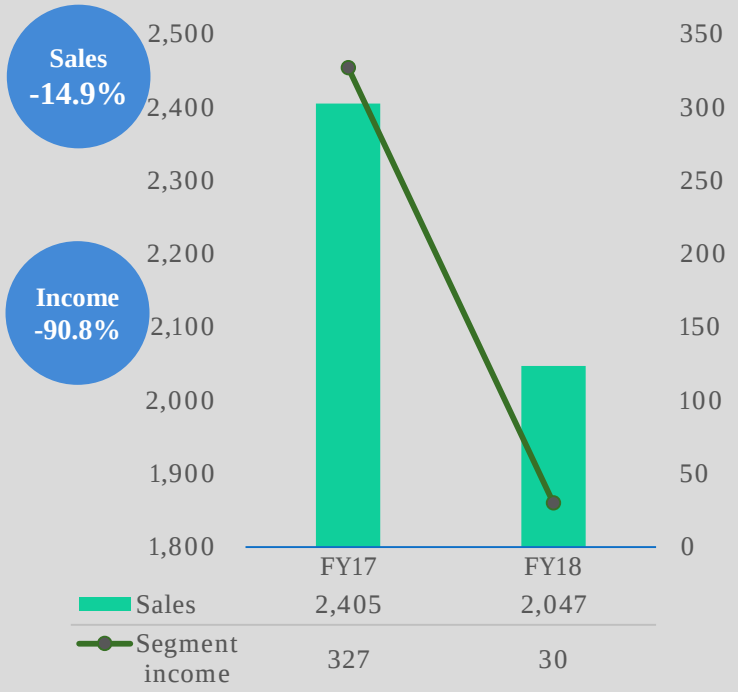
3) Promotion Business of Industry 4.0

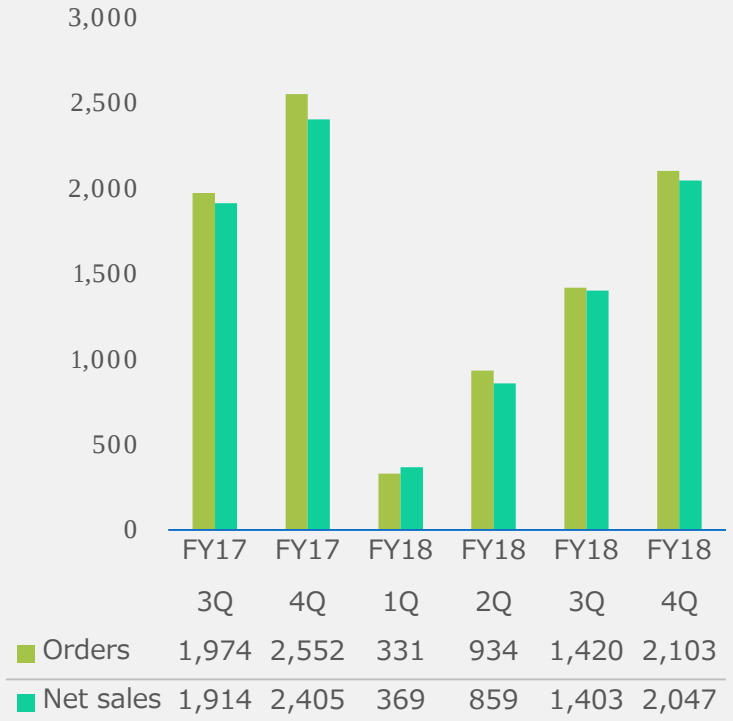
- Revenues in this segment decreased due to sluggish capital investment among South Korean organic electroluminescent (EL) display manufacturers who purchase precision vibration isolation systems.
- In the second half of the fiscal year, the segment posted income of 30 million yen, despite a lackluster start having posted a loss in the first half amounting to 100 million yen as a result of having incurred temporary costs largely with respect to expenses related to the acquisition of Tokyo Technical Instruments and expenses for developing new products under the Olasonic brand.
- The new Olasonic brand products captured the top rating in terms of product visibility in a well-known online rankings platform. Collaborative initiatives were also taken with renowned artists.

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

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4) Consolidated Balance Sheets and Consolidated Statements of Income

Consolidated balance sheets

(Millions of yen)	Fiscal Year Ended May 31, 2017	**Fiscal Year Ended May 31, 2018**
Assets		
Total assets	5,015	**6,597**
Current assets	4,142	**5,323**
Non-current assets	872	**1,273**
Property, plant and equipment	445	**635**
Intangible assets	300	**475**
Investments and other assets	126	**162**
Total assets	5,015	**6,597**

	Fiscal Year Ended May 31, 2017	**Fiscal Year Ended May 31, 2018**
Liabilities		
Total liabilities	1,880	**2,914**
Current liabilities	1,257	**1,871**
Non-current liabilities	623	**1,043**
Net assets		
Total net assets	3,134	**3,682**
Shareholders' equity	3,136	**3,668**
Capital stock	610	**610**
Capital surplus	1,513	**1,570**
Retained earnings	1,232	**1,804**
Treasury shares	-220	**-317**
Accumulated other comprehensive income	-1	**14**
Total liabilities and net assets	5,015	**6,597**

Consolidated statements of income

(Millions of yen)	FY2017	FY2018
Actual		
Net sales	5,369	**6,009**
Cost of sales	3,560	**3,329**
Gross profit	1,808	**2,679**
Selling, general and administrative expenses (Note)	1,373	**1,673**
Operating income	435	**1,006**
Ordinary income	417	**988**
Extraordinary income	115	-
Extraordinary losses	3	**1**
Profit before income taxes	528	**986**
Income taxes - current	121	**295**
Income taxes - deferred	12	**4**
Total income taxes	134	**300**
Profit	394	**686**
Profit attributable to owners of parent	394	**686**

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

Research and development expenses	68	**109**
Amortization of goodwill	50	**48**

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5) Consolidated Statement of Cash Flows

Cash flows from operating activities — 463 million yen

(Millions of yen)	FY2017	**FY2018**
Profit before income taxes	528	**986**
Decrease (increase) in inventories	(329)	**(538)**
Other increase/decrease	(351)	**153**
Subtotal	(152)	**601**
Interest and dividend income received, etc.	(127)	**(137)**
Cash flows from operating activities	(280)	**463**

Cash flows from financing activities — (205 million yen)

(Millions of yen)	FY2017	**FY2018**
Net repayments of short-term and long-term loans payable	39	**(251)**
Net proceeds (loss) from bonds	(50)	**225**
Cash dividends paid	(59)	**(114)**
Other increase/decrease	(83)	**(65)**
Cash flows from financing activities	(153)	**(205)**

Cash flows from investing activities — 26 million yen

(Millions of yen)	FY2017	**FY2018**
Net proceeds from time deposits	27	**364**
Purchases of property, plant and equipment and intangible assets	(120)	**(95)**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	**(426)**
Proceeds from cancellation of insurance reserve funds	—	**178**
Other proceeds and payments	12	**5**
Cash flows from investing activities	(81)	**26**

Cash and cash equivalents at end of FY2018 — 2,220 million yen

(Millions of yen)	FY2017	**FY2018**
Effect of exchange rate change on cash and cash equivalents	6	**0**
Net increase (decrease) in cash and cash equivalents	(509)	**285**
Cash and cash equivalents at beginning of period	2,444	**1,935**
Cash and cash equivalents at end of period	1,935	**2,220**

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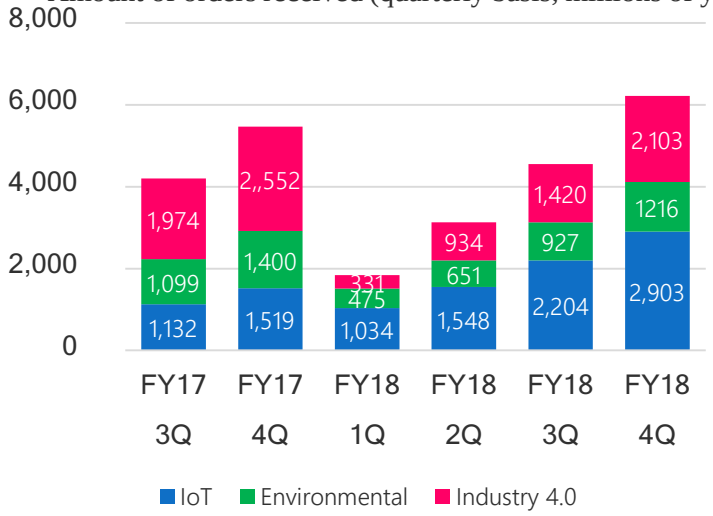
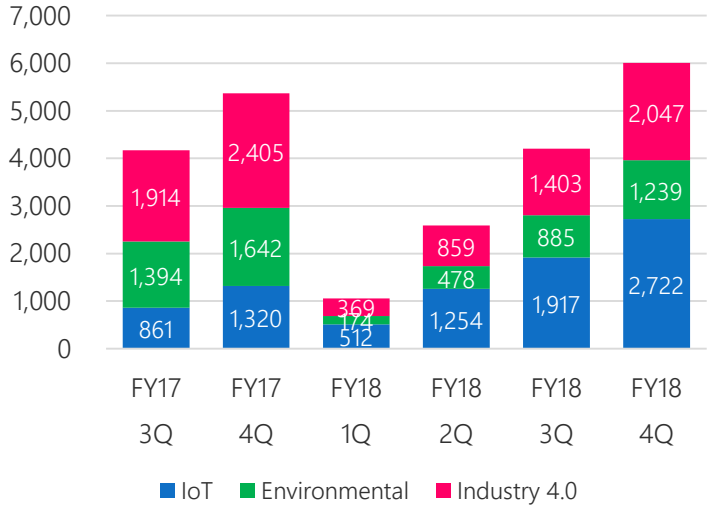
6) Amount of Orders Received, Net Sales, Backlog of Orders

Business segment	Amount of orders received		Net sales		Backlog of orders	
(Millions of yen)	FY2018	Change YoY	FY2018	Change YoY	FY2018	Change YoY
Internet of things related works	2,903	91.1%	2,722	106.1%	618	41.3%
Environmental energy related works	1,216	(13.1%)	1,239	(24.6%)	347	(6.1%)
Promotion business of Industry 4.0	2,103	(17.6%)	2,047	(14.9%)	261	46.8%
Total	6,223	13.7%	6,009	11.9%	1,227	24.5%

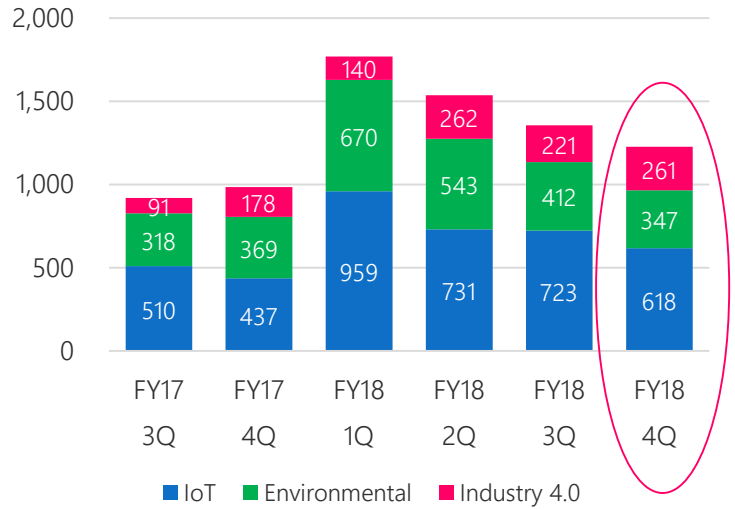
Amount of orders received (quarterly basis; millions of yen)



Net sales (quarterly basis; millions of yen)



Backlog of orders (quarterly basis; millions of yen)



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

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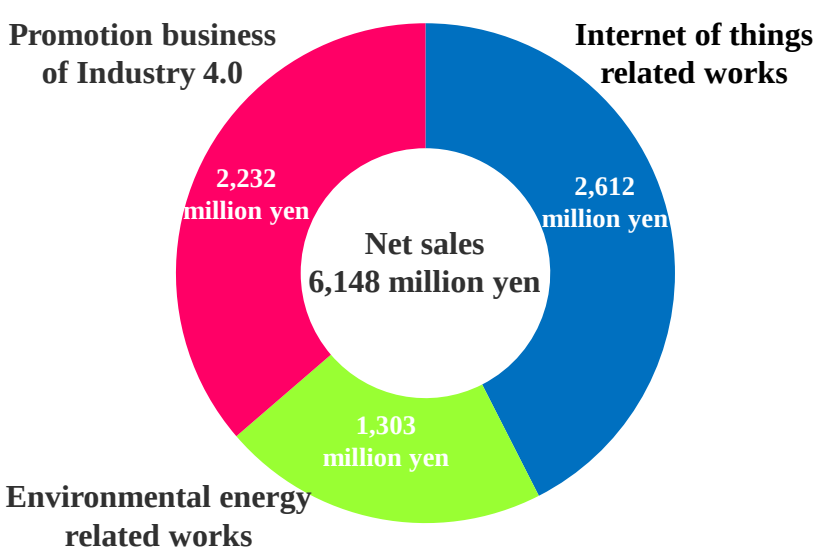
Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2019 (full year)

- In the image sensor industry in which the Internet of things related works segment operates, we expect demand for Inter Action's products to remain robust, driven by new capital investment geared to new in-vehicle cameras, in addition to that for conventional smartphones. On the other hand, based on conservative forecasts we anticipate a slight decrease in net sales against the previous fiscal year results for which we generated record-high earnings.
- In the printing machinery industry in which the environmental energy related works segment operates, we expect to see sluggish capital investment in Japan. Inter Action will redouble efforts with respect to sales of exhaust gas treatment systems for the Chinese market.
- In the flat-panel display (FPD) and organic electroluminescent (EL) display market for our precision vibration isolation systems, we expect firm capital investment among Chinese FPD and organic EL display manufacturers. Moreover, Inter Action will focus on redoubling efforts to sell gear measuring instruments and upgrading its linuep of Olasonic brand products.



(Millions of yen)	Fiscal Year Ended May 31, 2018	**Fiscal Year Ended May 31, 2019**	**Change YoY**
Net sales	6,009	**6,148**	**2.3%**
Operating income	1,006	**1,001**	**(0.4%)**
Ordinary income	988	**1,010**	**2.3%**
Profit attributable to owners of parent	686	**606**	**(11.7%)**
Net income per share	72.58 yen	**64.16 yen**	

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4. Topics

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Topics



Ranked 4th in Weekly Toyo Keizai's rankings of semiconductor-related companies with earnings gains

Inter Action was ranked 4th among 55 companies among the semiconductor and battery entities with earnings gain in the June 30, 2018 issue of the Weekly Toyo Keizai magazine.

Olasonic



Launched sales of new model geared to the DADA label

Inter Action has begun selling egg-shaped speakers tuned specifically for the DADA Label record label launched by the musician Aska, based on our TW-S9 model USB-powered speakers capable of high-resolution audio. Marketed via social networking sites that reach fans, the new speakers generated a lot of buzz and quickly sold out.



Launched sales of new Bluetooth speakers with aim of achieving the best sound quality worldwide

This constituted the fledgling Olasonic brand's initial release of its new IA-BT7 product developed to provide smartphone users with the best in impressive acoustic quality, combining high-fidelity audio speaker technology of Olasonic with premium wood cabinets.

The speakers reproduce audio that is true to the intended sound, made possible as a result of acoustic tuning handled by a team of engineers who recorded music in conjunction with renowned artists.

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5. Initiatives to Increase Corporate Value

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Initiatives to Increase Corporate Value

- FY2017 ROE: 13.2%; FY2018 ROE: 20.1%; Cost of shareholders' equity: 6.8%; FY2017 ES: 6.4%; FY2018 ES: 13.3%

Increase ES

Equity spread (ES) = ROE – Cost of shareholders' equity
ROE = Return on equity
Cost of shareholders' equity (capital asset pricing model, CAPM) = Expected rate of return to shareholders

Increase ROE

- Initiatives to increase ROE -

- Increase dividends
- Purchase of treasury shares
- Develop illuminators and bring in large orders
- Enter into the B2C business
- Launch new businesses through M&A

Reduce cost of shareholders' equity

- Reducing cost of shareholders' equity -

- Hold briefing sessions and IR meetings for institutional investors
- Hold company briefing sessions for retail investors
- Actively disclose IR information via the corporate website
- Provide English-language tools
  - Company brochure
  - Summary of financial results
- Ranked 4th in Weekly Toyo Keizai's rankings of companies with earnings gains

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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

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Company Profile

Trade name:	**INTER ACTION Corporation**
Established:	**June 25, 1992**
Representative:	**Hideo Kiji, CEO & President**
Capital stock:	**610 million yen**
Employees:	**191 (Group-wide as of May 31, 2018)**
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; Chuo-ku, Chiba-shi; Koshi-shi, Kumamoto**

Listed on:	**Tokyo Stock Exchange, First Section**
Securities code:	**7725**
Fiscal year:	**June 1 to May 31**
URL:	**http://www.inter-action.co.jp/**
Group companies:	**Air Gases Technos Co., Ltd. Meiritz Seiki Co., Ltd. Tokyo Technical Instruments Inc. Xian INTER ACTION Solar Technology Corporation Shaanxi zhaoyangyitong Precision Device Co.,Ltd.(subsidiary company) MEIRITZ KOREA Co., Ltd. MEIRITZ SHANGHAI Co., Ltd. Taiwan Tokyo Technical Instruments Corp.**

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Strategy

Key benchmarks	Equity spread ROE Weighted average cost of capital (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.

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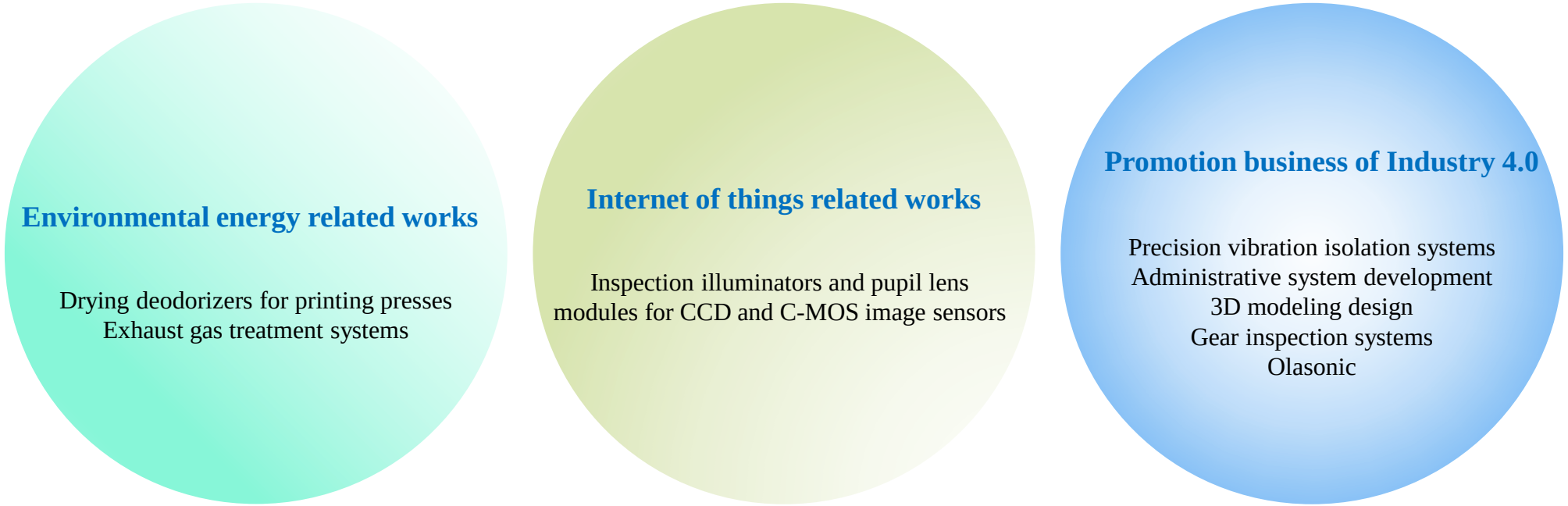
Business Portfolio



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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/

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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).



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July 20, 2018

Question and Answer Session (Excerpt)

Q1. With respect to the Internet of things related works segment, please tell us your estimate for orders according to your plans for the fiscal year ending May 31, 2019. Also, please let us know to what extent you think orders could potentially increase in the third and fourth quarters on that basis. In addition, please tell us the likely proportion of domestic to overseas orders under such a scenario.

A1. In the Internet of things related works segment, for the current fiscal year we anticipate sales of 2,612 million yen and orders of between 2,700 million yen and 2,800 million yen. Also, although figures regarding the extent to which results could exceed expectations are not readily available, I would like to check into that. In the previous fiscal year, sales ended up amounting to 2,700 million yen, against our initial forecast of 1,600 million yen. So having said that, this fiscal year sales will probably exceed the forecast, but not to the extent they did last year.

We reckon that 60% of illuminator sales will be made domestically and the other 40% abroad. Meanwhile, we estimate that 80% of pupil lens module sales will be made domestically and the other 20% abroad.

As for pupil lens modules, first-time overseas orders are gradually starting to emerge. The extent to which those orders increase could potentially act as a major factor in yielding results that exceed forecasts.

Q2. There have apparently been some developments in the promotion business of Industry 4.0 segment with respect to the organic electroluminescent (EL) market in China. Please tell us where that business stands and touch on the progress made so far. Also, please provide information on lots per unit and profit margins.

A2. As for precision vibration isolation systems in the promotion business of Industry 4.0 segment, the company has delivered such products to South Korean equipment manufacturers and those South Korean equipment manufacturers have been installing equipment in Chinese EL manufacturers' sites. Although there is competition against South Korean equipment manufacturers, we seem to dominate that business.

As for sales per unit, active vibration isolation systems are priced at around 4 million yen and passive vibration isolation systems are priced at around 1 million yen. In China, in addition to organic EL, measuring instrument manufacturers and others have increasingly been showing interest in active vibration isolation systems, and the tendency in China now seems to be more toward development of the high-tech industry.

Q3. Regarding the Internet of things related works segment, please tell us what changes you are seeing in terms of requests from customers with respect to illuminators and pupil lens modules.

Also, could you tell us if there are any bottlenecks particularly with respect to development and manufacturing, discussions with customers, and production line installations?

A3. Customer requirements have been shifting from visible light to near-infrared and infrared, so our technologies are being put to good use.

Also, our current manufacturing framework mainly revolves around assembly and inspections. So although we consequently encounter few production bottlenecks, we do seem to face challenges in terms of how best to improve turnover with respect to development. In that regard, our external environment for recruiting talent has improved partially because we changed our stock listing to the First Section of the Tokyo Stock Exchange and also due to the growing popularity of Olasonic brand products. That is underpinning improvements being made to our development framework, thereby enabling us to better meet customer demands. As such, we are poised to continue serving as a leading company in the IoT field.

Q4. As for profits generated during the current fiscal year from illuminators and pupil lens modules, would you say that illuminator units that handle measurements with respect to image sensors are outselling pupil lens modules that handle inspections with respect to individual image sensors on wafers?

A4. Sales of illuminators increase when our customers spend more on capital investment, and sales of pupil lens modules increase when equipment utilization rates are higher. As such, we are likely to see growth in sales of illuminators this fiscal year, yet sales of pupil lens modules will increase if there is higher utilization of illuminators that were sold in the previous fiscal year. Moreover, pupil lens modules have also entered the scene with respect to illuminators overseas. So we are looking forward to seeing sales growth in that regard as well.

Q5. As for the promotion business of the Industry 4.0 segment, please let us know your forecast regarding the extent to which you think Tokyo Technical Instruments will contribute to sales and profit this fiscal year.

A5. For the current fiscal year, we expect that Tokyo Technical Instruments will boost sales and profit by around 800 million yen and 100 million yen, respectively. It greatly contributed to our profits in the previous fiscal year as well after it became part of the Inter Action Group in the middle of the first half. With there being little competition in this field of business, we are hoping to develop intriguing products going forward that combine the contact technologies of Tokyo Technical Instruments with the existing contactless technologies of Inter Action.

– End –