

Konica Minolta, Inc.

Q&A from Q4/March 2021 Financial Results Briefing Session

Date and time: May.14, 2021, 18:00 to 19:00 JST

Method: Online/Telephone Conference

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 number of factors.

【Regarding Financial Result】

Q: Please let us know about the cost of ¥4 billion for the portfolio conversion in FY21? Won't the Company incur it after FY22?

A: There are 2 factors to consider. First, we are considering sales or joint ventures of low-profit businesses in our business portfolio to best owners. The other reflects the costs associated with financing, including U.S. markets, in a field of strategic new business. Both of these events are temporary, and the Company will not incur them after FY22.

Q: Please let us know about the negative impact in operating profit for “Corporate, etc.” from FY20 to FY21.

A: Transient costs associated with portfolio conversion are ¥4 billion, an increase of ¥2.5 billion in strategic R&D costs controlled in FY20, and the rest of the impact is temporary profits to the Company by governmental support in FY20. Actually, corporate expenses are not inflated.

Q: Please let us know how you are looking at the balance between H1 and H2 of Operating profit for FY21.

A: Originally, sales were large in H2 due to seasonal factors in office business, but in the H1 of FY21, particularly in Q1, we assume that the effect of vaccine will not be sufficient yet, and we have incorporated the severe condition of non-hard in our offices business until August. Though we are taking measures to avoid shortages of semiconductors and soaring materials costs, we expect costs and impact on sales to occur from Q1 to Q2, and we have also factored in the cost of portfolio conversions in FY21 H1. We anticipate these factors in H1, but we will increase the provability of a recovery in earnings for the full fiscal year.

【Regarding Business】

Q: Please let us know what is “One Rate” of the Digital Workplace Business, including its effects. Are there also no risks that prices will go down?

A: Conventional MFP business has charged customers by the number of printed copies. However, there are comments from customers that it is cumbersome to manage monthly expenses, and this is a contract to charge a fixed monthly fee regardless of volume. We have started in the U.S. and are expanding into various countries. Before entering into a contract, we carefully assess the number of printed copies used by our customers, and we are working to prepare for any large discrepancy in the actual number of printed copies, including revision provisions. This has contributed to the increase in gross profit.

Q: Please let us know about the content of the ¥13.3 billion increase in sales plan for DW-DX in FY21.

And also, please tell us as much as possible about the breakdown of hardware, non-hard, and DW-DX with an increase in profit of ¥20 billion, as well as the prospect of Workplace Hub (WPH).

A: The growth of managed IT services is the largest, and among 4 points of DW-DX described on P.14, we will further grow our services utilizing cyber security diagnosis and WPH for client IT infrastructures. In addition, as we provide new services, there will also be a significant shift in the process of electronic application and approval, particularly by local governments. In our service back-office operation, we will expand outsourcing to India, which is already being implemented in the U.S., to Europe.

In terms of profitability, hardware and non-hard account for 75% and the rest of the profit derives from DW-DX.

WPH is positioned as the business for deploying IT services based on hardware.

Q: Regarding DWP business, is it correct to understand that the current profitability is around ¥7 billion from the profit of ¥3.5 billion and the structural reform expenses of ¥3.2 billion in FY20 Q4? Also, please let us know whether the level of fixed cost will decrease further in FY21 Q1 from FY20 Q4. If so, how much the fixed cost go down?

A: In Europe, structural reforms were implemented in the last week of March, which will be effective from FY21 Q1. Therefore, fixed costs will go down one step further. We have reduced human resources in all regions by 7% in one year. This represents about 10% to 15% of the total.

Q: KPIs of precision medicine increased in YoY, but why did sales fall in FY20? Were there any factors such as falling unit prices?

A: The number of samples of genetic testing in Ambry recovered to +6% even in Q4 of FY20, however, it increased in March. As a result, the sales is calculated in FY21 due to claims to insurance companies and other factors. In addition, clinical trials need to be resumed as eliminating the backlog of Invicro and generate sales according to resumption of clinical trials. Regarding prices, when Ambry's high-precision RNAs test is evaluated and the ratio rises, the overall price will go up. In addition, the number of services for healthy persons will increase after being launched in the U.S. and Japan. The number of PCR tests for COVID19 commissioned by Orange County, California increased, but the unit price is lower than genetic testing. On the cost, we are seeing cost reductions due to the introduction of next-generation sequencers and the use of cloud computing for the data.

Q: The avoidance of impairment loss of precision medicine is described as positive on the briefing materials. What kind of discussion did you have with the auditing firm, and is their decision based on an examination of KPIs, and so on?

A: Regarding goodwill, auditing firm widely considered the situation with COVID19 and the short-and medium-term outlook for Post-COVID19, and discuss them thoroughly. We described that goodwill impairment is not applied in this material because there are descriptions in analyst reports that we have the high ratio of goodwill, and there are concerns about impairment of precision medicine. High-precision testing such as RNA testing and CARE is highly profitable, but it is also true that we are spending costs on human resources in the science field to grow in the future and have not made the originally planned profits. Considering the value of the business, status of progress in the market, and the future plan up to the FY25, it has been determined by the auditing firm that there are no concerns with regard to impairments at all.

Q: Regarding precision medicine, there was an explanation of considering fundraising and alliance in the U.S. in November last year. Is it correct to understand that it was completed by the collaboration and investment with AWS announced in March,2021? In addition, competitors in this market run a large deficit due to upfront investment in costs to increase corporate value, but is it correct to understand that you will not take such a strategy?

A: Regarding the collaboration with AWS announced in March,2021, Ambry's high-quality data was attractive and led to the alliance when AWS considered a partner in entering the field of genetic data analysis. Competitors are running a lot of deficit to gather a number of samples, but we are sticking to the high-quality data and will not increase the number of genetic testing while running a lot of deficit. On the other hand, if we immediately place too much emphasis on large surplus profit, our current superior position will change, so we will continue to make the necessary investments for the medium term. The investment from AWS was part of the flexible financing described in November,2020 and is a step of the financing.

Q: Regarding the Industry Business, sales of other units than measuring instruments almost have not changed in the last few quarters, but in FY21, sales are expected to increase 22% annually, resulting in high growth. Please let us know the time of the year (H1 /H2) of the sales growth.

A: As for measuring instruments, consolidation of Specim began in FY20 Q4, but we expect its annual contribution in FY21. We received orders of automotive visual surface inspection from several automotive manufacturers in FY20 H2, which will contribute from FY21 H1, even though we did not make good progress in FY20 H1. As new and growth field, we are considering new strategic investments in areas other than automobiles, such as food and recycling, and we expect this to contribute from FY21 H2.

As for performance materials, demand for large TV in China and smartphones worldwide is strong in H1, and we expect it to stabilize in FY21 H2. Sales of IJ components will increase in FY21 H2, although it will depend on the recovery from the COVID19 crisis in other Asian countries. Optical components continues to perform well in the Chinese mobile objects and monitoring and surveillance areas from FY21 H1. Imaging IoT-platform "FORXAI" will contribute to sales in 2H. As the mainstay, security solutions in Mobotix will expand sales in the U.S. and Europe in H2 by adding our technologies to German-made solutions because of the U.S.-China conflict as well.

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