

## Konica Minolta, Inc. Q&A from 2Q/ March 2015 Financial Results Briefing Session

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*This material was prepared for those who were unable to attend the financial results briefing person and is intended only for reference purposes. Readers are asked to acknowledge in advance that the following text is not a verbatim account of everything that was said at the briefing but a basic summary whose content was determined by Konica Minolta.*

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### [Q&A regarding the Whole Company]

Q. For the final year of your medium-term business plan, your ROE target is 10% or more. However, you have already forecast 9% for this term (this is a reference value based on the assumption that your performance forecast is converted to IFRS basis). Please explain your thoughts on your direction for the next fiscal year and beyond.

A. Once we have achieved our targets is not the time to sit back and relax. Rather, we set our standards even higher and implement every effective management policy we can.

Q. Will your upfront investment next fiscal year and beyond be of a similar scale as this year's?

A. Upfront investment in the first half of this fiscal year was within our plan, but we will be reducing it in 2015 and beyond. To give one example of a major area of investment, we will be taking part in market information initiatives through our Business Innovation Center (BIC) and so on to strengthen services other than documents as we aim to turn a profit from the services in another three or four years. We will be systematically addressing these services during FY2014 in the form of global service and delivery. Secondly, we are increasing testing and research costs in the Business Technologies Business in advance, but by narrowing down the fields and products of development, we plan to avoid any significant increase in R&D costs.

Q. Tell us your stance on shareholder returns.

A. Our main intention is to pay out dividends and cancellation of treasury shares, but the big picture is to improve our activities as based on our Medium-term Business Plan, which should lead to further shareholder returns.

Q. Under your investment and lending plan, the ratio of investment is higher in the second half than the amount already invested in the first half. Will you be revising your plans for the second half? Also, about how much do you plan to invest in each segment?

A. I cannot get into specifics here since M&As involve partners, but we are currently negotiating on the second half as based on our plan. As for particular fields, in the Business Technologies Business, we will be following the Medium-term Business Plan and strengthening IT services in parallel with our active expansion of MIF (Machines in the Field). In businesses other than Business Technologies, we will target the sensing field, functional films field, and the IT field, which also ties in with the Healthcare Business.

#### **[Q&A regarding the Business Technologies Business]**

Q. It is now half a year since President Yamana took office. If you have taken any new initiatives in light of changes in the business environment or anything else, please tell us about them and how well they are progressing.

A. Well aware of the business environment we face, including hardware commoditization, we are stepping up our function of solving customer problems with our direct sales capacity and IT services. As for IT services, initially our intent was to offer them for small and medium-sized enterprises, but these services received greater praise than we had expected from large enterprises. So in the second half we will endeavor to produce results in the form of large orders in this field, particularly in North America and Europe.

We will be taking the following initiatives in each field.

In the field of MFPs for office use, our competitors are launching inexpensive models to try to obtain greater volume in the low-end segment. However, we have already taken care of a great deal of the cost of developing low-cost color MFP technology in our upfront investment to make our products more competitive, and we could speed up the pace of development. At this point, we are taking measures to make ourselves more cost competitive in terms of products and added value with service.

In the commercial/industrial print field, a full-fledged effort to grow sales of new mid-range products will lead to expanded print volume (PV). Following our MPM strategy, our initiatives to increase PV by carrying out successful M&As, winning major account customers, and so on, are picking up speed in the global market.

We also hope to strengthen our products designed for use with mobile devices and carry out a strong marketing appeal.

Q. I hear that in the European market, some of your competitors are waging an intense price war. Is this having any impact on Konica Minolta?

A. In Europe, especially in the major market of Germany, there was a price offensive that sought to use the weak yen as a way to recover market share. Since last September, Konica Minolta has followed a policy of working strategically to secure large orders, and we have started to see some results from that effort. With hardware, the results were even better than we had planned; the market trend had no impact on us.

Q. Second-quarter sales were up year on year for office products overall. Against that background, the percentage of net sales accounted for by non-hardware declined, so it seems hardware did not decline as much as had been anticipated. Can you tell us the factors that were involved?

A. A low-end model of A3 color units for emerging countries gave a big boost to hardware net sales, especially towards the end of the term. Color units also did better than expected in the US, and hardware sales were also steady even in Europe, where there is so much competition. These were the major factors.

Q. The year-on-year growth rate for net sales of office non-hardware has been declining. What is your analysis of that?

A. This is as expected. There has been no significant change in non-hardware in respect to what we were planning. We think that the percentage of color units and high-speed units is more important than PV. As a basic approach, we think it is important to figure out how to increase MIF and maintain the color unit percentage at high and stable levels in both developed countries and emerging countries.

#### **[Q&A regarding other businesses]**

Q. If you have any new initiatives in segments other than the Business Technologies Business, tell us what they are and how they are progressing.

A. Outside of the Business Technologies Business, we are pursuing innovation in order to set up three or four major profit centers. In the sensing field, we are benefiting from M&A. This is starting to pay off in terms of both scale and profits. Now we have the confidence to proceed with an even greater means to meet our Medium-term Business Plan. In the optical products field, we are carrying out reform of our production structure, mindful of how difficult the market is right now. We consider it possible to build a profit structure in line with net sales in the second half. The outlook for the TAC films business in 2015 and beyond is less clear, but we plan to take measures to meet customer expectations and enhance our reliability among customers.

Q. In the Industrial Business, first-half results exceeded your internal plans. On the other hand, your outlook for the second half, once the first-half results are subtracted from your revised full-year outlook, show the half will be about the same as initially anticipated. Tell us about that.

A. We were thinking two things in our second-half plan. First, many of the anticipated third-quarter orders and shipments of measuring instruments were moved up to the first half. That includes activity at Instrument Systems GmbH, which we acquired. Second, we expect a certain volume of orders of TAC film this year, but for the fourth quarter we took seasonal factors into consideration and made a conservative estimate.

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