Konica Minolta, Inc.
Q&A from Medium-Term Business Plan Briefing Session

Date: May 11, 2017 18:00 – 19:30 JST
Place: Iino Hall & Conference Center (Tokyo, Japan)

Q: Please explain the merit of the new business model, centered on the edge IoT platform, for the customer.
A: In terms of emerging needs, one example is providing support to resolve the challenges faced by small and medium-sized client companies. One problem they have is that they don't have their own IT departments, and end up in a situation where, in order to improve the productivity of the company and carry out working style reforms, each department outsources separately to IT vendors. Real productivity cannot improve in such circumstances.
Konica Minolta has ongoing transactions with such companies related to digital MFPs (Multi-functional peripherals) and network services, and we get requests to provide everything from IT management to cloud usage to security measures, etc., as a one-stop service on a pay-as-you-go basis. By providing the edge platform, this can be achieved simply, and for the customer it leads to reductions in security management man-hours, which is to say it leads to lower costs, and this is the merit.

Q: One of your management targets is to have at least ¥75 billion in operating profit in fiscal 2019, in respect to which you are targeting an ROE of 9.5%. I do get the impression that an ROE of 9.5% is a high hurdle, so could we have a comment regarding your course of action in M&A and your thoughts in regard to this.
Also, in relation to M&A, will you prioritize profits or, if you really want something, would you be prepared to sacrifice some ROE to buy it? Is there an order of priority here?

A: With regard to M&A targets, we hope to target candidates with high EBITDA, having first looked carefully at the segments in the light of our business strategy. Accordingly, I think a certain amount of money will be required for investment, but we plan to conduct M&A in which we can expect a certain level of profits after adjusting for amortization of intangible assets and the like.
As a result, we will proceed with M&A that will not greatly increase total assets, and in terms of profit for fiscal 2019, just as a matter of simple calculation, we are thinking of a level of ¥50 billion. If I had to choose an order of priority, I would prioritize profit.

Q: In fiscal 2019, you are forecasting ¥12 billion in profit being generated by the growth businesses. If you have a breakdown of specific figures for how many billions from each of the businesses, please share that with us.
A: We do not have a detailed disclosure at this stage, but in the growth business field, in order of the size of the contribution to profit, it would be something like industrial print, then medical IT, marketing service, materials/new films and visual inspection.

Q: The largest component of the ¥30 billion in targeted cost improvements is the ¥16 billion in production costs. Can you please provide a little more specific detail on "the delivery of results and horizontal deployment of the digital manufacturing initiative"? Also, please explain whether this horizontal deployment will incur additional costs or not.
A: The reason we moved some of the products that had been manufactured mostly in China to Malaysia is not so much that we were pursuing low labor costs, but that we wanted to transform our approach to manufacturing itself. This is what we call digital manufacturing. We move ahead with automation, and raise yields through cooperation between different items of equipment. This leads to improvements in quality and cost.
For the past 18 months, we have been working in Malaysia on achieving a step down in production cost reductions that will feed through to the supply chain, by also offering the concept of digital manufacturing to suppliers.
Looking at 4Q, it has not yet advanced to the stage where manufacturing costs are falling, but from fiscal 2017 to fiscal 2018, we will reach the stage at which full-scale manufacturing cost reductions derived from digital manufacturing will begin.

Those investments have already been completed.
The point is horizontal deployment, but with digital manufacturing, the data obtained from sensors attached to the production equipment might, for example, provide information on where defects have occurred, across borders, and there might be things to be learned from that, or through digitalization there might be improvements to be made by changing the configuration of the workflow of the space, etc. I am convinced that once we have gotten Malaysia established, we can deploy that know-how horizontally. However, for investment in automation, additional investments will be required, so with regard to that, we plan to proceed with horizontal deployment while watching costs versus benefits.

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