

"Konica Minolta, Inc." Q&A from Q3/March 2023 Financial Results Briefing Session

Date and time: February 2, 2023, 18:30 to 19:30 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 results for the Company overall]

Q. Would you mention the strengths and weaknesses by segment comparing to the internal plan? Also, was operating profit in line with the expected level for the Company overall?

A. Digital Workplace was almost in line with the plan, and Professional Print was well above the plan. Healthcare also outperformed somewhat, while Industry underperformed mainly in performance materials. Operating profit for the Company overall was slightly above the target.

Q. Has the Company overall operating profit not only exceeded in the 9M, but also somewhat better than the plan in the Q3?

A. That's right.

Q. Regarding the settlement payments for litigation recorded in other expenses, are those incurred in the Q1 and the Q3 different expenses? And are there any possibilities that they will continue to impact in the future?

A. They were other expenses. That in the Q1 was the expense of the U.S. subsidiary of precision medicine, and that in the Q3 was the expense of the U.S. subsidiary

of the office. There is no possibility of an impact in the future. Expenses are recorded in each segment.

Q. Regarding as the inventories in the page 30, I think the amount varies depending on the business, but what are your thoughts on excess inventories, insufficient inventories, and the ideal inventories you are aiming for toward the end of FY22. In addition, there was an explanation that the order backlog for office was aimed to have eliminated by the end of the Q4 in the previous financial results briefing session. Are there any changes from it?

A. At the end of the Q4, the order backlog will be eliminated, and there is no change in the direction of returning to normal conditions. We are producing products for this purpose, so that our inventories increased at the end of the Dec. There was also the FOREX impact. Under the circumstances of the semiconductor shortage, we have secured materials and components in multiple businesses with committing in the long term. We have also secured other parts and materials so that we can continue production even if those will not be supplied for a certain period of time, while taking into account the lockdown in China. Currently, we are in the process of reviewing whether to maintain or mitigate securing of the parts and materials. Regarding inventories at the end of FY22, we are working to bring Cash Conversion Cycle (CCC) back to the FY21 level.

Q. Please let us know about the status and priorities of each business amid various changes in the macro environment toward FY23. Also, how do you think of the risks?

A. I think the key point is how to perceive the economic and market fluctuations in the future. Recently, economic stagnation has become apparent in Europe and some other area. For FY23, we need to perceive the condition in Europe vigilantly, and it is important to assess the recovery in China after the Chinese New Year. Although there are some concerns about economic conditions in the U.S., looking at the status of orders in Jan., no significant decline has seen. Inventory adjustments in the supply chain have materialized in performance materials. In sensing, production print and industrial print, there are also some customers to invest in facility cautiously. We believe that these factors should also be taken into consideration in FY23 plan. However, under these circumstances, there are always bright spots. For example, investment in DX that leads to automation and labor savings, such as investing in visual surface inspection for automotive

manufacturing in sensing, and on-demand printing presses at mid to large sized customers of commercial printing in Professional Print. In performance materials, not all segments are sluggish, and there are growth segments. We will capture these demands. In addition, one-time expenses for FY22 amount to about ¥15 – 20 billion, including air freight expenses for toner, settlement payments for litigation, and structural reform costs and effects. In terms of the risks, we will closely monitor the impact of economic conditions, particularly in Europe. We will also consider a decrease in print volume in office from the FY22 level. We are planning a budget for FY23 by looking at both the positive sides that will grow mainly in bright spots and the negative sides as total.

Q. I think the company overall is tackling to reduce the red in unprofitable businesses. Please let us know how the total amount of the red has decreased so far. Also, please mention the improving factors by each business toward FY23 in the extent that you can make the comment.

A. The three main businesses in the red are DW-DX, precision medicine, and imaging-IoT solutions in the Q3. The combined deficit in the Q3 was reduced about ¥5 billion from the FY21 Q3.

[Business]

Q. Regarding Digital Workplace Business, there was an explanation that hardware order for office was weak. Please let us know about the regional features if any. Also, has the weakness affected by the deterioration in business sentiment?

A. New order for hardware was partially affected by the economic downturn, particularly in Europe, in the later part of the Q3. But it has not yet materialized in the U.S. or other regions. In Europe, our customers are becoming more cautious about new investments, but we now see it as temporary rather than structural deterioration.

Q. Operating profit ratio in Digital Workplace Business was 3% in the Q3, roughly the same level as the Q2. Revenue increased from the Q2 to the Q3, and air freight expenses decreased from the Q2 to the Q3. Why was operating profit ratio not improved? Please let us know if there are any factors.

A. We have been working to eliminate the order backlog of hard in the Q2 and the Q3. This has resulted in lower percentage of non-hard revenue in Digital

Workplace Business totally. The gross profit margin, which is originally headed for improvement, remained almost unchanged. In addition, one-time expenses of ¥1.6 billion for the settlement payment for litigation related to past disputes were incurred, as a result, operating profit ratio remained unchanged.

Q. In terms of the profit composition in office in the Q4, will sales of hard run its course and will sales of non-hard grow? Please let us know about the prospects for the hard and non-hard sales ratio.

A. Usually, when there is no order backlog, the ratio between hard and non-hard is about one half each. Currently, there is still order backlog of about ¥36.5 billion mainly on hard. So, in the Q4, we assume the sales ratio of hard will be high. From FY23 onward, we expect to approach it to be one half each as the original level.

Q. Regarding production print, the sales of non-hard has greatly increased, please let us know the prospect in the Q4.

A. We believe that non-hard in the Q4 can be maintained at the 100% level compared to FY19. The same level will be kept throughout FY22.

Q. Operating profit in Professional Print planned in the Q4 seems to be less than the result in the Q3. Please let us know the factors.

A. Mainly in Europe and the U.S., mid to large sized printing companies are proactive in facility investment for automation and labor-saving in mind. On the other hand, mid to small sized printing companies tend to be reluctant to make new facility investment while looking at economic conditions. Therefore, we are carefully looking at the hard-related demands of production print. In China, an upturn can be expected due to a change in COVID-19 policy. However, since there is a risk whether the economy will recover immediately after the Chinese New Year, we are cautiously looking for economic activity to recover from around Mar.

Q. Though revenue for the industry business was the same level in the Q2 and the Q3, what were the factors behind the decline in operating profit ratio?

A. Mainly in performance materials, demand for phase difference film for large-sized TVs is expected to grow steadily, despite the severe market conditions. On the other hand, thin film for IT and mobile applications is still in the challenging condition. And the utilization rate in the facilities has declined slightly due in part

to shifting production facilities to film for large-sized TVs, of which demand is expected. As a result, profits have declined from the Q2 to the Q3. However, sensing, IJ components covers the decrease in performance materials.

Q. Please let us know about the outlook for the future and the timing of the recovery for performance materials.

A. Going forward, the overall market for large-sized TVs, in which we are strong, will be still in the challenging condition, but our customers are gradually recovering and active. On the other hand, demand for notebook PC and other IT applications, which are facing severe market conditions, is not expected to recover yet, as demand for these products continues the rebound from the stay-at-home demand.

Q. Please let us know about precision medicine in page 24. From the Q2 to the Q3, revenue has increased significantly. What are the factors behind this? It was able to collect revenue and accounts receivable that were amended in the FY21 Q4, so were they recorded in the Q3? Also, will revenue in the Q4 be assumed lower than the Q3?

A. It was not the collection of accounts receivable which were amended in FY21 Q4. We had set up how to record insurance reimbursements after the reassessment in FY21. Based on this setting, the status of reimbursement from the insurance companies has been checked with the auditing firm as appropriate, and revenue and accounts receivable has been appropriately recorded. This time, revenue and accounts receivable revised in the 9M was recorded in the Q3, and they were reflected in the revenue. If the testing price in the Q4 is the same level as in the Q3, there is a possibility that sales will be slightly lower than the Q3.

Q. Has the test price changed due to the increase in RNA testing in precision medicine?

A. Since the price of RNA testing is higher, the mean test price will be relatively higher as the number of RNA testing increases.

Q. In the graph on page 24, revenue of Ambry and Invicro grew by about 15% in the Q3 from the Q2. Is it basically consistent with the increased revenue for precision medicine as a whole?

A. This is basically the same.

-END-