Konica Minolta, Inc
Q&A from Q2/March 2022 Financial Results Briefing Session

Date and time: November 2, 2021, 18:00 to 19:00 JST
Method: Online/Telephone Conference

【Regarding results for the Company overall】

Q: Regarding P.12 in the material, what is the impact of the downward revision of net sales of ¥50 billion in H1 and H2?

A: 20% of the 50 billion was affected in H1. While taking safety measures at the toner factory itself, the 2 factories will successively resume operations In October and November, and we will also secure production volumes. So there will be no negative impact that will occur in the future.

Q: How much did the Q2 results fall below the initial targets?

A: Operating profit of -¥4.7 billion was lower than the initial targets by approximately ¥7 billion. Revenue was around ¥10 billion.

Q: On page 14, you aim for operating income of 55 billion in FY2022. But considering the influence of the toner factory accident for Professional Print(PP) and decrease of the number of Machines in Field (MIF), will the hurdle to achieve the target be higher?

A: Currently, due to the restriction of supply of PP toners, we are curbing sales and installation of new hardware for the time being. But we will ensure that our existing MIFs are replaced with our new products. Looking ahead to the next fiscal year, we are avoiding a decline in MIF at the beginning of the fiscal year.

Q: Regarding P.17, the perspective of non-hard demand for Offices (OP) is lower than expected and you have to cope with the impact of the semiconductor shortage in the first half of FY21., Do you intend to reduce fixed costs additionally toward ¥55 billion operating profit in the next fiscal year,?

A: Initially, we assumed that non-hard of OP would return to 90% at the end of FY2021 compared with FY2019, and it would be expected to fall by 4% annually. However, now we assume that it will return to 86% by the end of FY2021 as a result of the establishment of new working styles, and it is expected to remain roughly the same in FY2022. As a result, the outlook for non-hard demand in FY2022 remains unchanged. In addition, we expect the demand for OP hardware will not be changed, and this will not have an impact on our assumption of aiming for ¥55 billion in the next fiscal year. What we see as downside risk is the impact of the tight supply of semiconductor.

In response to this impact, we will implement additional measures to reduce fixed costs.

Q: Will you take any actions until the end of the current fiscal year to reduce fixed costs and to bring benefits in the next fiscal year? To achieve that, will you record additional expenses?

A: Maintaining customer relationships is our top priority at the present time, due to the semiconductor and toner issues. Considering the point, we will prepare for the portfolio transformation that we are progressing, and will prepare for implementation in the FY2022 Q1.

Q: Regarding shareholder returns, is it prerequisite for maintaining the dividends that REALM IDx, Inc. will be listed on the U.S. market this time?

A: Operating cash flow will be generated as planned in FY2022. Regarding the capital policies for growth investment, we have begun preparing for an IPO as a means of funding growth areas through portfolio transformation. In our current earnings forecast, we are assuming the OP business is in a severe condition. However, we are looking to accelerate growth by strengthening Measurement, Inspection and Diagnosis field, including DW-DX, Industry and Healthcare, and further scale than the medium-term plan. Specific details will be explained at the management policy briefing scheduled for February,2022.

【Regarding each business】

Q: You mentioned that Q3 will be affected by the tightening of semiconductor supplies. What percentage have you secured semiconductors for now, and what percentage will you improve it in Q3, Q4 at this point?

A: As shown in P.9, we plan to produce 55% of OP hardware demands in Q3, 85% in Q4, and totally about 70% in H2. The number 85% of Q4 is the result of negotiations to secure parts and materials, which is a number that will be able to be produced.

Q: Other companies explained that they were in difficult situations due to lockdowns overseas and so on. How about the impact on your company?

A: Our production factories are located in Malaysia and China, but we are able to avoid constraints caused by the lockdown in Malaysia by manufactured in China.

Q: Regarding P.14, the reason that Q2 orders are high and Q3 orders decrease is due to the inability to procure semiconductors, and you can't respond orders. Is this understanding correct? Is it also assumable that competitors will take your market share? Or the competitors are in the same situation by running short of semiconductors also?

A: We receive orders with communicating the status of delivery during sales activities. Regarding dealer channels, we also consider that orders will be postponed while shipment are not possible. The received order is not unstable because we have received the order after telling the customers about the situation. We will respond to customer demands as much as possible by shipping products available. Other companies are also in the same situation according to our own information, and we recognize that this is not a situation in which our share will change easily.

Q: The order backlog for OP was ¥27 billion and the order backlog for PP was ¥6 billion. Is this higher than the level of the ordinary quarter-end backlog? Also, since this is not normal orders, isn't it conceivable to be cancelled?

A: OP's order backlog at the end of the ordinary quarter is at ¥4 to ¥5 billion level and PP is at ¥1.5 to ¥2 billion level. So the current order backlog is considerably higher than normal. Orders are firm ones, and we receive orders while explaining the current delivery conditions, so they will not be immediately canceled. We will carefully keep the schedule promised to our customers.

Q: As disclosed in P.34-35, non-hard sales of OP and PP inQ1and Q2 does not appear to have declined significantly. Please let us know the expected trend in Q3 and Q4.

A: We use third-party products alongside ours in OP, so they do not fall significantly from Q1 and Q2 trends.

On the other hand, non-hard sales of PP in Q3 is expected to decline temporarily because there are some products where substitutional toners cannot be used. However, as I explained in both OP and PP, our own-production toners will be recovering, and there are demands that we have postponed replacement by COVID-19, as well as the fulfillment of inventories in our sales channels. Therefore, I assume that Q4 will increase significantly more than the amount that is currently visible.

Q: Regarding the demand for OP, in particular, how is the situation in non-hard by each region, including the establishment of new normal working styles?

A: In both the domestic and overseas business sectors, we assume that large companies will not return to their offices 100% like 5 days a week, but will continue to work in a hybrid manner, namely, 2 or 3 days a week and telecommuting from home. We had initially assumed that print volumes (PV) would return to 90% in Q4 compared to FY2019, and that they would continue to decline by 4% per year from that point. However, we do not expect it to return to 90% now, but still expect it to rise to 86%. Instead, we expect the decline to be moderate, including the next fiscal year onward.

Q: On P.14, regarding the impact of the toner factory accident in the digital workplace business of ¥5.5 billion, only 75% of the demand can be produced, but the impact seems small when considering sales. How can we understand it?

A: Sales of toners themselves are not damaged. We will sell them including substitutional toners. We consider the cost increases compared to in-house productions caused by reduced capacity utilization at our own plants and bottling of substitutional toners and so on. 25% decrease in production does not reduce sales by 25% entirely.

Q: Regarding the toner plant accident, though the factories have worked for 14 or 15 years after starting operations, there have been 2 incidents in spite of on-site verification. Won't it occur anymore? Why did it happen, while it has been in stable operation for many years? Also, are the quality of toners guaranteed? Are there any problems with inventory items produced before explosion?

A: Both are identified as dust explosions caused by static electricity. As the measures for the first incident, we focused on implementing measures on filters in secondary driers because it was the root cause of the incident. However, the second incident occurred as a result. We also surveyed and verified all factors other than filters. The reason for the incidents was identified as combination of 3 conditions: filter grounding, toner varieties, and the operating status of the facilities. We reflect that we were unable to elucidate everything in the first round. The new process eliminates risks and results in a process that does not use a secondary drier. Therefore, accidents due to the same cause will not occur. Of course, the quality produced by the new process meets national regulations and our conventional quality standards. In addition, there are no quality problems with the toners produced prior to the accident.

Q: Please let us know why margin in Industry Business in Q2 has declined from Q1.

A: This was caused by a percentage of sales made by Sensing Business.

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