

Konica Minolta, Inc.

Q&A from FY March 2019 Financial Results Briefing Session

Date: May 13, 2019 17:00 – 18:00 JST
Place: Iino Hall & Conference Center (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. Moreover, readers are asked to further acknowledge in advance that the business performance outlook and other content concerning future results in this document is based upon information that the company has at present and upon a rational evaluation based on certain assumptions and, additionally, that actual business performance can greatly vary due to a number of factors.

[Q&A regarding Financial Result]

Q: How much was the cost for "Office Business's European Structural Reform" and "Healthcare's U.S. Structural Reform," which were thought to have been implemented with your will? How do you think the effects of them in Fiscal 2019 will be?

A: 900 million yen was spent in Europe and North America for the Office Business's European Structural Reform. This is not expected to be fully recovered in Fiscal 2019, but we are working to recover it by the first half of Fiscal 2020.

Approximately 500 million yen in total will be spent in Fiscal 2018 and 2019 in Healthcare's U.S. Structural Reform. We expect to improve Healthcare business about 400 million yen. In Fiscal 2018, this amount was a little over 200 million yen.

Q: I assume that the forecast for Fiscal 2019, which aim to increase both revenue and profits in all business segments, is a tough target under current macro circumstances. Could you tell us the intention and background in this plan, and how do you think about the severity of the macroeconomic environment?

A: We are not always optimistic about the macroeconomic outlook. We recognize the outlook is somewhat severe on Chinese economy, the global economy because of the US-China conflict, and the issues in Europe. However, we have worked in each region and customer, and in Fiscal 2019, we have not only New Business, but also new products in Core Businesses that have been developed for the past three years. We will make our utmost effort against the economic environment.

Q: The allowance of 3.0 billion yen for CRE was postponed to the next fiscal year. Will correspondent income be delayed accordingly?

A: 3.0 billion yen in Fiscal 2019 will be spent to consolidate domestic manufacturing subsidiaries and strengthen R&D. In manufacturing, we will construct a new plant in the Mikawa region to enhance our manufacturing capabilities in Japan. In R&D, we will construct a new building in Takatsuki that will contribute to develop technologies mainly in image recognition area. At the same time, we plan to consolidate sites in the Kansai region.

[Q&A regarding Core Business]

Q: Even if the growth rate of non-hard is moderate in Office Business, will gross profit be increased?

A: At the beginning of the fiscal year, we anticipated 1% increase in non-hard sales in Office Business, but it declined approximately 0.3% on a year-on-year basis mainly by the impact of e-documentation legislation in Northern Europe and Germany. We will launch new products in Fiscal 2019, and we are working to improve gross profit by charging services, which was previously offered free of charge (Free to Fee), by improving service costs, and by reducing costs by extending the life of consumable supplies. As a result, we are aiming for 1-2% increase in gross profit.

Q: We have heard that new platform will be applied in new MFPs. When do you expect it to be effective? In addition to cost reductions, can we expect higher unit prices for these new products because of providing added value?

A: In Office Business, we launched A3 color MFPs and A4 color MFPs as new products. In A3 color products, we intend to sell new products approximately half of all color machines in Fiscal 2019. Prices, in general, will decline as a trend in the market, but we intend to maintain prices thoroughly based on the value of these new products.

Q: The growth rate of non-hard appears to be declining in 3Q/4Q in Japan and the United States. Given the growing of MIF in these regions, do you think it should have risen a little more?

A: We assume the inventory adjustments of toner and other products in the market made an impact on it and it does not mean that PV is decreasing.

Q: What is the breakdown of the Fiscal 2019 outlook for Industrial Business (increase in profit from FY2018)? What are the drivers of the profit growth?

A: In Fiscal 2018, Materials and components (particularly performance materials and IJ component) posted higher profit, while optical systems for industrial use (particularly measuring instruments) posted lower profit. Optical systems for industrial use is expected to recover in Fiscal 2019, and revenue in performance materials are expected to increase.

Measuring instruments is expected to earn a significant portion of the increase in Fiscal 2019 in the optical systems for industrial use field. Although several business units are included in the materials and components field, we expect 8% increase in revenue in performance materials in Fiscal 2019. In other words, the drivers of this growth are increases in revenue in measuring instruments and performance materials, as well as increases in profit by added value. In addition, inkjet products have performed very well and achieved high revenue.

[Q&A regarding New Business]

Q: Would you tell us about the changes in New Business's revenue from Fiscal 2018 to Fiscal 2019, particularly in Bio-Healthcare, which is divided into Ambry and Invicro? Also, would you tell us the scale of the unachieved Alzheimer-related revenue, as well as the portion of Workplace Hub in the Others section?

A: Bio-healthcare's Fiscal 2019 revenue of 35.0 billion yen are divided into approximately 70% of Ambry and 30% of Invicro. Others section was 28.0 billion yen, there of around 8.0 billion yen on MOBOTIX, and the rest is Workplace Hub, quality of life, and status monitoring (excluding MOBOTIX) according to the scale of sales.

Regarding Alzheimer-related revenue, I would like to refrain the comment on the absolute amount, but it has already been affected by the 3Q, and we have not been able to obtain other projects to recover the delay even in 4Q.

Q: Would you tell us the breakdown of operating profit in New Business as far as possible?

A: The loss of 19.3 billion yen in operating profit in Fiscal 2018 will be allocated to Workplace Hub, followed by status monitoring and care support in the order of the loss. In Bio-healthcare Business, both Ambry and Invicro remained profitable on a standalone basis in Fiscal 2018, but the consolidated result was loss as a result of amortization of intangible assets and consolidation of the loss in business in Japan. Fiscal 2019 is expected to be profitable on a consolidated basis, including amortization of intangible assets and the loss in domestic business.

Workplace Hub accounts for a significant portion of Fiscal 2019's operating profit loss of 10.0 billion yen. I hope that it will be understood as the process of achieving the target of 10 thousand customers as soon as possible.

Q: In New Business, both Workplace Hub and Bio-Healthcare seem to be quite challenging. How soon do you think the revenue will be visibly increased?

A: In Bio-Healthcare, we expect the balance in revenue between the first half and the second half of the fiscal year to be around 3:7. We believe that other New Businesses is approximately 3:7 to 4:6.

Q: Is the fixed costs and R&D costs of New Businesses increasing in Fiscal 2019?

A: Regarding Ambry in Bio-Healthcare Business, we managed required development and sales preparation in Fiscal 2018, and we believe that it will contribute to profits in Fiscal 2019. Workplace Hub used the expense for functional improvements in Fiscal 2018. We would appreciate it if you understand that we will make some more loss in fiscal 2019 to increase the number of target countries, while R&D costs will decline.

Q: How was the 40% increase in the amount of Ambry's samples in 4Q alone with comparing to the prior forecast?

A: The amount of the samples is almost the same as our expectations. Because of our efforts to strengthen our sales capabilities, we have regained our share of the hospitals that we have lost a little.

Q: In Bio-Healthcare Business, it seems that your expectation has turned lower for the past six months. There seems to be enough market volume, but do you have to take the price competition seriously? You mentioned that the amount of the sample was expected level, but is it conceivable that the tendency of the lower expectation will be continued in Fiscal 2019 with considering the lower prices and expected level of the market volume?

A: After the acquisition of Ambry, competitive prices were more severe than the original plan, and this is certainly the major reason for the revision of estimation at the end of the first half of Fiscal 2018. On the other hand, we have the advantage on the accuracy of the technologies. We thoroughly conveyed this information, made qualitative changes in sales, and developed IT. The effects of these measures are gradually emerging from the second half of Fiscal 2018, and the 40% increase in 4Q samples is not attributable to prices, but to the effects of these measures. Regarding the price of the genetic testing, negotiations on reimbursement terms with insurance companies have been held once a year, and prices have fallen further in the 4Q. We would like to add that it was in our expected level.

Q: Shouldn't we consider the goodwill impairment losses of Ambry and Invicro at any time?

A: We do not believe that it will be the problem at this time. As I mentioned in the 3Q's financial briefing session, we reduced the announced figure by 4.0 billion yen. We reviewed the prices at that time and created the new plan with recognized risk factors. The accounting auditor has also confirmed the plan, and we have concluded that there is no problem.

Q: I assume that competitors of Workplace Hub are also taking appropriate countermeasures. How do you think about it?

A: We understand that our competitors are strengthening solutions that connect existing MFPs to the cloud as well as our company. But Workplace Hub has two strong points. The first one is to

strengthen security by using Workplace Hub as a gateway for customers' external and internal networks. The second one is the data analysis other than the document (e.g., a behavior analysis that combines biosensing information with networking cameras). There are limitations to the use of existing MFPs alone in both points.

Q: Would you tell us the current number of customers in Workplace Hub and the customer unit price.

A: In fiscal 2018, the pipelines were sufficient, but the number of customers was less than 100 due to delays of installation because of the required time for upgrading and other factors. The average monthly unit price is \$1,270. Since our assumed price was around \$1,230, we launched the project above our prior assumption.

-END-