

Konica Minolta, Inc.
Major Questions and Answers
IR day Long-term Management Vision and Medium-term
Business Strategy DX2022 Briefing Session

Date and time: November 27, 2020, 10:00 to 14:30

Formula : Web Online/Telephone Conference

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"Major Questions and Answers" is included for reference only for the convenience of those who were unable to attend this briefing session. Please be aware that everything we have talked about at the briefing has not been written as is, but is summarized briefly in our judgment.

The forward-looking statements such as earnings forecast contained in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual financial performance may differ materially from the forecasts due to various factors.

[Regarding Company-wide Business]

Q. Regarding the cash allocation on P.14, please let us know how the operating cash flow (¥150 billion) will be piled up in FY2021 and FY2022, and the breakdown of the cash out (¥55 billion) also.

A. Operating cash flow of ¥150 billion is disclosed as a total for 2 years. We will formally announce Medium Term Business Plan next spring, but please understand that it will be 60 to 70 billion in FY2021 and 80 to 90 billion in FY2022.

The breakdown of cash out of ¥55 billion is as follows. Aiming to improve shareholder dividends, we have announced the dividend of ¥25 in FY 2021 and 2022 at this point, but we are considering it around ¥30. The remainder is fundamentally looking to improve equity. Our basic approach is to achieve well-balanced shareholder returns and financial soundness. Specific figures will be explained at the stage of disclosure as Medium-term Business Plan.

Q. What is the estimated scale of sales in 202X as the medium-to long-term perspective on P.21?

A. As described in the sales forecast line on p.20, we expect strategic new business to grow significantly. On the other hand, we believe that our current businesses except for measuring instruments need to be estimated conservatively. In addition, as described on P. 9, I would like you to consider our portfolio management as the probability of profit levels in FY2021 and FY2022 and growth thereafter at this time. Specific figures such as net sales are scheduled to be announced as Medium-term Business Plan.

Q. The past Medium-term Business Plan underperformed the original plan, and the stock-market valuation has been severe recently. In the process of discussions leading up to the formulation of the Medium-term Business Strategy, have any changes or additions been made by the opinions from Directors of supervisory function or Outside Directors ?

A. The review of SHINKA2019 was presented on P.7, we assume that there was an issue in executing the plan completely. First, we acknowledge this issue in the executive side, enhance the ability of execution and probability of achieving the plan, and ensure that measures and figures are linked to each other as the reflection of the previous Medium-term Business Plan. We would like you to hear the explanations by each business this time and we would like to explain them again in a way that further increases persuasiveness and conviction when the official Medium-term Business Plan is announced.

In FY 2021 and 2022, operating profit will be 40 billion and 55 billion as our target, so today I will explain about what we execute specifically and how we think about the portfolio, and next spring I will announce it including the allocation of resources by each year. Our current management perspective looks at the impact of COVID-19, by which the infections are expanding around the world, but we will control fixed cost and SG&A by ourselves so that we do not rely excessively on sales.

Q. Regarding cash allocation, we assume the possibility of exercising put options or further M&A in precision medicine unit. Please let us know about financing as far as you can mention in this situation.

A. Precision medicine is competing at the next stage, how to make growth rather than immediate profits based on genome data. We feel confidence that our technological capabilities and the specific service menu for growth based on the U.S.. First, we will make strong competitiveness in the U.S. and bring it to growth. In Japan, we will commercialize gene panel tests with reimbursement in mind since FY2021, and provide them to labs outside Japan and the U.S. through integrated platform and SaaS models on the platform in a franchised manner. Considering 10 years future of Konica Minolta, precision medicine is the highest priority for strategic growth. Even though we are carefully choosing the field to invest in under the current COVID-19 situation, we plan to turn into the black as consolidated precision medicine unit in FY2022 including goodwill charges while we continue to invest in. However, if we consider executing timely measures including bold M&A in the future, we would like to make ready a variety and flexibility of options for the method of funding. In addition, we will prioritize the business by allocating the Group's cash flow of 150 billion, and one of our options is to raise funds in the U.S. market as a quick source of funds to prevail in this precision medicine competition. We are integrating Ambry and Invicro toward the initiative. I would like to talk closely with INCJ, now a co-investor of Ambry, and share the standing, roles, and returns

to orient our relationships with INCJ, and to enter into concrete discussions of flexible options for the growth in FY 2021. What I can currently explain is this range.

Q. How do you consider the timing of decisions on non-core and low-profit businesses in all businesses? There is a possibility that the business will change its direction depending on the environment even if it is not a low-profit business. How quickly do you make decisions based on set hurdle rates for each business unit?

A. As shown on P.16, we are sharing the portfolio management using business-specific hurdle rates within the company or among our board members for discussion already. We will proceed to the decision carefully and swiftly whether it is better to grow by developing ourselves or by introducing equity from other companies, or whether it is better to transfer the ownership to third parties based on a cross-cutting risk approach. These studies are already underway. However, since there are counterparties, we cannot answer concretely whether it will be FY 2021 or FY 2022.

[Regarding Digital Workplace Business]

Q. Please let us know about your competitive advantages in the IT services field.

A. Each player has a different asset including their customer base. We are strong in improving workflow of local government customers in domestic including the paper-based operations. Overseas, we have strengths in ECMs, which we have acquired since 2015, and have been well received mainly by government-affiliated customers.

Q. Please let us know about the profitability of IT services for local governments. How about price competition as bidding? Also, what types of industries do you compete with?

A. Our IT services for local governments are not carried out by a general approach such as developing and introducing software. We focus on improving productivity, the most significant issue for local governments, by collecting data, analyzing them, and providing consulting. Specifically, we have accumulated analyses of approximately 4,800 types and 0.5 million data over the past 2 years, and make proposals according to the size of the local government. When introducing this system, we are working with local governments to make operations visible and improve them. We are offering such services, so we are not competing on prices through bidding so far.

The main competitors are IT consulting and IT vendors.

Q. In the slide of P.5, you are planning to significantly increase sales of Workplace Hub and IT services. Please let us know about the degree of feasibility accuracy.

A. I would like to explain the 2 areas in which we are planning significant growth, MCS+BPS and

WPH. In MCS+BPS, we are targeting local governments in Japan, government-affiliated institution in the U.S. and Europe, healthcare and education field as the industry. We will further expand the business that we are beginning to achieve results at present. As for local governments in Japan, we have entered the market in the past few years, but we have already collaborated with 22 local governments. In addition, WPH has begun new deployments in the form of Workplace Hub Smart, but the pipeline is beginning to fill at a faster rate than ever before. We believe that the probability of growth is rising from these points.

[Regarding Professional Print Business]

Q. In Production Print (PP) and Industrial Print (IP) on P.3, you explained that there has been no change in the major strategy of replacement of each analog printing markets, which are more than ¥2 trillion, to digital printing. On the other hand, I heard that some printing companies are curbing investment due to the impact of COVID-19. Please let us know the investment mind of customers that you actually feel in the sales field, as well as your policy to respond the situation in FY2021 and FY2022.

A. We feel that printing companies have become fairly cautious about investment due to the impact of COVID-19. The criteria for switching analog printing to digital printing have been made only from the viewpoint of economic rationality, so far. In addition to this point, we believe that digitization will be accelerated as a means of solving the management issues of printing companies such as environmental issues, a decrease in the number of skilled workers, and the increasing importance of distributed printing. We have range of products from ELPP to HPP for PP, B2size of Ink-Jet machines and label printers from mid-range as the current target to high-speed machines in the future for Industrial Printing. We will support the digitization of printing companies by offering proposals which maximize the ROI of individual printing companies through the provision of a broad range of products.

Q. Could you break down the market for label printer, which you are strong, and what kind of market will be expected to grow particularly? Also, please let us know your uniqueness, strengths, and competitive environment.

A. Label printer market has a variety of usages, including daily necessities, foods and beverages. And, there is solid demand in a wide range of fields. Although label digital printers had only high-end or low-end products in the past, we opened the market of a middle range of low-price products with electrophotography, which can complete 90% of print job handled by high-end machines. This has contributed to the digitization of printing companies that could not get high-end printing machine. There are many competitors in the high-end and low-end markets, but our focus on this middle

range is a part of our uniqueness and strength.

Q. Please let us know about the direction of R&D investing for the next 3 years.

A. We expect this business to continue growing after the Medium-term Business Strategy, in FY2023 and beyond, so we will continue to invest in development while achieving our target of operating profit.

[Regarding Healthcare Business]

Q. On P.18, you anticipate growth in the number of samples for CARE Programs. Please let us know about the degree of certainty and the background to support it. Please also tell us about your strengths and uniqueness.

A. CARE Program is building an unprecedented market for testing healthy individuals. We judge the momentum from the underlying trend of the weekly increase in the number of samples. We have currently introduced 30 facilities, but we will steadily introduce it to 170 pipelines to expand our business. Our strengths are in remote risk assessment using Chatbots, and we are also working to secure inspections in collaboration with electronic medical records.

Q. You explained that there are uniqueness in the RNA testing. So please let us know the difference from the micro RNA testing, which I have often heard recently.

A. Our RNA testing, paired with DNA testing, has the effect of reducing variant of uncertain significance and making the testing more accurate. The micro RNA testing, as you mentioned, is likely to be applied in many cases for the purpose of discovering early stage of cancer, so the targets differ.

Q. Please let us know about your planned investment of ¥5 to 6 billion per year in the precision medicine business.

A. In our industry, we need to constantly decide whether to build our own technologies or acquire startup companies. We surely implement constructing a laboratory in Japan, developing liquid biopsy, and building a platform LATTICE, which we have explained. The investment will be allocated to these initiatives.

[Regarding Industry Business]

Q. In inkjet (IJ) components, each company is strengthening external sales of IJ heads. Please let us know your competitive advantage.

A. Our superiority of IJ heads is basically the durability of being able to eject stably even in very harsh environments. A variety of durability features, such as solvent resistance, are extremely distinctive. As a result, in addition to printing on paper, we also have an extremely high market share in the industrial sector, where wide range of liquid properties are required.

Q. What is the best application for your IJ Head? In which area will it grow the most?

A. Please let me make the detailed descriptions in specific areas limited. However, we think that there will be future growth in areas that require the use of a variety of chemicals, as well as areas where appropriate combinations of IJ heads and inks are crucial in the so-called textile area.

Q. Are there any differences in the sales way of IJ heads from other companies?

A. In the area of industrial printing, which is a growth area, one of the important points in advancing our business is how to build relationships with customers. Specifically, since IJ heads are not the only parts that contribute to satisfy the downstream customer needs, we need to cooperate with partners such as ink supplier and printer manufacturer optimally to respond the needs quickly. We can respond to the needs relatively freely and speedily by sharing the responsibility with partners. In some cases, we can also respond to the needs of ink if it is better for the whole system. This is an important point in many sales and market activities. We have built deep relationships with customers and partners in this industrial field.

Q. Regarding light source color measurement of display area in sensing business, I think there is the background in which OLED smartphone investment has been growing significantly. What areas do you expect to grow in the future? Also, around when do you expect to contribute the areas to financial performance?

A. There were large demands of OLED smartphones from 2017 to 2018. It cannot be said that it is comparable to the demand, but we consider there are multiple demands. The first one is the micro LED. We are already seeing the introduction of pilot manufacturing, so we expect it to make an early contribution.

In the future, not only materials development but also display backplanes development and technologies development in OLED, LCDs, and other fields will be continued to improve low power consumption. There are needs for measuring the fluctuations not only in light but also in the time direction, such as flickering due to electrical circuit characteristics. These areas are already in demand, and we believe they will contribute this fiscal year and next fiscal year. We have already seen the areas where mini LED are applied. For example, backlights are changed to mini LED to increase the gradation of LCDs, and we are putting them into our business strategy plan.

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