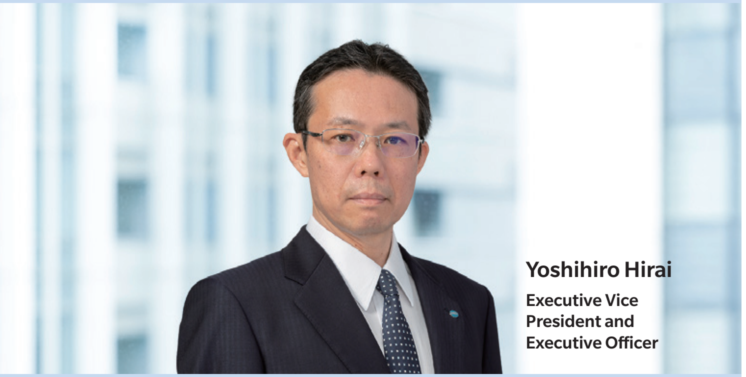
Financial Strategy



Yoshihiro Hirai
Executive Vice President and Executive Officer

In fiscal 2024, Konica Minolta carried out global structural reforms, business selection and concentration, and appropriate revisions to our future business plan, which resulted in a significant loss. However, we believe this deficit is largely due to temporary factors, and we have strengthened our foundation for achieving the earnings level we should pursue in the future. We also made steady progress in improving our financial position by reducing interest-bearing debt by ¥84.4 billion.

Fiscal 2025 will be a pivotal year to achieve a V-shaped recovery in profits, resume dividend payments, and build a bridge to the next Medium-term Business Plan. Despite negative factors such as rising U.S. tariffs and the risk of a recession, we will continue to meet the expectations of our stakeholders through the unified efforts of the entire Group.

In addition to improving ROE, our management going forward will focus on generating stronger profits and reinforcing each business with an emphasis on the efficiency of invested capital. The fiscal 2025 ROE target of 5% is a minimum, and we aim to reach 8% or higher. To achieve this, we will not only pursue business growth but also focus on improvements in net profit through further reductions in interest-bearing debt and the optimization of tax expenses.

We have carried out the selection and concentration for loss-making businesses through fiscal 2024 and, starting in fiscal 2025, advance to a management stage that evaluates and ensures the efficiency of profit generation in each business. Going forward, we will embed the cost of shareholders' equity and capital efficiency into our management practices to raise corporate value and deliver profit returns that meet shareholder expectations.

Review of fiscal 2023 and 2024

Completion of global structural reforms and business selection and concentration

In fiscal 2023, the first year of our Medium-term Business Plan, we achieved our most important goal of achieving positive operating profit and profit attributable to owners of the Company (hereinafter referred to as "net profit") and improved our balance sheet, mainly working capital and interest-bearing debt, by generating ¥83.3 billion in operating cash flow.

In fiscal 2024, revenue increased 1.8% year on year to ¥1,127.8 billion, due in part to the weaker yen. In terms of profit, although we were able to control SG&A expenses and capture some of the effects of global structural reforms, business contribution profit was ¥31.9 billion, down 4.2% year on year, due to a revision of the calculation of elimination of unrealized gains in the consolidated financial results.

Business by business, the Digital Workplace Business posted higher profits, but profits in the other three businesses declined, and challenges remained in some businesses (industrial print, performance materials, sensing, and healthcare), which were positioned as strengthening businesses. In addition, one-time expenses, such as global structural reforms and business selection and concentration (see page 18), as well as impairment losses on goodwill and property, plant and equipment and intangible fixed assets in the sensing, industrial print, and healthcare units, resulted in an operating loss of ¥64.0 billion. In addition, the Company reversed deferred tax assets (approximately ¥18 billion) due to a review of business plans in the U.S. and other countries. In addition, as part of the selection and concentration of businesses, the precision medicine business was transferred, resulting in a net loss attributable to owners of the Company of ¥47.4 billion, including the gain on the transfer of this business.

These global structural reforms, selection and concentration of businesses, and appropriate review of future business plans have led to a reduction of total assets by approximately ¥190 billion compared to fiscal 2023.

Thus, in fiscal 2024, we advanced management reforms and other measures that resulted in significant losses, causing great concern to our stakeholders. However, by completing business selection and concentration in fiscal 2023 and 2024 as planned, we were able to prepare to establish a foundation for growth in fiscal 2025, the final year of the plan.

One-time factors in FY2024

One-time expenses/losses	
Global structural reforms	-¥19.0 bn
Business selection and concentration	Approx. -¥28 bn
Impairment loss on assets	Approx. -¥51 bn
Reversal of deferred tax assets	Approx. -¥18 bn
Gain on business transfer	
Precision medicine	Approx. ¥50 bn

Financial impact in FY2025

Business contribution profit: Total +¥15.5 bn (YoY)	
Impact of global structural reforms (including additional portions)	+¥14.0 bn
Improved profitability through business selection and concentration	+¥1.5 bn
Total assets at the beginning of the period: Total approx. -¥190 bn (vs. end of FY2023)	
Selection and concentration of business	Approx. -¥120 bn
Impairment loss on assets	Approx. -¥51 bn
Reversal of deferred tax assets	Approx. -¥18 bn

Enhancing corporate value

Achieving ROE of 5% and targeting rapid achievement of 8% or higher through business growth and benefits from management reforms

In fiscal 2025, we will move into a new phase under the slogan "Establish a Foundation for Growth: Turn Around 2025." Here, we intend to achieve a V-shaped recovery in operating profit and net profit to achieve ROE of 5%, and beyond that, ROE of 8% or higher.

Since improvement of net profit ratio and the total asset turnover rate is important to improve ROE, we are breaking down each element in the ROE tree to make improvements.

Financial Strategy

Improvement of net profit ratio

In fiscal 2025, we will incorporate the effects of structural reforms implemented in the previous fiscal year. In addition, we will strive for business growth by boosting profitability of strengthening businesses and expanding sales after pivoting our direction-changing business. Furthermore, we will also control SG&A expenses through DX and other measures. Through these efforts, we aim to increase profits in the Digital Workplace, Professional Print, and Industry Businesses and break even in the Imaging Solutions Business.

We will also continue to improve our financial balance by reducing interest-bearing debt. Tax burden has persistently been high with respect to our tax expenses. The main reason for this has been inapplicability of tax benefits at overseas loss-making subsidiaries, and to address this, we are working to improve our effective tax rate by reviewing the profit structure of subsidiaries. As a result, we plan to return to profitability with net profit of ¥24.0 billion. By continuing these measures in fiscal 2026 and beyond, we aim to further improve profit ratios.

For fiscal 2025, we have estimated the impact of the U.S. reciprocal tariff hike at -¥14.0 billion. In addition to price adjustments, we will absorb this impact through measures such as revising our go-to-market strategy, reducing additional expenses, and shifting production further to low-tariff countries.

Improvement of total asset turnover rate

While it is necessary to increase revenue through business growth in the medium to long term, in fiscal 2023 and fiscal 2024 we have prioritized the reduction of total assets, optimizing inventories and trade receivables, reducing assets through business selection and concentration, and reducing interest-bearing debt by also utilizing cash inflows from the sale of businesses.

As a result, the total asset turnover ratio for fiscal 2024 was 0.92x, an improvement from 0.80x in fiscal 2022. The target is 0.93x in fiscal 2025, and we aim to improve turnover to 1.0x as soon as possible by growing revenue in addition to reducing working capital and other measures.

Optimization of financial leverage

Financial leverage has remained high at Konica Minolta due to large investments totaling approximately ¥290 billion under the three Medium-term Business Plans through fiscal 2022, a change in international lease accounting standards in fiscal 2019 that resulted in approximately ¥100 billion of on-balance sheet lease assets and liabilities, as well as a decrease in shareholders' equity due to losses.

Financial leverage was 2.9x in fiscal 2022, improving to 2.6x in fiscal 2024 due to asset reductions, with an additional focus on interest-bearing debt reduction. In fiscal 2025, we expect to improve this further to 2.3x (equity ratio of 43%) by further reducing interest-bearing debt.

From fiscal 2026 onward, we aim to achieve an optimal level of financial leverage for Konica Minolta of approximately 2x.

Reinforcement of business management system

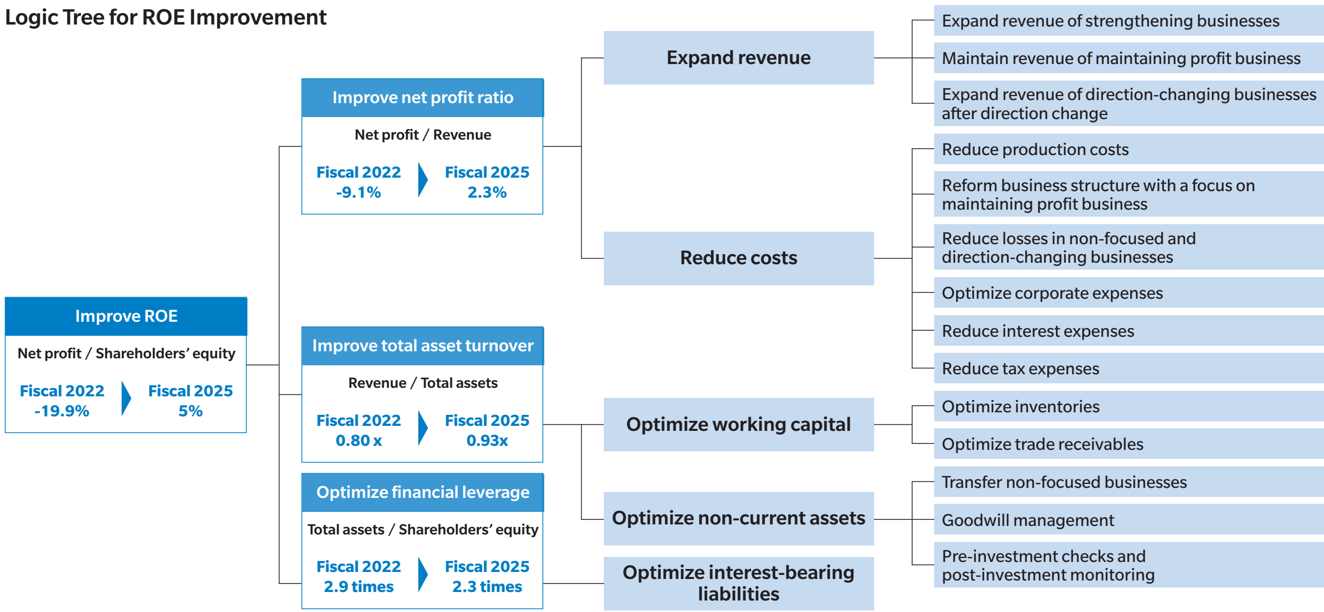
Toward a stage of management conscious of cost of capital

In light of significant impairment losses incurred in the past, in fiscal 2023 we reviewed our investment evaluation and business review methods and strengthened our monitoring of impairment risk to be conducted on a quarterly basis, whereas it was previously done at the end of each fiscal year. In addition, as an element of business management based on capital efficiency, we monitor the status of our KM-ROIC* indicator against business-specific hurdle rates, as well as our general finances and other information. This will allow us to thoroughly manage our business portfolio to make decisions such as whether to continue or withdraw from businesses.

In recent years, we have focused on rebuilding or withdrawing from loss-making businesses, but with the completion of business selection and concentration, we now move to a stage of management conscious of cost of capital.

* KM-ROIC: A proprietary index for calculating return on invested capital (ROIC) where the numerator is business contribution profit and the denominator is business assets (working capital + goodwill + property, plant and equipment + intangible fixed assets)

Logic Tree for ROE Improvement



* ROE: Caleulated with the average of beginning and ending balances
Total asset turnover rate and financial leverage: Calculated with the ending balance

Financial Strategy

Improved Balance Sheet

Improving financial soundness by reducing assets and interest-bearing debt

Konica Minolta is improving working capital by optimizing trade receivables and inventories, and reducing interest-bearing debt (including lease liabilities) through cash inflows from business asset reductions and asset sales. As a result, total assets were reduced by ¥196.1 billion from ¥1,413.7 billion at the end of fiscal 2022 to ¥1,217.6 billion at the end of fiscal 2024. Goodwill peaked at ¥246.5 billion at the end of fiscal 2021, then decreased to ¥126.3 billion in fiscal 2024. Goodwill as a percentage of capital has also decreased from a peak of 44% to 27%, demonstrating increased financial security.

Currently, we are aiming for another step in our total asset reduction by the end of fiscal 2025, which is the final stage of our Medium-term Business Plan. In particular, we will reduce interest-bearing debt to ¥370 billion, optimizing our financial balance toward a net D/E ratio of 0.55 at the end of fiscal 2025 versus 0.8 at the end of fiscal 2022.

Capital allocation

Substantial reduction of interest-bearing debt through cash inflows generated from operating cash flow and business transfers, while strengthening business investments and shareholder returns

In fiscal 2023 and 2024, we generated ¥134.4 billion in operating cash flow, mainly due to an improvement in working capital of ¥52.6 billion. One-time expenses such as impairment losses and reversals of deferred tax assets incurred in fiscal 2024 are non-cash and therefore do not affect cash flows. Cash inflows from the sale of precision medicine and other businesses amounted to ¥68.8 billion in investment cash flow, and cash combined with operating cash flow was allocated to business investments (¥86.8 billion), repayment of interest-bearing debt (¥161.6 billion), and dividends (¥2.4 billion).

In fiscal 2025, we will continue our efforts to generate operating cash flow and make strategic and carefully selected business investments, focusing on strengthening businesses and growth seeds, while further reducing interest-bearing debt, with the aim of resuming dividend payments.

Shareholder return policy

Resuming annual dividends of ¥10 in fiscal 2025

Konica Minolta shareholders have our deepest apologies for not paying a dividend per our initial forecast in fiscal 2024 due to recording a net loss for the year from structural reforms, business selection and concentration, impairment losses, and other factors.

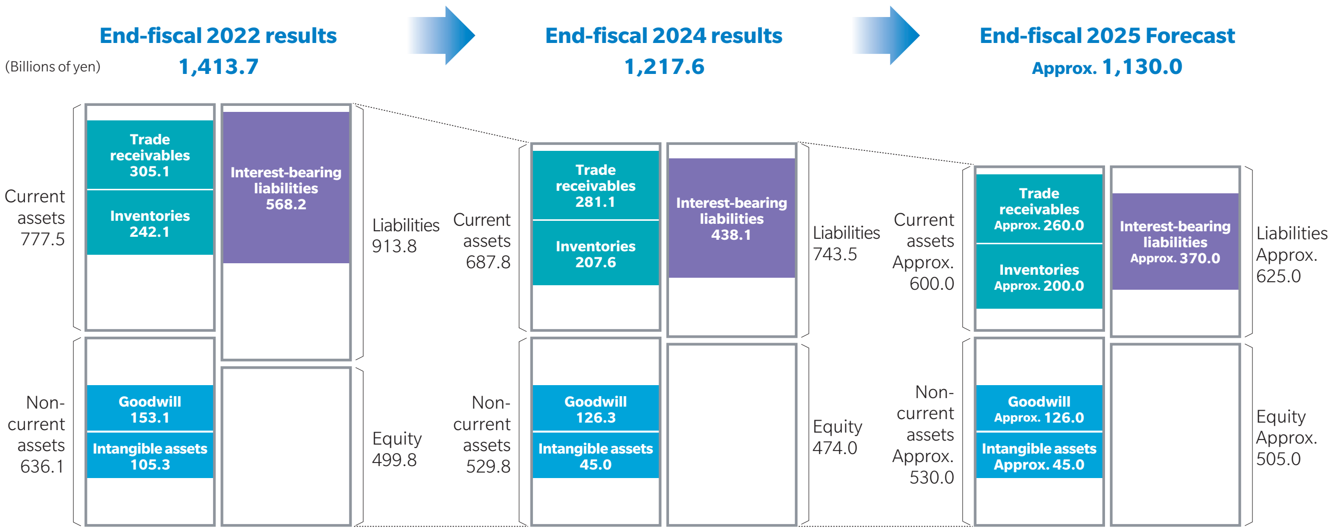
In fiscal 2025, we plan to return to profitability with operating profit of ¥48.0 billion and net profit of ¥24.0 billion, and to achieve ROE of 5% and pay annual dividends of ¥10 per share.

From fiscal 2026 onward, we intend to increase corporate value through profit growth and cash generation that will enable us to achieve ROE of 8% at an early stage, while further strengthening returns to shareholders.

Dividend policy

Our basic policy is to strive to enhance the return of profits to shareholders based on dividends, comprehensively incorporating consolidated business performance, investment in growth areas, cash flow, and other factors.

Improved Balance Sheet



Capital Allocation Policy

(Billions of yen)		Fiscal 2023-2024	Current forecast: Fiscal 2025	Current forecast: 3-year total	Medium-term Business Plan (as of April 2024)
Cash in	Operating cash flow	134.4	75.0	Approx. 210.0	270.0 – 300.0
Cash in	Business transfer, etc.	68.8	14.0	Approx. 82.0	-
Cash out	Business investment (Equipment, investment and lending, etc.)	86.8	45.0	Approx. 130.0	150.0
Cash out	Liability reduction	161.6	35.0	Approx. 194.0	120.0 – 150.0
Cash out	Dividends	2.4	2.5*	Approx. 5.0	

* Cash out from interim dividend of ¥5 per share (total dividend of ¥10 per share for fiscal 2025)