February 25, 2021

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

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

On Wednesday, January 20, 2021, an online financial results briefing was held for analysts and institutional investors for the second quarter of the fiscal year ending May 31, 2021.

(Wednesday, January 20, 2021, 3:30 p.m. to 4:30 p.m.)

1. Explanation of the Summary of Financial Results for the First Half of the Fiscal Year Ending May 31, 2021
   (Senior Manager, Accounting Group, Business Planning Div.)

2. Explanation of the Overview of Financial Results for the First Half of the Fiscal Year Ending May 31, 2021 and the Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (Full Year)
   (Senior Manager, Accounting Group, Business Planning Div.)

3. Explanation of Business Expansion Going Forward
   (Nobuo Kiji, CEO & President)

4. Explanation of Other Topics of Interest
   (Nobuo Kiji, CEO & President)

5. Q&A

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

※The content of Q&A will be posted at a later date.

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INTER ACTION Corporation

First Half of the Fiscal Year Ending May 31, 2021 (29th Business Year)

Financial Results Briefing Session

Wednesday, January 20, 2021

Contents

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

2. Overview of Financial Results for the First Half of the Fiscal Year Ending May 31, 2021

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3) Promotion Business of Industry 4.0

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

7) Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (Full Year)

3. Business Expansion Going Forward

4. Other Topics of Interest

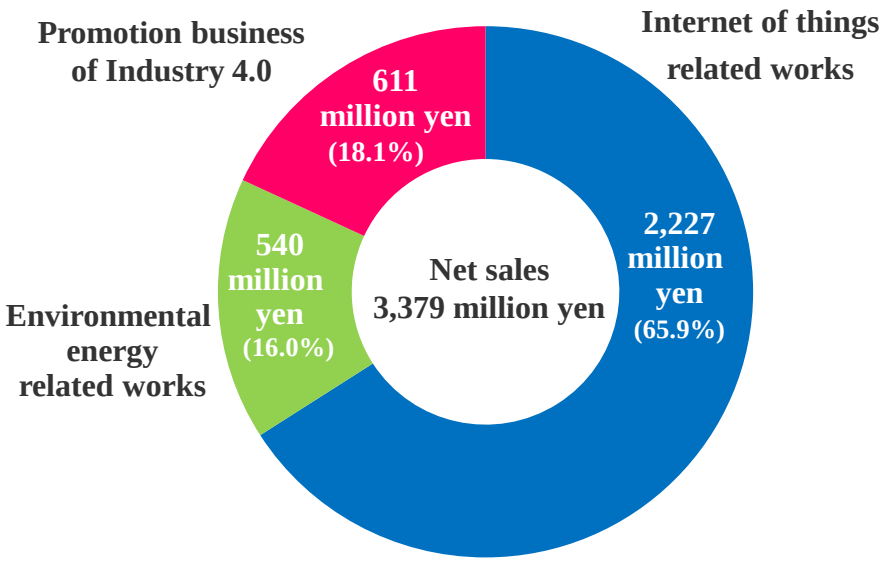
Appendix: Company Profile

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

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



(Millions of Yen)	FY 2020 First Half	**FY 2021 First Half**	Change YoY
Net sales	3,826	**3,379**	(11.7)%
Operating income	915	**877**	(4.1)%
Ordinary income	916	**882**	(3.8)%
Profit attributable to owners of parent	605	**586**	(3.2)%
EPS	55.45 yen	**53.50 yen**	-

- There were year-on-year losses in both sales and earnings. In the Internet of things related works segment, appetite for capital investment among Japanese customers remained sluggish, but this is believed to be temporary.
  Overseas customers showed enthusiasm toward capital investment. We expect products for overseas customers to drive sales in the third quarter and beyond.
- In the environmental energy related works segment, we achieved year-on-year gains in both sales and earnings, but the downtrend in the amount of orders received and the backlog of orders suggest that customers have become more cautious about new capital investment.
- In the promotion business of Industry 4.0 segment, both sales and earnings declined year on year, and orders were soft, without full recovery from the slump following the pandemic.

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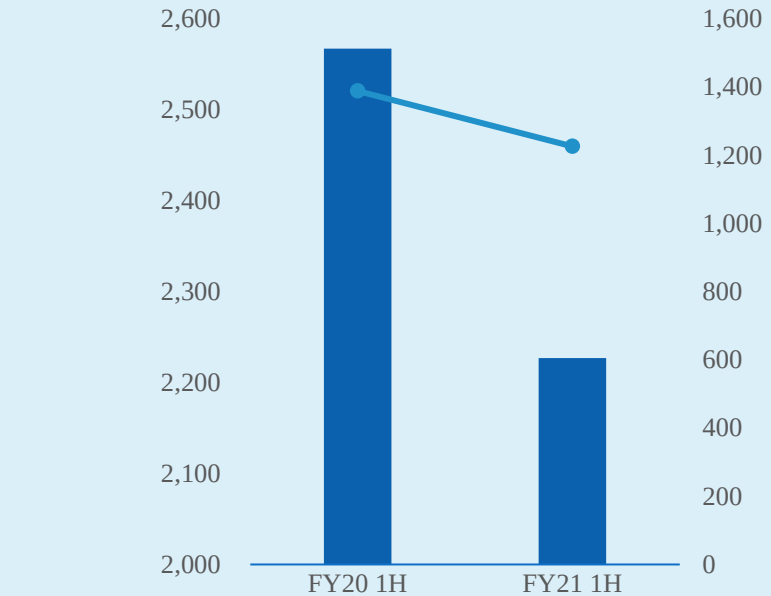
2. Overview of Financial Results for the First Half of the Fiscal Year Ending May 31, 2021

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1) Internet of Things Related Works

- Regarding illuminators, Japanese customers' appetite for capital investment remained sluggish against a backdrop of social conditions framed mainly by trade friction between the US and China. Among overseas customers, orders and net sales were strong amid continued elevated appetite for investment.
- Japanese customers' demand for pupil lens modules remained firm. Overseas customers made steady progress in the adoption of pupil lens modules.
- With the growing popularity of smartphones equipped with multiple cameras, image sensor manufacturers will probably need to increase production capacity. We therefore expect market growth over the medium-to-long term to return to pre-pandemic levels, although such expansion may be slightly delayed.

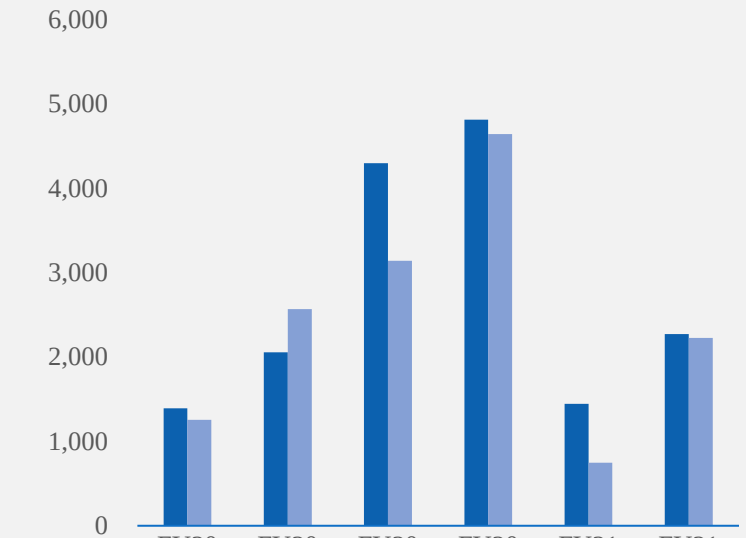
Net sales and segment income (YoY)



	FY20 1H	FY21 1H
Sales	2,567	2,227
Segment income	1,388	1,226

Unit: million yen

Amount of orders received and net sales (accumulated)



	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	FY21 1Q	FY21 2Q
Orders	1,392	2,056	4,299	4,812	1,446	2,272
Net sales	1,257	2,567	3,142	4,642	747	2,227

Unit: million yen

[Main changes in the external environment]

(1) Market environment (+) Customers' investment trends improved. → Sales of illuminators declined in Japan and increased outside Japan. The competitive landscape in Japan was unchanged.	☺
(2) Social situations (+) US-China trade friction → Among overseas customers, we believe demand for image sensors mainly for smartphone manufacturers in China to be increasing.	😐
(3) End-user applications (+) Spread of ToF (LIDAR) sensors → included in iPhone 12 launched in October 2020 (+) Growing popularity of smartphones with multiple cameras → Increasing diffusion of smartphones with 2 or 3 cameras	☺

[Main changes in the internal environment]

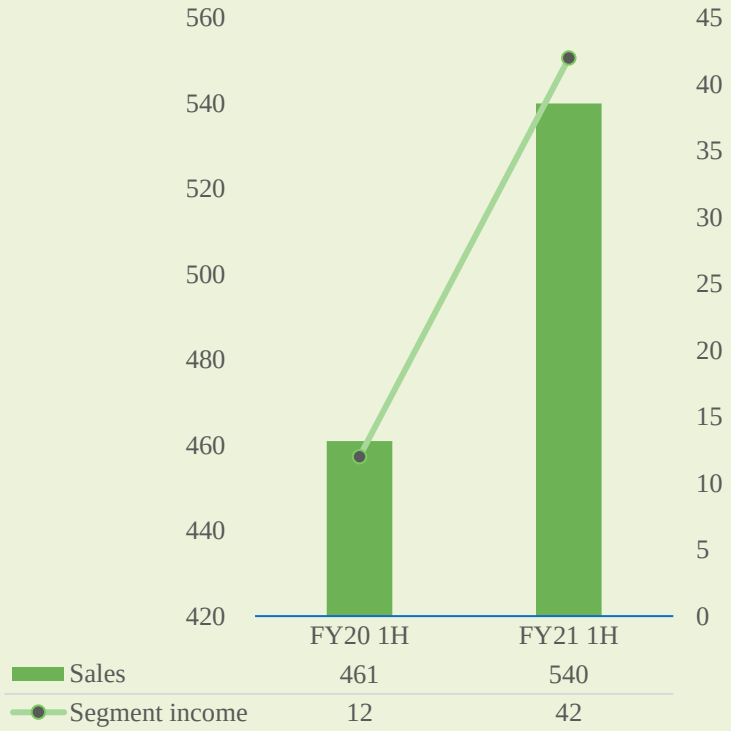
(1) Product and service lineup (+) Promotion of product sales expansion → Achieved new orders for illuminators from Chinese companies	☺
(2) Research and development (+) Test sales and coordination of pupil lens modules overseas → Made steady progress in customer verification ahead of mass production	☺

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2) Environmental Energy Related Works Segment

- Sales and profits rose year on year due to the booking of orders received before the pandemic and large-scale construction projects related to equipment relocation.
- The downtrend in the amount of orders received and the backlog of orders suggest that customers have become more cautious about deciding on new capital investment.
- We plan to focus sales efforts on maintenance work by talking to customers about upgrades to existing facilities and other items, rather than expensive new facilities that present a high investment hurdle for customers.

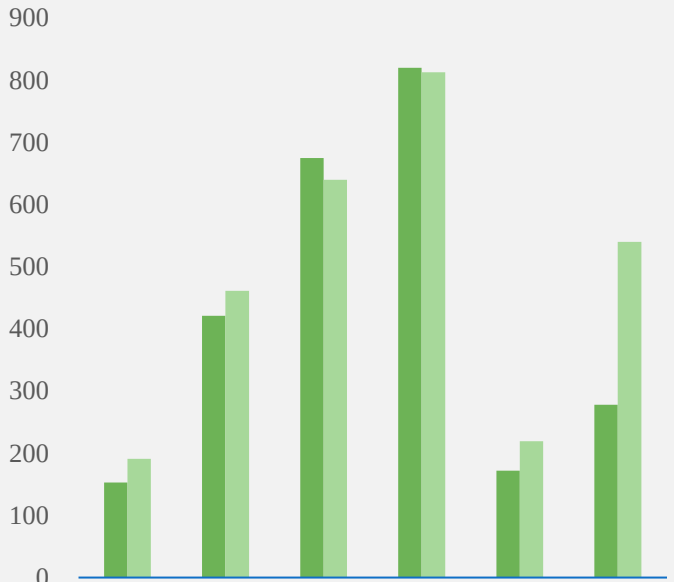
Net sales and segment income (YoY)



	FY20 1H	FY21 1H
Sales	461	540
Segment income	12	42

Unit: million yen

Amount of orders received and net sales (accumulated)



	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	FY21 1Q	FY21 2Q
Orders	153	421	675	820	172	278
Net sales	191	461	640	813	219	540

Unit: million yen

[Main changes in the external environment]

(1) Social situations

(−) Impact of the spread of novel coronavirus infectious disease
→ Cooling of interest in capital investment
→ Reconsideration of capital investment plans
→ Decrease in orders received



[Main changes in the internal environment]

(1) Sales approach

(+) Promotion of maintenance work projects
→ Focus on sales < profits, such as upgrades to existing facilities
→ No competition because it is maintenance of our own products

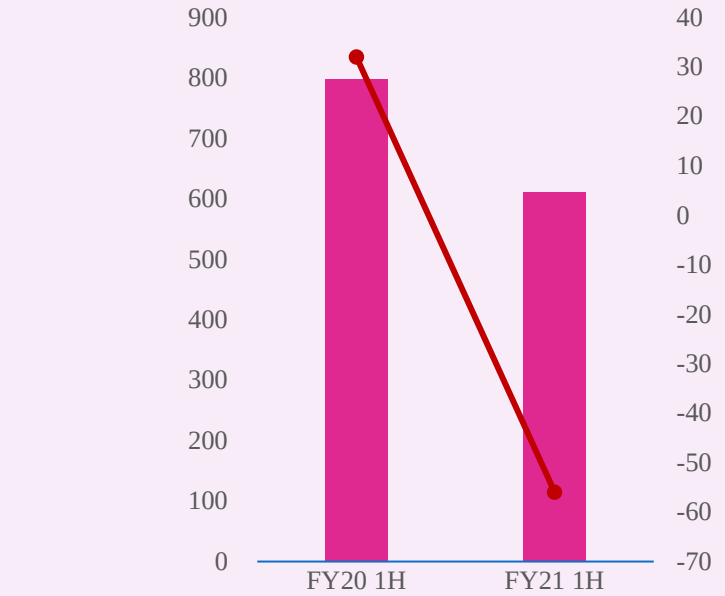


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3) Promotion Business of Industry 4.0 Segment

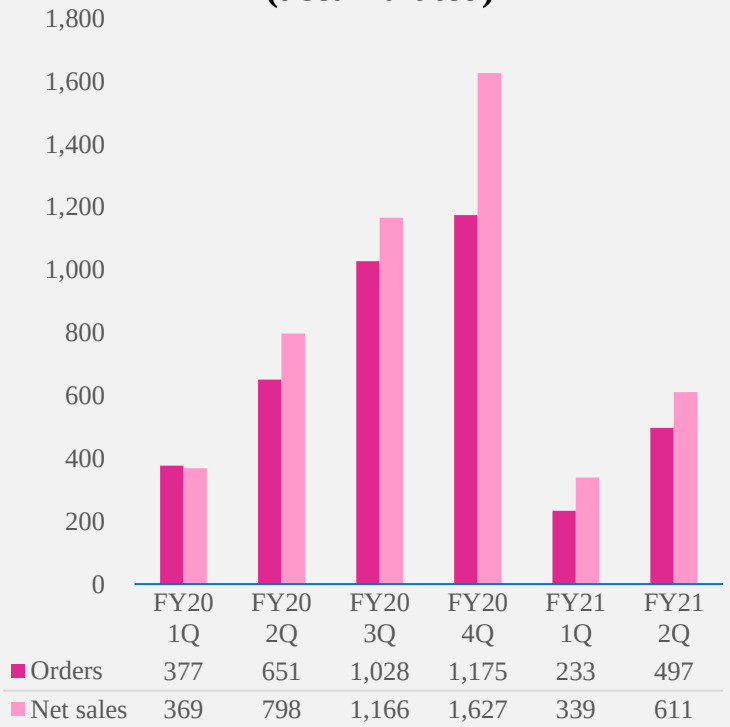
- Sales and orders remained soft for the segment as a whole because appetite for investment in capital equipment across all industries remained depressed, without full recovery from the slump following the pandemic.
- Precision vibration isolation systems: It became difficult to secure net sales. As improvement measures, we will improve the performance of existing products and develop new products, and overseas we plan to develop human resources and improve technology.
- Gear testing systems: Net sales and orders declined. However, there were signs of a recovery in market conditions from the third quarter. We launched a new product: a gear-defect testing system.

Net sales and segment income (YoY)



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
- → Implementation of production adjustments by customers
- → Appetite for capital investment not recovered yet
- → Travel restrictions

☹

[Main changes in the internal environment]

(1) New businesses

(+) Promotion of the laser processing machines business
- → Proposed ceramic ablation processing technology to other companies
  Received inquiries from multiple companies

(+) Promote development of FA image processing related equipment
- → Launched a gear-defect testing system
  Has been well received by customers
  We will examine ways to expand sales.

(+) Development to improve performance of existing equipment is progressing smoothly.

☺

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4) Consolidated Balance Sheets and Consolidated Statements of Income

Consolidated balance sheets

(Millions of yen)	As of May 31, 2020	**As of November 30, 2020**
Assets		
Total assets	10,005	**10,835**
Current assets	8,575	**9,452**
Non-current assets	1,430	**1,383**
Property, plant and equipment	682	**668**
Intangible assets	327	**301**
Investments and other assets	420	**414**
Total assets	10,005	**10,835**

	As of May 31, 2020	**As of November 30, 2020**
Liabilities		
Total liabilities	2,132	**2,387**
Current liabilities	1,645	**1,759**
Non-current liabilities	487	**628**
Net assets		
Total net assets	7,872	**8,448**
Shareholders' equity	7,908	**8,475**
Capital stock	1,760	**1,760**
Capital surplus	3,352	**3,352**
Retained earnings	3,870	**4,253**
Treasury shares	(1,074)	**(891)**
Accumulated other comprehensive income	(35)	**(26)**
Total liabilities and net assets	10,005	**10,835**

Consolidated statements of income

(Millions of yen)	Six months ended November 30, 2019	**Six months ended November 30, 2020**
Actual		
Net sales	3,826	**3,379**
Cost of sales	1,852	**1,682**
Gross profit	1,973	**1,697**
Selling, general and administrative expenses (Note)	1,058	**819**
Operating income	915	**877**
Ordinary income	916	**882**
Extraordinary income	–	**–**
Extraordinary losses	0	**7**
Profit before income taxes	916	**874**
Income taxes - current	251	**279**
Income taxes - deferred	59	**8**
Total income taxes	310	**288**
Profit	605	**586**
Profit attributable to owners of parent	605	**586**

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

Research and development expenses	66	**26**
Amortization of goodwill	26	**24**

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5) Consolidated Statement of Cash Flows

Cash flows from **operating activities**

1,385 million yen

(Millions of yen)	2Q ended November 30, 2019	**2Q ended November 30, 2020**
Profit before income taxes	916	**874**
Decrease (increase) in notes and accounts receivable - trade	667	**392**
Decrease (increase) in inventories	166	**111**
Other increase (decrease)	12	**124**
Subtotal	1,762	**1,503**
Interest and guarantees paid	(513)	**(118)**
Net cash provided by (used in) operating activities	1,249	**1,385**

Cash flows from **financing activities**

10 million yen

(Millions of yen)	2Q ended November 30, 2019	**2Q ended November 30, 2020**
Net increase (decrease) in short-term loans payable	30	**40**
Proceeds from long-term loans payable	30	**293**
Repayments of long-term loans payable	(186)	**(129)**
Decrease (increase) in treasury shares	(418)	**–**
Cash dividends paid	(199)	**(202)**
Other increase (decrease)	76	**9**
Net cash provided by (used in) financing activities	(667)	**10**

Cash flows from **investing activities**

-22 million yen

(Millions of yen)	2Q ended November 30, 2019	**2Q ended November 30, 2020**
Purchase of property, plant and equipment	(109)	**(49)**
Purchase of intangible assets	(3)	**(7)**
Other proceeds (payments)	1	**35**
Net cash provided by (used in) investing activities	(111)	**(22)**

Cash and cash equivalents at end of period

6,247 million yen

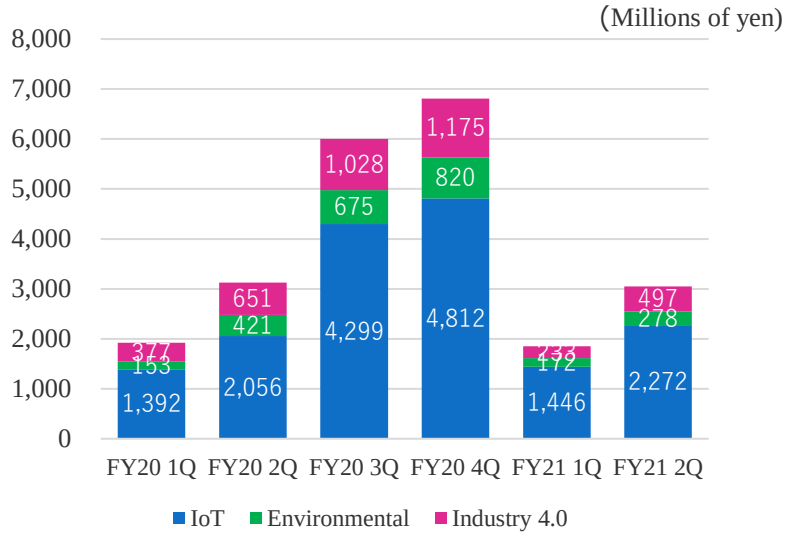
(Millions of yen)	2Q ended November 30, 2019	**2Q ended November 30, 2020**
Effect of exchange rate change on cash and cash equivalents	(5)	**0**
Net increase (decrease) in cash and cash equivalents	464	**1,374**
Cash and cash equivalents at beginning of period	4,766	**4,873**
Cash and cash equivalents at end of period	5,231	**6,247**

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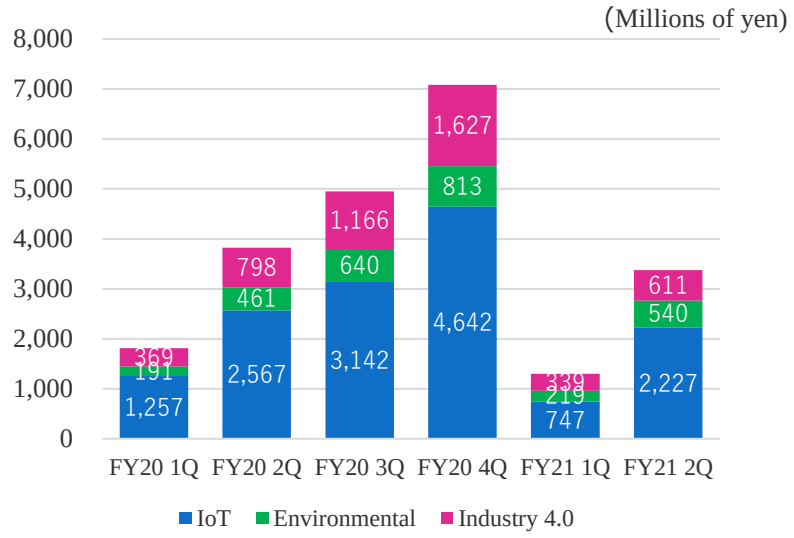
6) Amount of Orders Received, Net Sales, Backlog of Orders

Business segment	Orders received 1H of FY21		Net sales 1H of FY21		Backlog of orders 1H of FY21	
(Millions of yen)	Amount	Change YoY	Amount	Change YoY	Amount	Change YoY
Internet of things related works	2,272	10.5%	2,227	(13.3)%	1,418	108.0%
Environmental energy related works	278	(33.8)%	540	17.3%	132	(58.1)%
Promotion business of Industry 4.0	497	(23.7)%	611	(23.4)%	104	(41.3)%
Total	3,048	(2.6)%	3,379	(11.7)%	1,655	40.8%

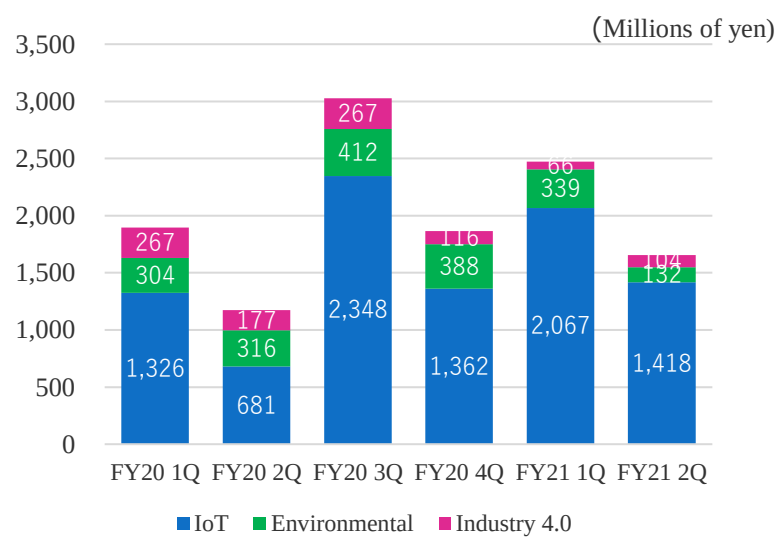
Amount of orders received (cumulative)



Net sales (cumulative)

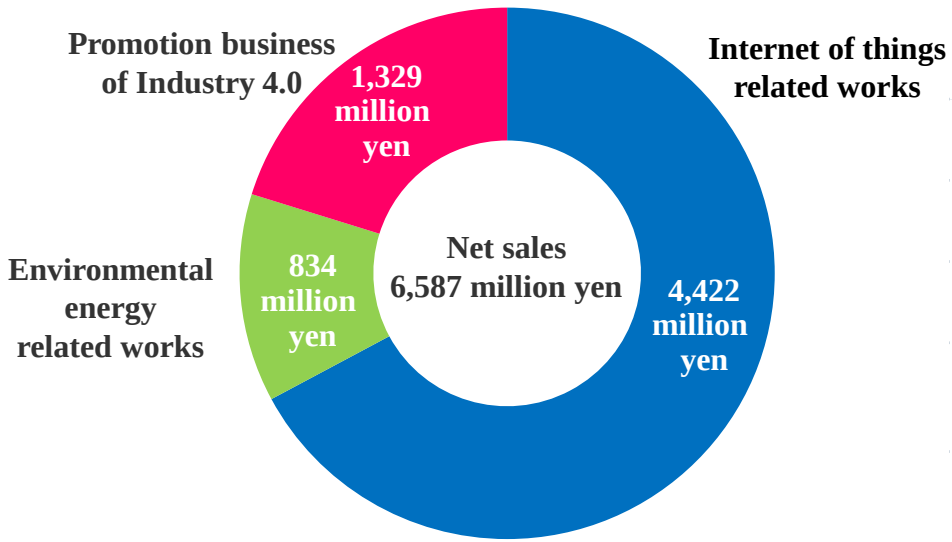


Backlog of orders (quarterly basis)



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7) Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (Full Year)



(Millions of yen)	FY 2020 Full Year	**FY 2021 Full Year**	**Change YoY**
Net sales	7,083	**6,587**	(7.0)%
Operating income	1,555	**1,707**	9.7%
Ordinary income	1,545	**1,697**	9.8%
Profit attributable to owners of parent	1,004	**1,122**	11.7%
EPS	91.94 yen	**102.26 yen**	–

[Internet of things related works]

Overseas customers are actively investing in capital, and we expect strong sales of illuminators. Since we foresee Japanese customers making capital investment mainly in pupil lens modules, which have lower unit selling prices than illuminators, we anticipate full-year sales to decline from the previous year. Appetite for capital investment is positive overall, including among Japanese customers.

[Environmental energy related works]

Orders for main units such as drying deodorizers have stalled due to the impact of the COVID-19 pandemic and the shrinking size of the printing machinery market. However, we expect sales to increase.

We plan to focus sales efforts on maintenance work by talking to customers about upgrades to existing facilities and other items, rather than expensive new facilities that present a high investment hurdle for customers.

[Promotion business of Industry 4.0]

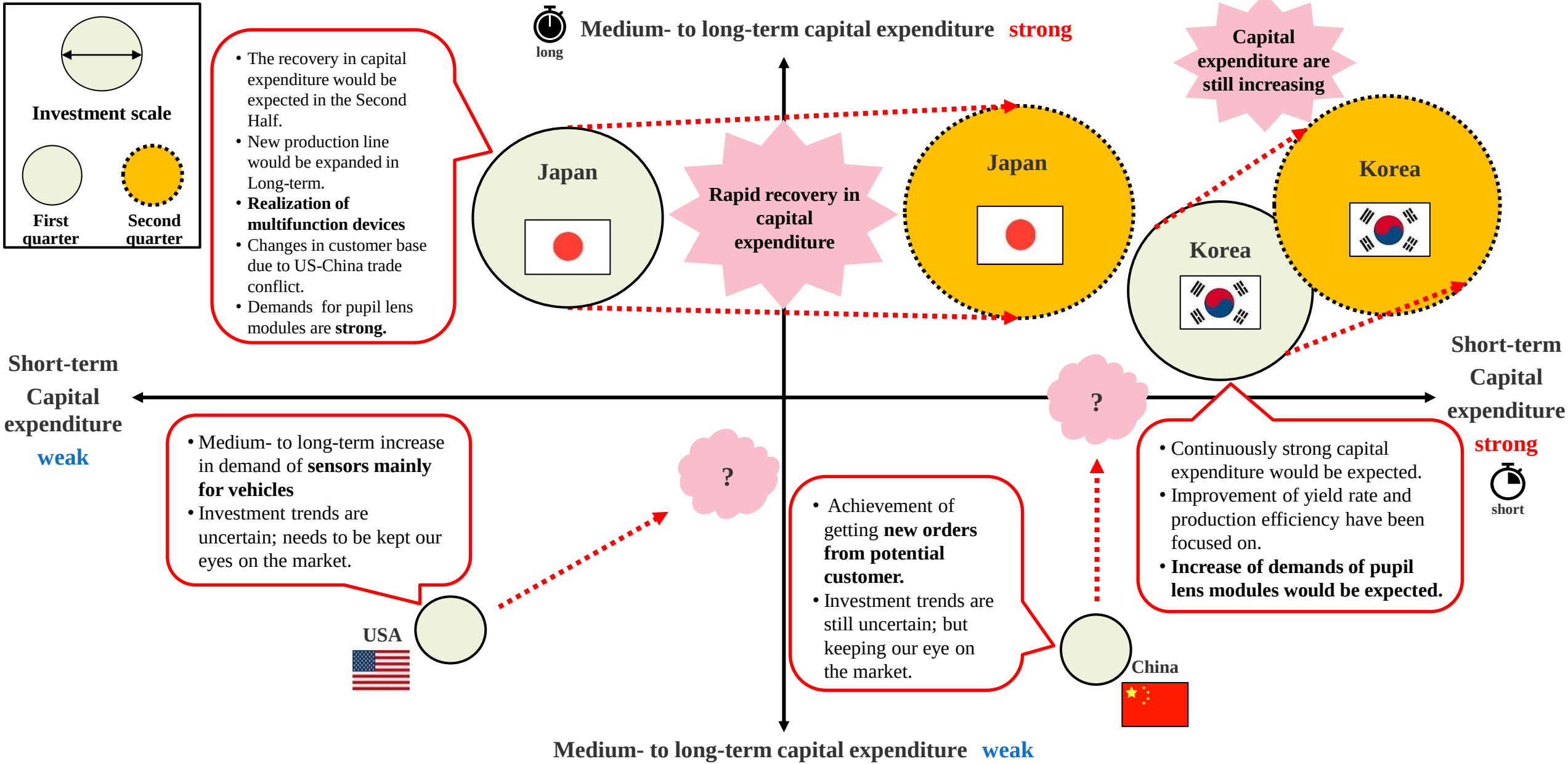
In gear testing systems, we see signs that market conditions will recover, especially for automakers. However, for the segment as a whole, including precision vibration isolation systems, we forecast sales to decrease year on year due to decline in customers' appetite for capital investment due to the pandemic. We will focus on the development and sales of new products and on human resources development, leading to medium- to long-term growth.

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3. Business Expansion Going Forward

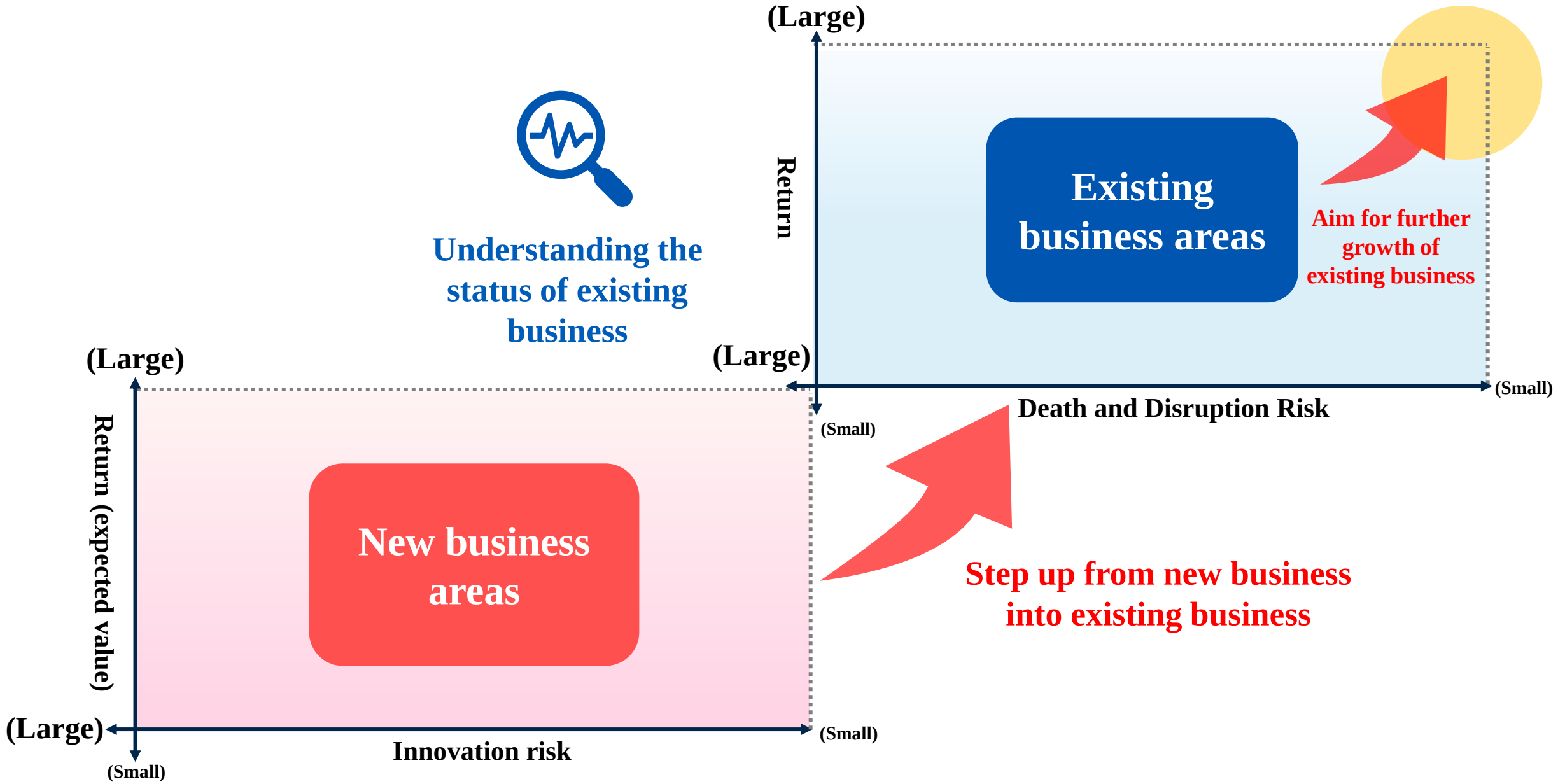
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3. Business Expansion Going Forward : Image Sensor Manufacturers' Capital Investment Trends in the First Half (Forecast)



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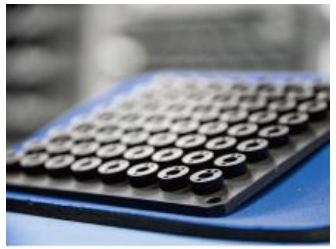
3. Business Expansion Going Forward: Product Portfolio Overview



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3. Business Expansion Going Forward: Product Portfolio (Internet of Things Related Works)





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3. Business Expansion Going Forward: Product Portfolio (Environmental Energy Related Works)



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3. Business Expansion Going Forward: Product Portfolio (Promotion Business of Industry 4.0)



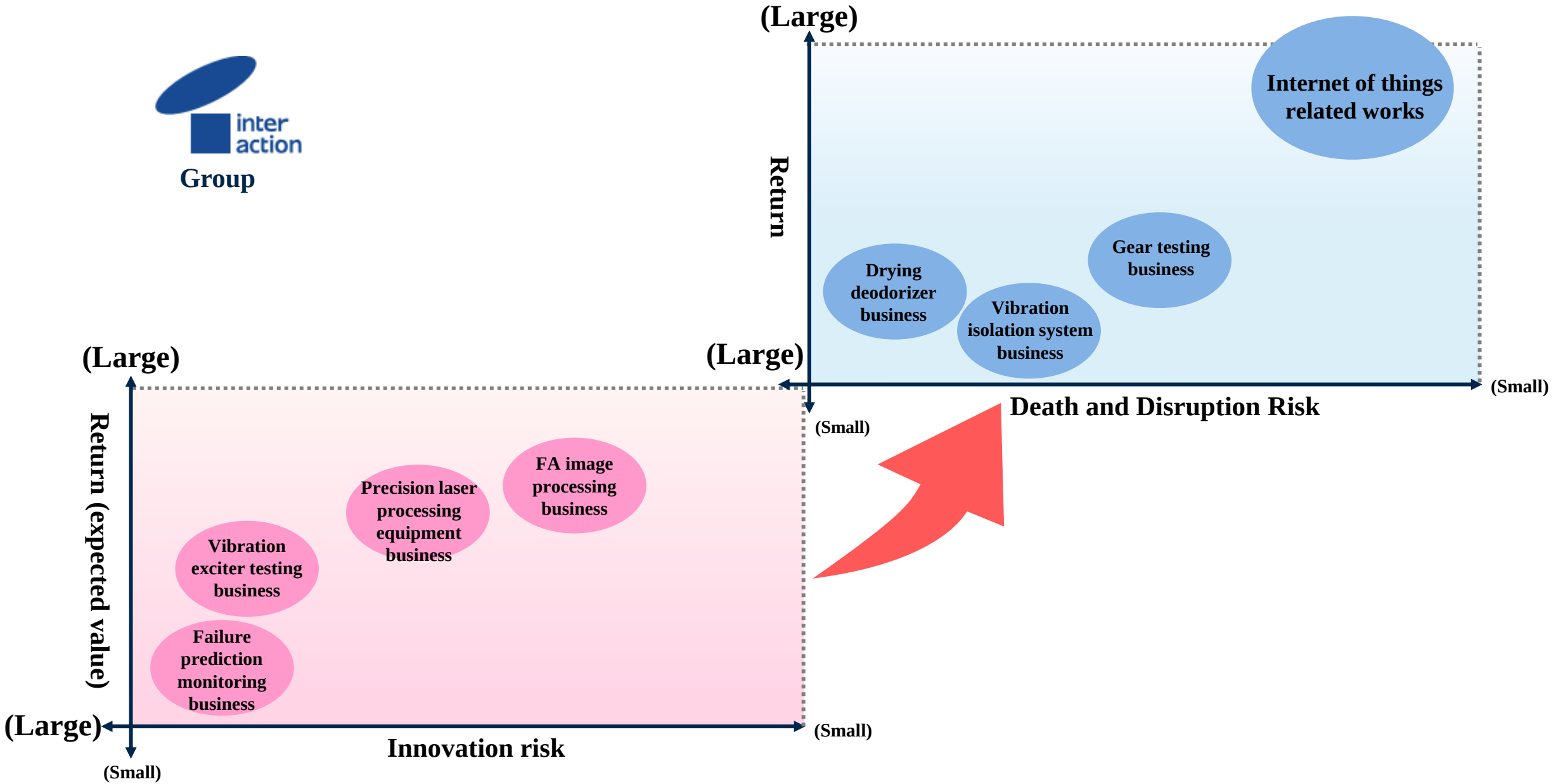




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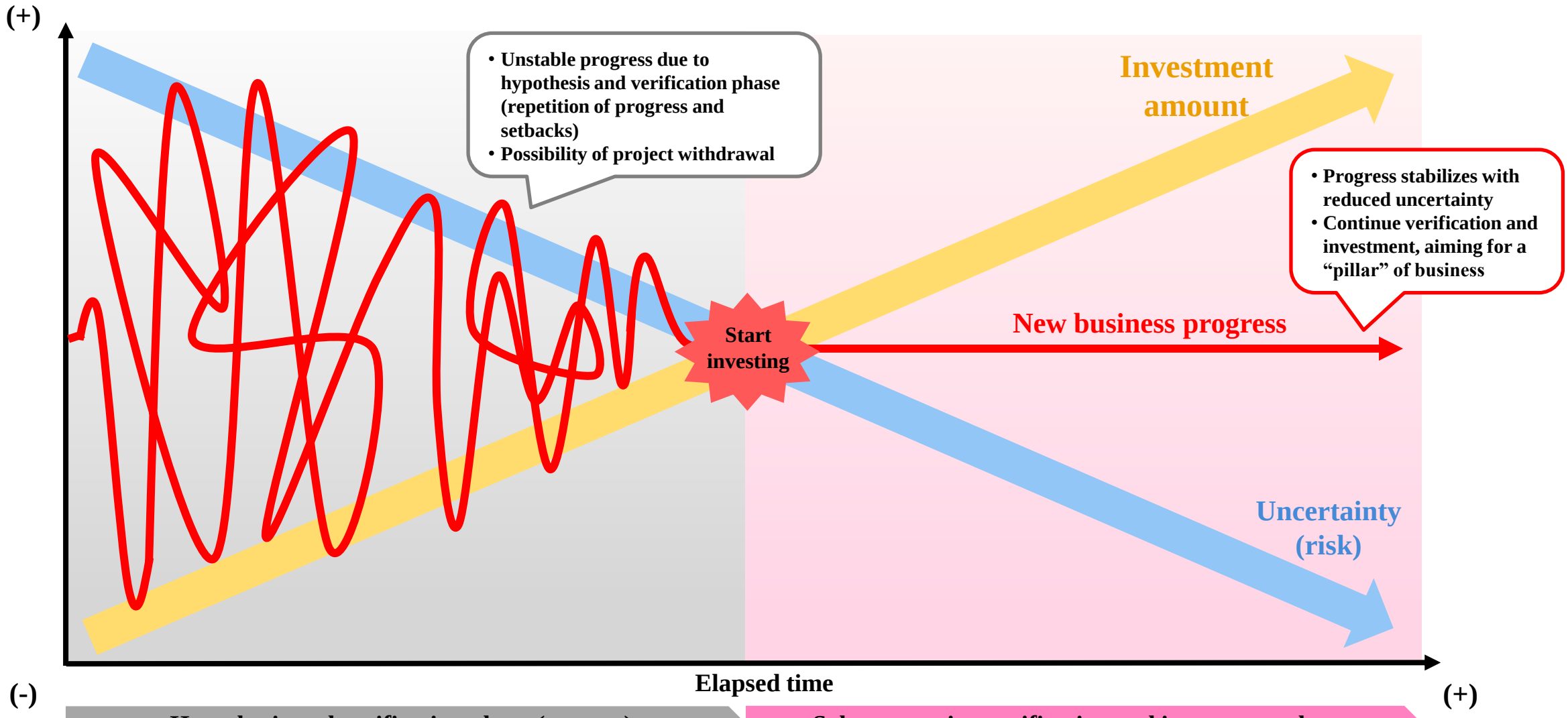
3. Business Expansion Going Forward: Portfolio (Entire business)

Group



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3. Business Expansion Going Forward: Image for Progress of New Business



Hypothesis and verification phase (present)

- Full-scale investment is not made due to **high uncertainty** in the early stages of new business planning.
- As uncertainty is reduced through repeated verification, **investment** can **increase** proportionally.

Sales expansion verification and investment phase

- Start full-scale investment after reducing uncertainty of the hypothesis and verification phase.
- Aim to build and develop a business foundation through **sales expansion verification**.

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4. Other Topics of Interest

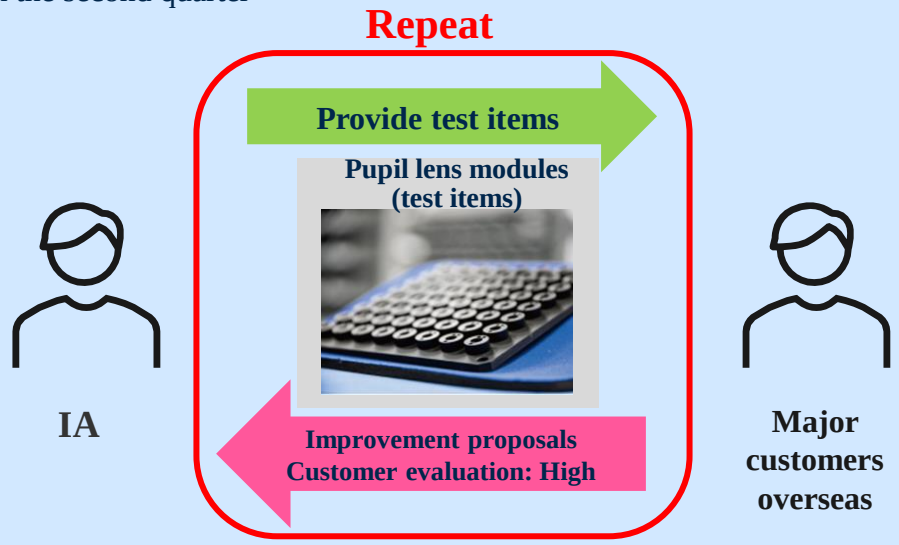
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1) Pupil Lens Modules for Overseas Customers: Progress and Future

- There are signs that customers will shift from test item verification to mass-produced products. We expect demand to increase. (Phase 1)
- Break away from phase (1) test products. Build a sales foundation for mass production. Aim to win stable orders. (Phase 2)

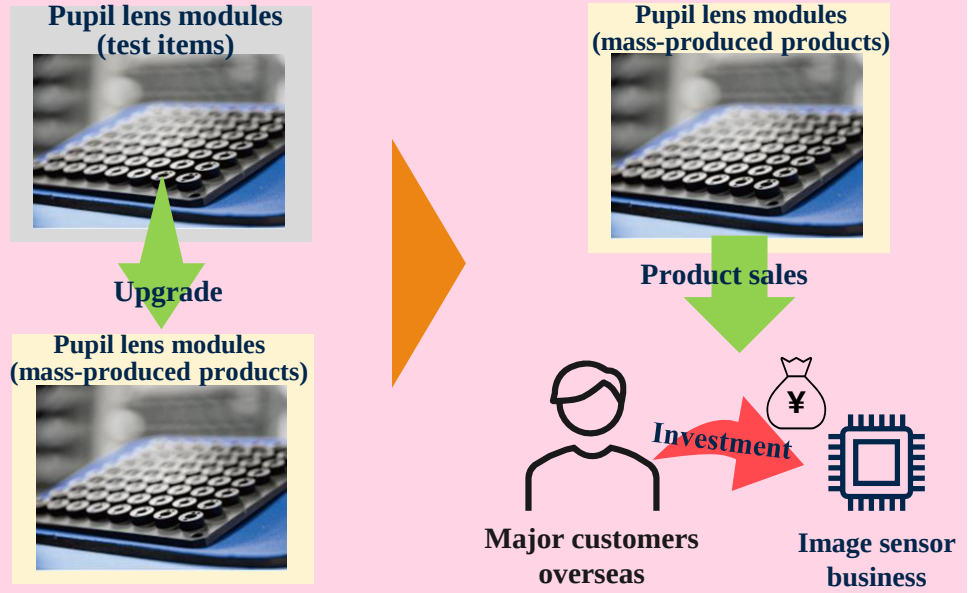
[Phase 1] Step up from test products (present)

- Verification for commercialization through repeated "test item provision → feedback → correction, test item provided again"
- Significant progress from test items toward mass production by customers in the second quarter



[Phase 2] Aim to win orders for products for mass production (future)

- Expect customers to make full-scale investment for pupil lens modules
- Watch customer trends closely to meet demand



Time — November to December 2020

Progress

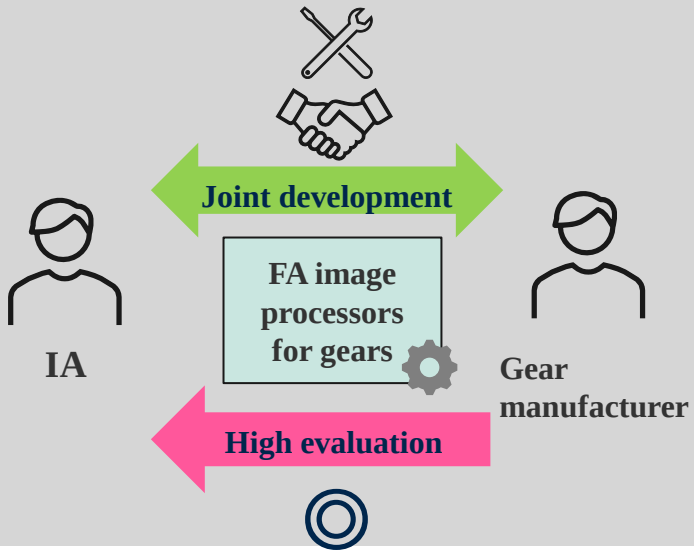
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2) FA Image Processing Business: Progress and Future

- At this stage, the prototype is complete and commercialization is finished. Going forward, we will conduct product sales expansion verification, aiming to expand the scale of business. (Phase 1)
- Depending on the situation of phase 1, conduct verification of applications in fields other than gears. Aim to open up new markets. (Phase 2)

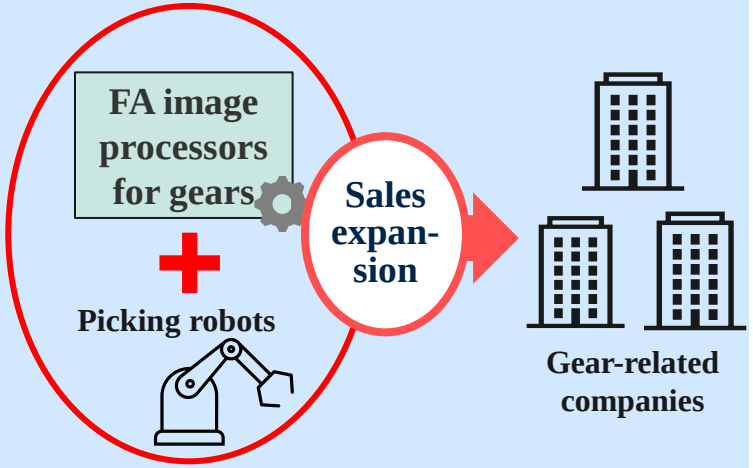
Creation and commercialization of prototypes

- Joint development with customers
- Feature evaluation from prospective customers: High



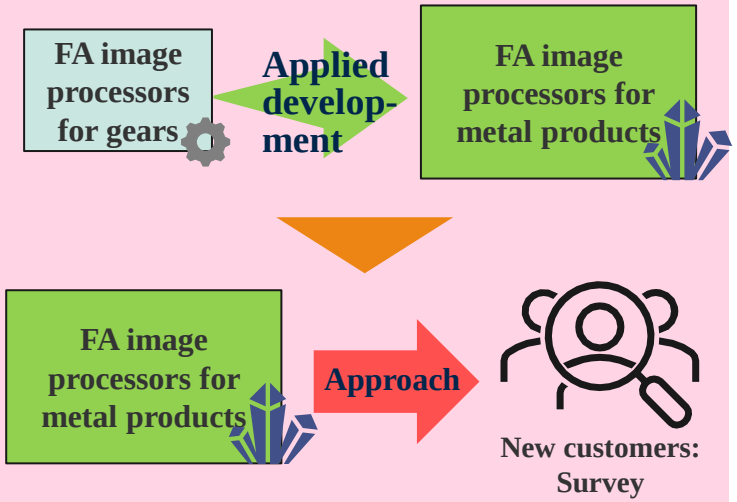
[Phase 1] Business establishment (present)

- Sales of FA image processors
- Expand sales to gear-related companies
- Need for picking robots for full automation



[Phase 2] Applications other than gears (future)

- Cultivate new needs
- Application to other metal products



Time — December 2020

Progress — Clear!

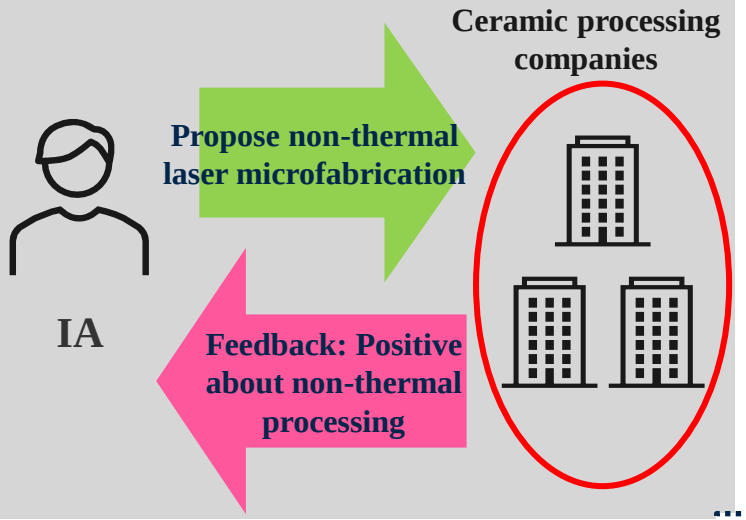
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3) Laser Processing Equipment Business: Progress and Future

- At this stage, market research and the selection of a processing method and materials is completed. Going forward, we will conduct product development verification to determine if the hypothesis is correct. (Phase 1)
- Depending on the situation of phase 1, proceed with verification. We will focus on product development, aiming for commercialization. (Phase 2)

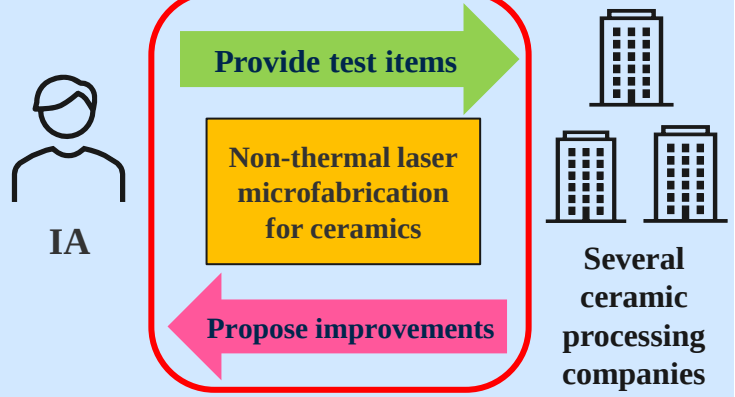
Market research and decision on processing methods

- Conduct interviews with companies and market research
- Focus on **non-thermal processing** (ablation processing)
- High potential for use in **ceramic processing**



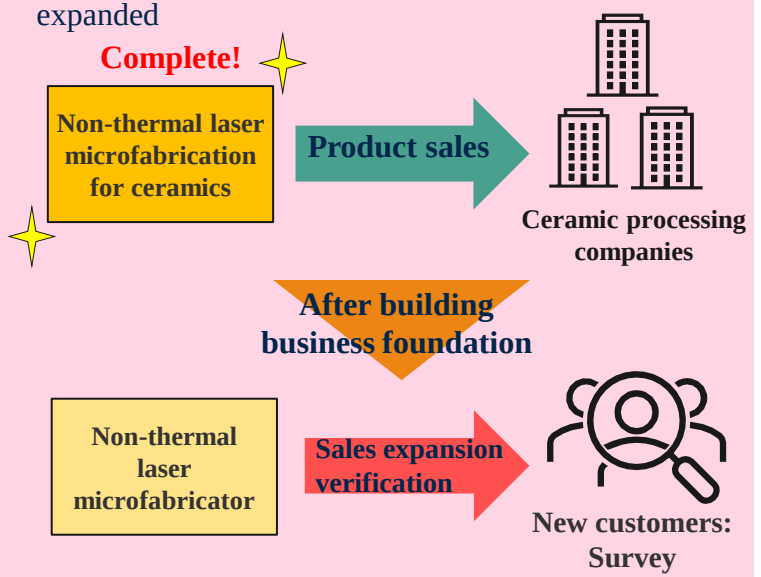
[Phase 1] Proof of hypothesis and development verification (present)

- Inquiries from several major companies
- Verification for commercialization through repeated "test item provision → feedback → correction, test item provided again"



[Phase 2] Development and commercialize new products (future)

- Start product development and provision, build business foundation
- After building foundation, verify that sales can be expanded



Time — November 2020

Progress — Clear!

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4) Included in the JPX-Nikkei Mid and Small Cap Index

- Included in the JPX-Nikkei Mid and Small Cap Index*, which is jointly calculated by Tokyo Stock Exchange, Inc. and Nikkei Inc., for fiscal 2020 (November 30, 2020 to August 30, 2021).

JPX-NIKKEI Mid Small

* The JPX-Nikkei Mid and Small Cap Index applies the same concept to companies with middle and small market capitalization as the JPX-Nikkei Index 400, which is composed of "companies that are highly appealing to investors," and selects companies that make effective use of capital and conduct management with an awareness of investors.

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Appendix: Company Profile

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Company Profile

Trade name:	**INTER ACTION Corporation**
Established:	**June 25, 1992**
Representative:	**Nobuo Kiji, CEO & President**
Capital stock:	**1,760 million yen**
Employees:	**139 (Group-wide as of May 31, 2020)**
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**

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 Chaoyangyitong Precision Device Co., Ltd.** **MEIRITZ KOREA CO.,LTD.** **Taiwan Tokyo Technical Instruments Corp.** **TOKYO TECHNICAL INSTRUMENTS (SHANGHAI) CO.,LTD.** **Lastech Co., Ltd.**

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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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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
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Inter Action Corporation
10F, Sangyo Boeki Center Bldg.,
2 Yamashita-cho, Naka-ku, Yokohama, Kanagawa
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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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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.

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