

Konica Minolta, Inc.

Q&A from 3Q/ March 2019 Financial Results Briefing Session

Date: February 1, 2019 17:30 – 18:30 JST
Place: Nomura conference plaza Nihonbashi (Tokyo, Japan)

Cautionary Statement

This material was prepared for those who were unable to attend the financial results briefing in 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 Results for Konica Minolta as a whole]

Q: Regarding the corporate real estate (CRE) strategy, at 3Q it was a net ¥19.2 billion, and some expenses are expected to occur in 4Q, so am I correct in thinking that the full-year forecast for FY2018 is unchanged at ¥13.0 billion? Also, will there be no effects from the CRE strategy in FY2019?

A: For FY2018 your understanding is correct. No, we do not expect any effects from the CRE strategy in FY2019.

Q: Has there been no impact from the US-China trade friction? Please share your outlook for FY2019.

A: Regarding trade friction between the US and China, and the economic slowdown in China, as of 3Q there has been no significant effect except the impact from foreign exchange, and on inventories. However, we need to be cautious about what form a trade agreement between the US and China might take. In terms of tariff problems, looking at the state of agreement between the US and China as it is currently, there will be no significant impact either this fiscal year or next fiscal year. As for China, in businesses that are easily affected by deteriorating business conditions, such as projector lens units for digital cinemas in the optical components business unit, we are seeing signs of a slowdown. Up to 3Q, this had not emerged in color models in the Office Business, or in production print equipment, or in performance materials or measuring instruments, but we think we will need to watch the indications, including the signs, closely.

[Q&A regarding Core business]

Q: In the Office Business, you say that the impact of the US-China trade friction and of European economic conditions have not been visible so far. As a leading indicator, can you please comment on the state of the pipeline, and also on how sales discussions are going? Non-hardware consumables revenue fell year on year, and one might think that these are being affected by customers' feelings about the economy, but what is your view?

A: It was mentioned that after sales discussions have been finalized there is a time lag before installation takes place, but these are already in motion and as far as we are aware, there has been no change in the pipeline. In the US, we need to look closely at the state of dealer inventory, and how leases will be affected by interest rates, but currently they are not at problematic levels. In Europe the situation is not uniform, and progress varies according to location, so we analyze it by region.

Q: On the subject of negative non-hardware factors in the Office Business, you mentioned that there had been delays in installing some major projects. Would that be big enough to affect you? Will it recover next fiscal year and beyond?

A: In 3Q we had some divergence from the plan in northern Europe. In countries where the use of IT is advanced, even governments are moving towards e-documents. Depending on the country, this cannot always be resolved easily. We explained that full-year sales would rise by 1% year on year, but at this point we have started to see changes in some areas, and we are trying to secure gross profits through a variety of measures.

Q: When customers come to renew their MFP agreements with you, have there been cases when they have negotiated prices down?

A: I will not say that there are no cases such as you describe, but we are rolling out measures whereby we compensate for that by moving from "free to fee" by shifting from a simple charge based on the print volume to charges for scanning, and so on.

Q: In performance materials, samples of products, based on the new SANUQI resin, have started shipping. Going forward, what sort of scale you expect from these, in terms of the percentage of sales? What is your view on future growth for TAC?

A: The performance materials field was seeing active investment by Chinese manufacturers up to the 3Q, and revenues have been growing. In the 4Q we will stop the part of production line for final preparations related to the new resin, and these preparations are for FY2019. In terms of demand from China, smartphone demand is declining, but demand related to large LCD TVs is growing. TAC film prices have been stable, and we will make this profitable going forward.

With the new SANUQI resin at the stage of shipping samples, we will see growth in FY2019, but at this point we will refrain from commenting on the percentage of sales.

[Q&A regarding New business]

Q: With regard to Bio-healthcare, can we have some more specific details on the delay in measures already applied to Ambry?

A: First, by hiring new salespeople as a measure to expand sales in the second half, we have strengthened the sales structure. It is taking time for the effects to become visible, as we have not maximized the marketing capabilities in this area yet.

Next, it is taking time to customize individual projects as part of services for major pharmaceutical customers, and we are gradually developing. The third measure is to develop the oncologist market, where we have concluded alliances with others in the same industry, but we are behind schedule when it comes to building the IT processes for the new business. However, Ambry and Invicro are both expected to be profitable on a stand-alone basis. Our initial diagnosis was that we wanted to get them into the black on a consolidated basis, even if we had to cover amortization expenses related to intangible assets, but it is a fact that we are behind schedule. Also, we have established a company in Japan for the domestic business, and the upfront investment related to that is one of the factors that has resulted in delays in comparison to our original plans.

Q: You have cut the full-year revenue forecast for Bio-healthcare by ¥7.5 billion. What are the main factors behind this reduction?

A: The main factor is Ambry. At Invicro, the cancellation of a central nervous system-related order in the ¥1.0 billion range, due to issues at the customer end, also had an influence.

Q: If you have any information on the response to current Workplace Hub sales, or any updates, I would like to hear them.

A: We have been hearing that it meets customer needs. In Europe we have been having inquiries from manufacturing industries and, in the US, inquiries from real estate, finance, and architecture are on the increase, and progress is in line with objectives.

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